



The Hera Group Sustainability Report for 2010

contains figures for the three areas of responsibility: economic, social and environmental.

Focus on commitments made, the results obtained and the outlook for the future.



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Letter to stakeholders

The financial statements of 2010 closed with a definitely positive economic result. This also made it possible to maintain the objective that we had set of increasing the dividend for the more than 22,000 Hera shareholders from 8 to 9 cents per share. All of this is even more significant in view of the situation of the overall economic context.

These results have been pursued by continuously devoting attention to all the social and environmental, and not only economic, implications. Ever since 2004 Hera has embraced 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.

And it is precisely with the Sustainability Report that we are able to comprehend, manage and verify all of the progress we make concerning the commitments undertaken with our stakeholders.

In 2010 we reached the important target of certifying the safety at the workplace management system for Hera S.p.A., while the path of Emas environmental registration of the Herambiente treatment plants is drawing to a close: as of today Emas registrations cover 72% of the plants in terms of treated waste.

The overall satisfaction of the customers, measured each year with a customer satisfaction survey, is drawing closer to levels of total satisfaction, and the indicator that measures specific satisfaction with the services Hera supplies is continuously rising.

2010 was also the year during which the Code of Ethics was revised. During its first three years of implementation, it proved to be a thriving and useful tool for encouraging correct behaviour inside the company.

These initiatives and the many others that we have implemented in recent years lead us to say that the creation of economic value for the shareholders in Hera's strategy is linked to the economic and social progress of the areas where Hera operates. From this viewpoint we believe that our strategy is without a doubt oriented toward creating shared value, namely toward strengthening the company's competitiveness and at the same time improving the economic and social conditions of the community in which we operate.

It is with pleasure, therefore, that I invite you to read the 2010 Sustainability Report of the Hera Group. I am sure that it will be helpful for your full comprehension of the results attained and the world in which Hera operates.

Tomaso Tommasi di Vignano

Chairman of the Board of Directors

Maurizio Chiarini

Chief Executive Officer

The Report

Reading this Report

For the Hera Group, the Sustainability Report is a primary tool for reporting on its activities and results in the economic, environmental and social fields, as well as a fundamental tool for providing information to and dialoguing with stakeholders.

Since 2008, the Sustainability report has been approved by the Board of Directors of Hera S.p.A. when the financial statements are approved; this aspect testifies to the role that this instrument has within the company's planning and control system.

Dedicated meetings have increased the distribution across communities served, with the distribution to all customer branches and through local press (summary version), and to all employees and other various stakeholders.

Hera's Sustainability Report provides the principles which guide our actions, the performance achieved, the objectives reached compared to stated and future objectives, the results of our dialogue with stakeholders and projects in the field.

Within the Report, particular importance was accorded to local projects.

Some of the technical terms used in this document are defined in the attached glossary.

This Sustainability Report, the ninth published by the Hera Group, can also be viewed on the website www.gruppohera.it, where it can be downloaded in both Italian and English.

An accessible version of the financial statements is available on the Group's internet site, in Italian and in English and on a USB key, which includes other documentation and details. The document indicates the issues for which additional information is available on the website.

You will find a scorecard in this report. It is extremely important for us to receive information since this will enable us to improve the content matter and presentation of the Sustainability Report. Please fill out the form and return it to us.

We hope you enjoy reading our report!

The greenhouse gas emissions created by the use of paper for the preparation of this Sustainability Report have been neutralised thanks to Indica Neutral.

This report was prepared with 100% recycled Revive Pure Natural ecological paper in compliance with RAL UZ 14 - Blue Angel 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 2010 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 issue of the report, guideline G3 is used as a reference for the fourth year and the sectorial supplement dedicated to the Electric Utility sector (Final Version of the Sustainability Reporting Guidelines & Electric Utility Sector Supplement approved in April 2009) was used for the second time this year.

The G3 Reporting Guidelines standard were drawn up in 2006 by the Global Reporting Initiative to evaluate the economic, environmental and social performance of companies; the Electric Utility supplement was created in 2009 by the Global Reporting Initiative and contains specific indicators for the electric utility sector; 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 two sections of the report provide an account of how the company was created, its identity, mission, corporate strategies, sustainability strategies and the key indicators for assessing economic, environmental and social sustainability. The third section describes the methods applied for the dialogue 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. In each section, the stakeholder listening, dialogue and involvement initiatives are indicated.

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 which the company has committed to have been specified with numeric indicators.

Reporting actions

The reporting actions comply with the AA1000 standard. The social and environmental sustainability objectives set out in the Report have been defined with reference to the planning and control instruments used by the Group: Business Plan 2010-2014, Budget 2011 and Balanced Scorecard 2011. These interconnected instruments contain sustainability objectives which have an effect on stakeholders.

The final data collection actions required for the report entailed the distribution of forms providing the technical indications used to construct the indicators.

Lastly, in defining the contents of this Report, with the objective of complying as fully as possible with the principle of "materiality" of the GRI guidelines, the results of the

analysis of the 2010 press review, blog, forum and newsgroup as well as the results of the activities for stakeholder involvement were considered.

The Guidance Committee for the Sustainability Report and the work group

The reporting process was led by a Guidance Committee composed of the Chief Executive Officer, the General Manager of Operations, the Quality, Safety and Environment Manager, the Chief Executive Officer of Hera Comm, the External Relations Manager, the Chief Executive Officer of Herambiente, the person in charge of Management Control, the Operating Services Sector Manager, the Administration, Finance and Control Manager, the Manager of the Fluid Distribution Division, and the Manager of the Business Unit Division - SOT Imola-Faenza.

This report was drawn up by the Corporate Social Responsibility Division of Hera S.p.A., with the participation of numerous contacts, both in terms of data collection and for the descriptions and comments.

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Scope of reporting

The scope of this document includes all the companies in the Hera Group, consolidated using the line-by-line method in the Group's consolidated financial statements. Furthermore the companies in which the Group holds investments, Calenia Energia and SET, which manage two electricity power stations, were also considered only insofar as the aspects involving atmospheric emissions.

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 by applying the same management and recording procedures.

Companies included in the scope of reporting

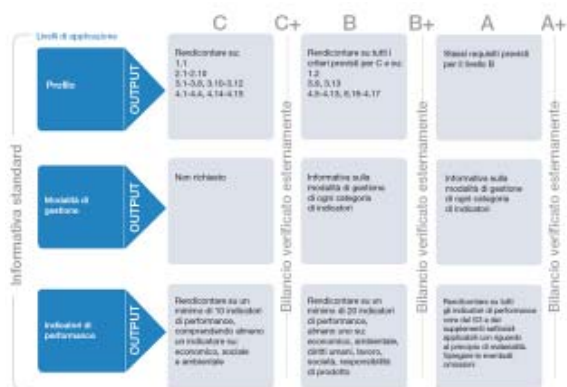
Hera S.p.A.				
Services and Information Systems Central Division	Herambiente S.p.A.	General Development and Market Division		General Operations Division
<ul style="list-style-type: none"> Famula On-line S.p.A. Uniflotte S.r.l. 	<ul style="list-style-type: none"> Akron S.p.A. ASA S.c.p.A. Consorzio Akhea Fondo Consortile Frullo Energia Ambiente S.r.l. Gal.A. S.p.A. Nuova Geovis S.p.A. Romagna Compost S.r.l. Sotris S.p.A. 	<ul style="list-style-type: none"> Acantho S.p.A. Acque S.r.l. Eris S.c.r.l. Hera Comm S.r.l. Hera Comm Marche S.r.l. Hera Comm Mediterranea S.r.l. Hera Energie S.r.l. Hera Energie Rinnovabili S.p.A. Hera Luce S.r.l. Hera Trading S.r.l. Medea S.p.A. 		<ul style="list-style-type: none"> Marche Multiservizi S.p.A. MMS Ecologica S.r.l. Naturambiente S.r.l. Sinergia S.r.l. Società Intercomunale Servizi S.p.A.
		<ul style="list-style-type: none"> Hera Servizi Funerari S.r.l. Herasocrem S.p.A. 		

Auditing of the Report

This Report was audited by an external company, which verified its compliance with the GRI – G3 (Sustainability Reporting Guidelines & Electric Utility Sector Supplement) and GBS guidelines.

The corporate quality management system, certified in compliance with the ISO 9001:2008 standard, foresees collection of quality KPIs on a regular basis.

In terms of the levels of application identified for these GRI-G3 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.



About us

Hera today

Hera is one of the major multi-utility companies in Italy, operating in approximately 240 municipalities of the provinces of Bologna, Ferrara, Forlì-Cesena, Modena, Ravenna, Rimini, Pesaro and Urbino and in 3 municipalities in the province of Florence.

Hera provides energy (gas, electricity), water (water systems, sewage and treatment), and waste management (waste collection and disposal) services to a total customer base of approximately 3 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., the sale of gas and disposal of special waste) and regulated services (e.g., gas distribution, integrated water services, collection and treatment of urban waste);
- strong roots in the areas in which it operates;
- a widespread shareholding structure;

The shareholding structure in June 2010, dividend coupon date, includes 187 public shareholders (holding 61.3% of shares, in all), 369 institutional investors and over 21,500 private shareholders (natural persons and corporate bodies that are not involved in financial businesses).

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.

After its establishment, deriving from the merger of 11 local public service concerns, the company was partly privatised via the placing of 44.5% of the share capital on the Milan stock exchange (Borsa di Milano).

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.

The most recent transactions are: in 2007 the merger between Megas of Urbino and Aspes Multiservizi of Pesaro gave rise to a new company, Marche Multiservizi, of which the Hera Group holds 40.6%. The merger became effective on 1 January 2008; the merger of SAT S.p.A. into Hera S.p.A., approved in 2007, became effective as of 1 January 2008.

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 2.9 billion cubic metres per year to approx. 1.1 million customers. Hera distributes electricity in the Modena and Imola areas (24 municipalities), and sells approximately 7.7 TWh of energy per year to approximately 383 thousand customers. Hera is also operational in the district heating (8 municipalities served), heat management (162 municipalities) and public lighting (61 municipalities) sectors.

Water services

Hera manages the integrated water services in 226 municipalities (it manages the sewage and purification services in all of them and also manages the distribution service in 224) with sales volumes of approximately 251 million cubic metres of water for domestic and industrial use, 319 purification plants, 31,203 kilometres of aqueducts, approximately 15,000 kilometres of sewage networks and 834 treatment plants.

Waste Management Services

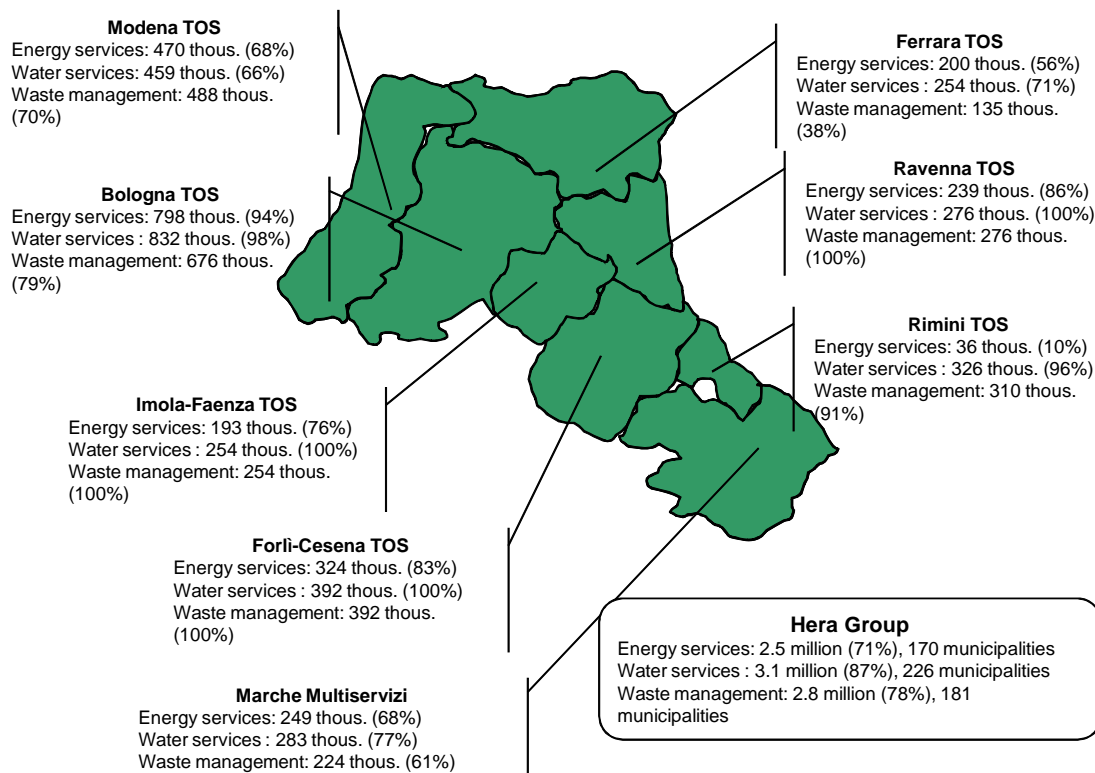
Hera manages the entire waste cycle: collection, recovery, treatment and disposal. The group manages urban waste in 181 municipalities (+7 compared to 2009) representing a customer base of approx. 2.8 million users (collecting approx. 1.9 million metric tonnes of refuse per year).

The Group owns 77 disposal plants. Hera is one of the major operators in Italy in the waste-to-energy sector, with 7 plants. In 2010, a total of about 5.7 million metric tonnes of waste were disposed of.

Hera- Key Statistics (2010)

Gas customers (thousands)	1,081.6
Gas sold (millions of m ³)	2,914.0
Water customers (thous.)	1,181.0
Water sold (million m ³)	250.8
Electricity customers (thous.)	382.5
Electricity sold (GWh)	7,744.0
Waste treated (thous. t)	5,703.1
Open-ended contract employees (as at 31/12) (no.)	6,491

Customers and municipalities served in the local areas*



* Number of municipalities and residents in the municipalities in which Hera manages at least one energy service (distribution of gas or electricity, or district heating), water service (water systems, sewage or treatment) and waste management service (separate or non-separate waste collection, or sweeping) and the percentage of total residents in the province or the territory (as at 1 January 2010, source: ISTAT).

The Mission and Values

The Mission

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

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

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

- **suppliers**, key elements in the value chain and partners for growth.”

Charter of Values

Integrity: Proud to belong to a group of people known for their honest and upright conduct

Transparency: Sincere, clear messages for all stakeholders

Personal responsibility: Shared commitment to the good of the company

Consistency: Living up to our Mission and Values

Company operational principles

Creation of value and social and environmental responsibility: To be a company that is sustainable in time, and to improve society and the environment for future generations

Service quality and excellence: Putting customers first, as a trustworthy provider of services and safety

Efficiency: Promoting the value of available resources, never wasting them

Innovation and ongoing improvement: Feeling you are part of a team that generates ideas and improvement

Engagement and optimisation of personnel: Sharing knowledge for self-improvement and improvement

Empowerment to choose: Selecting the optimal solution for growth

The company’s Mission, Charter of Values and Operational Principles are set forth and detailed on the Group’s website, on the corporate intranet and in the Code of Ethics.

The Mission, Charter of Values and Operational Principles were created with the participation of the Hera Group's entire workforce and were approved by the Board of Directors of Hera S.p.A. on 26 June 2006.

Managing sustainability

Corporate strategy

The Hera Group’s strategy is based on the corporate mission and affirms the Group’s desire to guarantee an innovative corporate model based on a multi-business approach with strong roots in the community, which places sustainability as a key element of company choices and lines of development.

Thanks to an organisational structure which is consistent with the needs of individual businesses and an effective management of all stakeholder relations, the Group’s strategy is developed along three lines: energy, networks and environment. The strategy is broken down into a complete offer, quality and cost-effective service, and sustainability: the goal is to identify and consolidate the prerequisites necessary to quickly take advantage of the opportunity to respond to new market challenges,

characterised by a continuously developing regulatory environment and a slowly recovering economy.

In this reference context, and in line with the multi-utility strategy, the Group's Business Plan as at 2014 aims to consolidate the path of growth that we have developed as of today, strengthening Hera's presence in regulated businesses and continuing to pursue growth in de-regulated markets.

Based on individual business areas, the Hera Group's strategy can be represented as follows:

- in the Energy supply chain, the Group aims to optimise its skills in trading activities, increasing autonomy in procurement and Energy production, in developing the commercial portfolio thanks to an improved offer and attention placed on the quality of services offered to customers;
- in the Environment supply chain, the Group intends to further strengthen its leadership on a national scale, exploiting specific skills and know-how developed while building plants, with a particular focus on respect for the environment and opportunities available in renewable sources;
- in the Networks production chain, Hera pursues the goal of continuous improvement of operational and management efficiency to guarantee quality and safety in the service offered to customers and control over the networks managed.

These strategic priorities are supported by the sustainability strategy in order to strengthen the competitive advantage, which include:

- the enhancement of plants with better technologies for environmental respect;
- enhancement of personnel and the increase and dissemination of the competences of excellence;
- further improvement of all stakeholder relations;
- transparency towards stakeholders regarding corporate decisions;
- continuous attention to the Group's reputation and image.

The lines of development defined in the Business Plan maintain continuity and consistency with the guidelines of the last few years, outlining a solid and balanced path which will allow the Hera Group to reach 2 million customers served by 2014, and to manage around 60,000 kilometres of networks and approximately 80 waste disposal plants for an overall capacity of around 6.3 million metric tonnes.

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.

The Balanced Scorecard approach provides a methodology pinpointing strategy which it translates into day-to-day actions and objectives on an organisation-wide basis. The innovation of this approach consists of considering the achievement of strategic objectives of social and environmental sustainability (such as, for example, stakeholder involvement, the increased quality of services to customers, the professional development of employees and attention to environmental impacts) as a condition for

the achievement of the economic and financial objectives over the medium and long term.

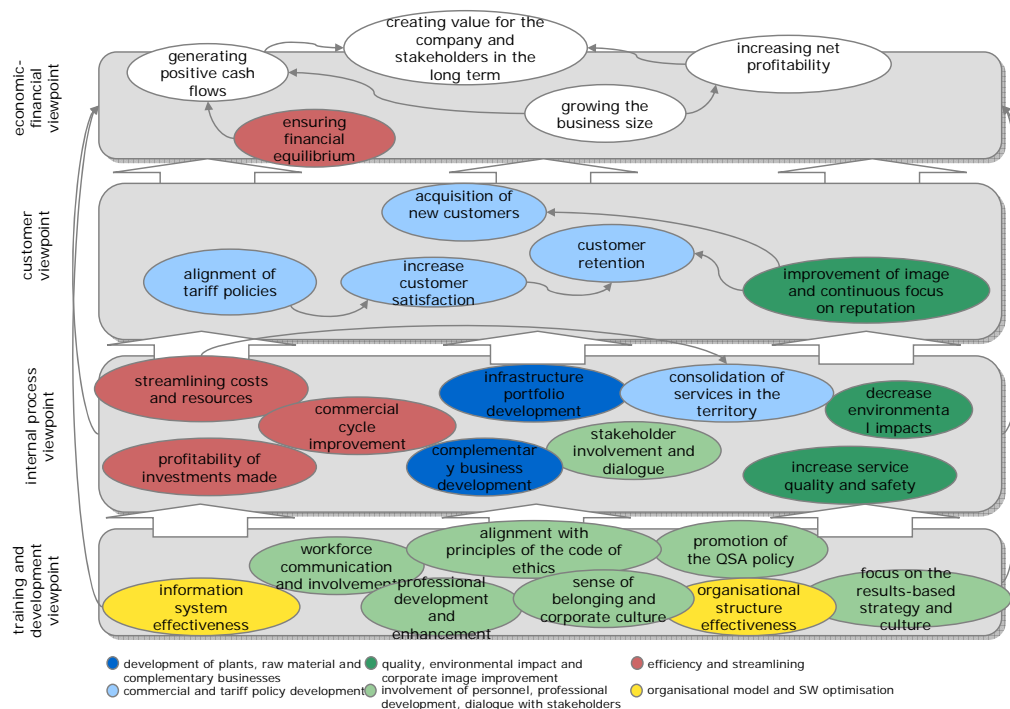
What is the balanced scorecard?

The balanced scorecard is a strategic control system (which can be linked to an employee incentive system), that is based on the connection between strategy and the day-to-day running of the company. 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.

Each year, the strategic map, updated based on the contents of the business plan, provides a summary of the strategic objectives of the Group and its commitments to stakeholders stated in the Sustainability Report.

To achieve the 27 strategic objectives for the purpose of increasing the company's long-term value, 52 priority projects were selected during the 2010 budgeting process. These were assigned to members of the Executive Committee. Of these projects 3 fell within the strategic macro-area of "Involvement of personnel, professional development, dialogue with stakeholders," 9 within the strategic macro-area of "Optimisation of organisational model and software," 8 within "Commercial and tariff policy development", 9 within "Improvement of quality, environmental impact and company image", 12 within "Development of plants, raw materials and complementary business activities," and, lastly, 11 projects within "Efficiency and rationalisation".

Strategic map of the Hera Group 2011-2014



All of the projects planned within the 2010 balanced scorecard system were assigned to a manager and inserted into the bonus system for Group executives and managers.

Each project was defined, identifying:

- the project indicators with targets in line with the Group's budget, as well as the corporate departments required for their achievement;
- the key action plan to achieve project objectives in terms of time and cost.

The objective projects identified were monitored on a quarterly basis by the Hera S.p.A. Executive Committee and in the individual Budget Units.

The definition of objective projects and the quarterly project variable monitoring system are a significant strategic management tool that ensures:

- integrations of the various perspectives for the evaluation of corporate performance, in addition to traditional economic and financial measurements;
- integration of the plan objectives into management processes;
- implementation of a process of continuous improvement of the strategic indicators by comparing the performance levels within the area served by the Group and sharing and disseminating best practices;
- highlighting and analysis of situations that are critical to achieve the objectives that were set and define speedy corrective actions.

In 2010, the journey to consolidate the balanced scorecard system continued within the Group, by establishing the Balanced Scorecard System Management department within the Corporate Social Responsibility Department in October 2010, whose responsibility is to manage and ensure correct process implementation.

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

- **Reduction of environmental impacts.**

Minimising the direct and indirect environmental impact of corporate activities to safeguard the natural environment on behalf of future generations. Reducing the use of environmental resources through the development of energy production from renewable sources (by 2014, the aim is to double the production that was reached in 2009), particularly waste-to-energy, biomass stations, biogas from landfills and anaerobic digestion; doubling production from similar renewable sources and limiting atmospheric emissions (WTE emissions on average 20% lower than the legally-allowed amount). Reducing the use of landfills (20% of urban waste in 2014), further developing separate waste collection. Progressing with initiatives of efficient energy consumption and containment of water network losses. Continuing with the plan to modernise the Group's wastewater treatment plants.

- **Increasing service quality and safety.**

Improving the quality of the service and the relations with customers to acquire a competitive advantage, also in calls for tenders for the assignment of regulated services. Maintaining compliance with commercial quality standards in gas and electricity services (ensuring 98%); improving compliance with claims standards (99% in 2014); ensuring the waiting times for call centres are within 40 seconds for residential customers, 25 seconds for business customers and 14 minutes at the branches; monitoring the safety of gas services (to guarantee 97.5% of calls for emergency services a response within 60 minutes).

- **Involvement and dialogue with stakeholders.**

Promote Hera's contributions to the development of the territory, including through specific consultation activities and dialogue with stakeholders. Further consolidating the model of a business capable of reaching a sustainable balance between the interests of various stakeholders, in order to improve long-term competitiveness and the creation of value. Further developing stakeholder dialogue and consultation initiatives (satisfaction surveys, RAB (Regulatory Asset Base), joint mediation, internal climate survey, meetings to present the Business Plan to employees, presentation of the sustainability report), ensuring transparent communication on business choices. Planning and developing the model of Group institutional relationships, identifying the reference organisational structures, instruments and *modus operandi*.

- **Communication and workforce involvement.**

Implementing systematic instruments and procedures for dialogue with the workforce and adopting the consequent corrective actions (internal climate surveys, downward communication, focus groups). Reaching an internal climate index of 60 by 2011 and maintaining that level as a flat curve.

- **Career advancement and efficient use of skills and know-how.**

Strengthening the institutional and managerial training model and making learning processes more efficient to support technological and organisational innovation processes. In line with the leadership model, promoting the acquisition of managerial skills necessary to be ready for the new competitive context. Consolidating the "Scuola dei Mestieri" model, and begin identifying and promoting the Communities of practice. Retraining and enhancing the workforce by defining new paths for growth by optimising internal mobility instruments. Continuing with the Graduates Project and beginning individual development paths towards roles of responsibility for high-potential resources.

- **Alignment with Code of Ethics principles.**

Ensuring the constant diffusion of the company Charter of Values and Code of Ethics. Monitoring compliance through the full implementation of the activation system defined by the Board of Directors. Through stakeholder involvement, defining the areas for improvement of the activation system and possible updates to the code at the conclusion of the first three years of application.

- **Sense of belonging and corporate culture.**

Disseminating corporate values and culture and a sense of belonging. Ensuring dissemination of the contents of the Charter of Values and the Code of Ethics after changes in the scope (acquisitions, integrations, etc.) and to all newly hired employees. Developing and implementing an integrated leadership model with the performance assessment system which favours alignment between the corporate behaviours and culture.

- **Promotion of the Quality, Safety and Environmental Policy.**

Make the stakeholders and workers, in particular, aware of environmental, quality and safety issues, by ensuring their adequate involvement in the objectives and goals. Promote the development of an integrated and certified management system for quality, safety and the environment. Spreading the culture of respect and implementation of commitments related to the Quality, Safety and Environment policy and pursue the programme defined regarding ISO 9001/ISO 14001/OHSAS 18001/EMAS certifications/registrations: extend the ISO 9001 certification to all group companies by 2011 and the ISO 14001 certification by 2012; obtain the EMAS registration for the Casalegno plant by 2011 and for all Herambiente plants by 2013; obtain the OHSAS

18001 certification for Hera S.p.A. and Herambiente by 2011 and the SA 8000 certification for Hera S.p.A. by 2012.

The commitments to stakeholders listed in 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 Group strategy (Business Plan, Sustainability Report, management reporting, bonus system).

Corporate Social Responsibility within Hera

Hera acts to develop and promote corporate policies with a view to adopting a corporate model that is capable of meeting the needs of the various stakeholders in a balanced manner. Hera has published the Sustainability Report since 2003 and added Corporate Social Responsibility to its strategy, as Hera considers CSR a valid instrument for increasing competitiveness and a key element in reaching sustainable development.

The Mission and Charter of Values expressed in the Code of Ethics dictate the guidelines for corporate conduct and underlie each corporate action and relationship. A shared Mission, Charter of Values and Conduct established in the code of ethics is the strategic and cultural framework in which the Business Plan takes shape; results are reported in a transparent way through the Sustainability Report, and economic planning is carried out annually. The Balanced Scorecard system makes it possible to differentiate the corporate strategy and social responsibility policies into specific operational projects managed by managers and executives and periodically monitored. These projects are an integral part of the management bonus system.

This virtuous cycle of social responsibility within Hera is characterised by numerous stakeholder involvement initiatives that allow for the bivalent examination of legitimate claims and their opportune insertion as part of the corporate policies and the relative implementation instruments.



Key Performance Indicators

Key Performance Indicators	2005	2006	2007	2008	2009	2010
Economic Responsibility						
Value added (in millions of €)	722.1	802.5	817.1	923.8	977.4	1,010.4
Total investments (in millions of €)	346.9	504.8	471.8	429.7	429.3	353.9
ROI (Operating Income/Net Capital Employed)	8.8%	8.6%	7.4%	8.9%	8.1%	8.5%
EBITDA per open ended contract employee (thousands of €)	65.4	68.5	74.2	82.7	87.5	93.6
Total return for shareholders since listing (%)	94.2%	184.6%	171.8%	53.0%	70.0%	72.1%
Social Responsibility						
Open-ended contract employees (average annual % of total workforce)	95.5%	93.2%	92.7%	93.7%	95.0%	95.8%
Hours of training per capita	18.5	20.1	24.3	33.2	23.0	23.0
Workforce attending at least one training course (%)	82.2%	92.5%	92.1%	97.6%	93.4%	96.0%
Accident frequency index (number of accidents/hours worked x 1,000,000)	50.1	47.5	42.4	37.6	32.6	29.6
Internal climate index (score 0-100)	50	-	53	-	58	-
Index of customer satisfaction for residential customers (score 0-100)	67	67	65	67	69	69
Compliance with quality standards (gas, electricity, integrated water service, district heating)	94.7%*	94.6%	94.8%	95.8%	97.6%	98.6%
Emergency gas services: percentage of calls with intervention within 60 minutes	94.7%	96.3%	96.8%	96.5%	96.8%	97.8%
Average call centre response time for residential customers (seconds)	70.2	34.5	46.2	66.1	33.2	33.8
Average branch operator waiting time (minutes)	26.9	23.7	20.7	19.3	14.6	14.5
Value of supplies from local suppliers (% of total)	-	-	-	66%	68%	64%
Value of supplies from ISO 9001 certified suppliers (% of total)	-	-	-	72%	77%	78%
No. environmental education programme students	33,505	37,622	36,014	45,617	39,901	41,306
Environmental responsibility						
Portion of energy produced from renewable sources (incl. waste-to-energy at 51%)	25.2%	27.6%	27.3%	32.0%	27.6%	25.9%
Portion of energy produced from renewable sources (incl. waste-to-energy at 51%) and similar	50.8%	51.2%	51.1%	54.0%	63.1%	67.8%
Waste-to-energy plant emission levels vs legal limits (real concentrations/legal limits: best value <100%)	22.4%	21.2%	19.3%	17.1%	13.4%	13.0%
Quality of treated water vs legal limits (real concentrations/legal limits: best value <100%)	-	-	-	-	35.5%	36.1%
Compliance with Kyoto Protocol (real emissions/assigned emissions)	98%	86%	64%	70%	89%	57%
Non-invoiced water (physical and administrative losses from the civil aqueduct): cm/km of network/day	-	8.42	8.27	7.94	7.87	-
Separate waste collection	28.9%	31.2%	36.0%	42.0%	44.8%	47.8%
Vehicles using low environmental impact fuels. (Methane, LPG, Electric powered) (% of Total)	9.2%	13.7%	14.0%	15.8%	17.6%	17.9%
Portion of urban waste collected for disposal via landfill with no pre-treatment (% total collected solid waste)	29.1%	24.0%	27.6%	27.5%	22.4%	17.7%
Portion of urban waste collected for disposal via landfill (% total collected solid waste)	-	37.0%	37.3%	36.0%	30.1%	25.0%

* Gas service.

The instruments of governance

Corporate governance

Hera is a multi-utility 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 has also established a Supervisory Body pursuant to Italian Legislative Decree 231/2001, as well as an Ethics Committee to monitor the dissemination and implementation of the principles in Hera Group's Code of Ethics.

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. Following the Shareholders' Meeting held on 28 April 2009, it provides, in addition to the appointment conditions set forth in art. 2449 of the Italian Civil Code, that the election of the members of the Board will be based on lists. Specifically, the Articles of Association provide that the 14 members of the Board of Directors be selected from a majority list while the remaining 4 members be selected from a minority list. The local authorities holding shares have entered into a Voting Trust and Share Transfer Rules Agreement which provides clauses on the method of forming the majority list for the appointment of the 14 members of the Board of Directors. Furthermore a Consultation Agreement was signed on 23 February 2010 by 4 minority shareholding partners, providing for the appointment of the members of the Board of Directors.

The articles of association provide that the Board shall meet at least once each quarter or whenever the chairman considers it necessary or a meeting is requested by at least one third of its members or the Board of Auditors; it furthermore provides that the Board be vested with broad and unrestricted powers for the ordinary and extraordinary management 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, by law or the Articles of Association, under the responsibility of the Shareholders' Meeting.

The Board of Directors met 12 times in 2010.

Board of Directors			
Name and Surname	Office	Position	Appointed by
Tomaso Tommasi di Vignano	Chairman	Executive Director	Comune di Forlì (municipality of Forlì)
Maurizio Chiarini	Chief Executive Officer	Executive Director	Comune di Bologna (municipality of Bologna)
Giorgio Razzoli	Vice Chairman	Non-executive independent director	Comune di Modena (municipality of Modena, and on behalf of 29 other municipalities and authorities)
Mara Bernardini	Director	Non-executive independent director	Comune di Modena (municipality of Modena, and on behalf of 29 other municipalities and authorities)
Filippo Brandolini	Director	Non-executive independent director	Comune di Ravenna (municipality of Ravenna, and on behalf of 11 other municipalities)
Luigi Castagna	Director	Non-executive independent director	Comune di Casalecchio di Reno (municipality of Casalecchio di Reno, and on behalf of 46 other municipalities)
Mauro Cavallini	Director	Non-executive independent director	Comune di Ferrara (municipality of Ferrara, and on behalf of 9 other municipalities)
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
Ferruccio Giovanelli	Director	Non-executive independent director	Comune di Modena (municipality of Modena, and on behalf of 29 other municipalities and authorities)
Lanfranco Maggioli	Director	Non-executive independent director	Comune di Rimini (municipality of Rimini, and on behalf of another 26 Municipalities)
Alberto Marri	Director	Non-executive independent director	Shareholders' Meeting from lists presented by the minority shareholders
Daniele Montroni	Director	Non-executive independent director	Appointed by cooption by the Board of Directors of Hera S.p.A. on 20 July 2009 and confirmed by the Ordinary Shareholders' Meeting on 21 October 2009.
Roberto Sacchetti	Director	Non-executive independent director	Comune di Cesena (municipality of Cesena, and on behalf of 25 other municipalities)
Francesco Sutti	Director	Non-executive independent director	Comune di Bologna (municipality of Bologna)
Bruno Tani	Director	Non-executive independent director	Shareholders' Meeting from lists presented by the minority shareholders
Paolo Trombetti	Director	Non-executive independent director	Appointed by cooption by the Board of Directors of Hera S.p.A. on 5 October 2009 and confirmed by the Ordinary Shareholders' Meeting on 21 October 2009.
Stefano Zolea	Director	Non-executive independent director	Comune di Bologna (municipality of Bologna)

The Board of Directors, appointed on 29 April 2008, will remain in office until the Shareholders' Meeting for approval of the Financial Statements as at 31 December 2010.

Three directors of Hera S.p.A. are aged between 30 and 50, 15 directors are over 50 years of age.

As set forth in the Code of Conduct of Borsa Italiana, the Annual Report on Corporate Governance, included in the Statutory Financial Statements, illustrates the requisites for non-executive, independent directors of Hera S.p.A.

The remuneration paid to directors of Hera S.p.A. is illustrated in the explanatory notes to the 2010 Financial Statements.

The Board of Auditors

The Board of Auditors, appointed at the Shareholders' Meeting held on 29 April 2008, will remain in office until the approval of the financial statements for 2010. The Articles of Association establish that the members of the Board of Statutory Auditors are appointed on the basis of lists submitted by shareholders in order to ensure that the minority appoints the Chairman and an alternate auditor. The remaining two permanent members and one alternate auditor shall be taken from the majority shareholder list.

It is the corporate body that monitors correct administration, especially insofar as the adequacy of the organisational, administrative and accounting structure adopted by the directors and its practical operation.

The Executive Committee

The Executive Committee was appointed by the Board of Directors on 30 April 2008, in accordance with article 23.3 of the Articles of Association. With regard to the yearly definition of the Group's business plan and the proposed appointments of top level managers, the Executive Committee has a duty to express an opinion prior to their submission 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 Chief Executive Officer of Hera S.p.A. It met 6 times in 2010.

The Remuneration Committee

The Remuneration Committee was appointed by the Board of Directors on 14 May 2008. The task of this committee is to make proposals to the Board of Directors with regard to remuneration of the Chairman, the Chief Executive Officer, and directors who cover specific roles, as well as to propose the general criteria to be adopted with regard to remuneration of senior management and executives. The Committee met 3 times in 2010.

The Committee is made up of four non-executive independent directors, and upon invitation by the Committee chairman, the Chief Executive Officer and the Chairman of the Board of Directors may participate in its meetings.

The Internal Control Committee

The function of the Internal Control Committee, which was appointed by the Board of Directors on 14 May 2008, is to consult and propose. It is composed of four independent, non-executive 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. The new procedure for transactions with related parties implemented by the Board of Directors in December 2010 requires that the Internal Control Committee be responsible for guaranteeing the substantial correctness of operations with related parties by issuing a specific opinion.

Taking part in its meetings are the Chairman of the Board of Auditors or another Auditor designated by said Chairman, as well as, when expressly requested by the Committee Chairman, the Chief Executive Officer and the Chairman of the Board of Directors.

The Committee for Internal Control met 6 times in 2010.

The Ethics Committee

Appointed by the Board of Directors of Hera S.p.A. on 14 May 2008, it has the task of monitoring the dissemination and implementation of the Code of Ethics. It receives the reports on violations of the Code and assesses whether to begin proceedings.

It includes the Hera S.p.A. Vice Chairman, the Corporate Social Responsibility Director and an external member. The latter was appointed by the Hera S.p.A. Board of Directors in January 2010 due to the amendment to article 60 of the Code of Ethics.

At the meeting of the Board of Directors of Hera S.p.A. on 26 January 2011, the Ethics Committee presented its annual report on activities and the reports it received in 2010, as required by article 71 of the Code of Ethics, and presented the plan to verify and update the Code of Ethics, coordinated by the Committee in the second half of 2010. In the same session, the Board of Directors approved the updated Code of Ethics.

The Ethics Committee met 10 times in 2010.

The three years of the Ethics Committee

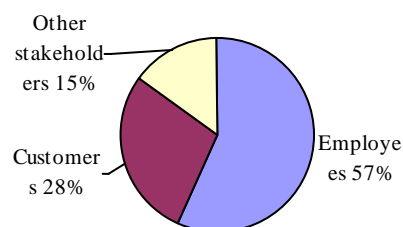
In the 2008-2010 three-year period, 39 reports were sent to the Committee, more than half from the workforce. In 2010 the Committee received 14 reports (9 from employees, 4 from customers and 1 from a supplier).

The reports required investigations which involved the corporate contacts at the applicable or reference departments.

Among the reports in the first three years was the issue of availability to carry on a dialogue and response times to requests of employees, residents or customers. Some criticalities also emerge regarding relationships between managers and employees. For customers, the issues raised included costs and the execution times of some services, as well as inconvenience for waste management or due to loss of the water

network upstream from the meter. The resolutions to the issues raised through the

Reports by stakeholder 2008/2010



reports, as a result of dialogue and discussion, were applied without requiring that official reprimands be made.

In the three years since its inception, the Committee has issued 7 internal recommendations (5 were in 2010): 4 following investigations after reports and 3 following independent activation by the Committee in specific situations. The recommendations were meant to improve attention towards internal customers and, in some cases, working conditions: in all cases, the goal was to make company processes more efficient and achieve behaviours and organisational conduct in line with the Code of Ethics.

The reports by employees reached the Committee mainly via email which is available on the company intranet, while customers mostly used the form available on the Group's website.

Supervisory Body 231

The task of the Supervisory Body 231 is to supervise and control compliance with, and the functioning and effectiveness of, the Organisational Model for the prevention of crimes which may generate administrative liability for Group companies, according to the terms of Italian Legislative Decree 231/2001.

This body is an independent body appointed by the Boards of Directors of the Group companies participating in "Progetto 231"¹. The Board reports to each Board of Directors meeting on matters of concern as per Italian Legislative Decree 231/2001. It avails itself of the Internal Auditing Department for purposes of control, analysis and other duties undertaken.

This Supervisory Body is composed of three independent members, and is headed by the manager of the Internal Auditing Department. The Supervisory Body met 5 times in 2010.

The Organisation

The Hera model is different from other multi-utilities because it has achieved business and operational integration founded on a Holding which makes use of Central Divisions for set-up, support and control, which guarantee an integrated Group perspective and favour the exploitation of synergies. The holding also has General Managements and Central Sectors which carry out a management and coordination function for the businesses managed.

2010 was a year in which significant organisational changes led the Group to evolve in line with the new corporate structure implemented in 2009 and in line with the reference business context.

The consolidation of organisational changes continued, regarding the operational unification of Administration, Quality, Safety and Environment, and Media Relations and Local Communication, between the Territorial Operating Structures (TOS) and the respective Central Divisions, particularly by optimising and standardising operating

¹These companies are: Hera S.p.A., Famula on Line, Hera Comm, Hera Trading, Akron, Herambiente, FEA, Sinergia, Hera Luce, Acantho, Eris, Nuova Geovis, Uniflotte, Romagna Compost and Medea (91 % of the Group's open-ended contract employees work in these companies).

processes and improving service levels provided by central structures to local headquarters.

The process of consolidating organisational change in Famula On-Line took place within the Services and Information Systems Central Division (effective as of 1 January 2010), which is characterised by a greater focus on the internal customer and a moving away from the commercial activities intended for the external market.

In the sphere of the General Development and Market Division, particularly of Hera Comm, some organisational changes with a focus on consolidation were made throughout 2010 to the organisational structure outlined in 2009: in the Households Market department, the new organisation was formalised which involves more focus on the areas of responsibility for customer management in the applicable regions and the establishment of a Households Market Back Office structure to monitor and coordinate regional back office activities.

With reference to Herambiente S.p.A., the Operating Services Department was established in 2010 in order to guarantee more focus on cross-business line processes, therefore optimising interactions between the structures involved; in the Production Department area (waste treatment and disposal plants), the lines were streamlined from five to three, and a Development, Planning and Control Office was established with the aim of guaranteeing greater concentration on activities required for development initiatives, pricing and business accounting. From a commercial point of view, the Market Division ensures supervision, on an organisational level, of the free market activities as they relate to the handling of special waste.

The Credit Management office was established within the Administration, Finance and Control department, with a view to reinforce organisational monitoring of all Group activities related to credit management.

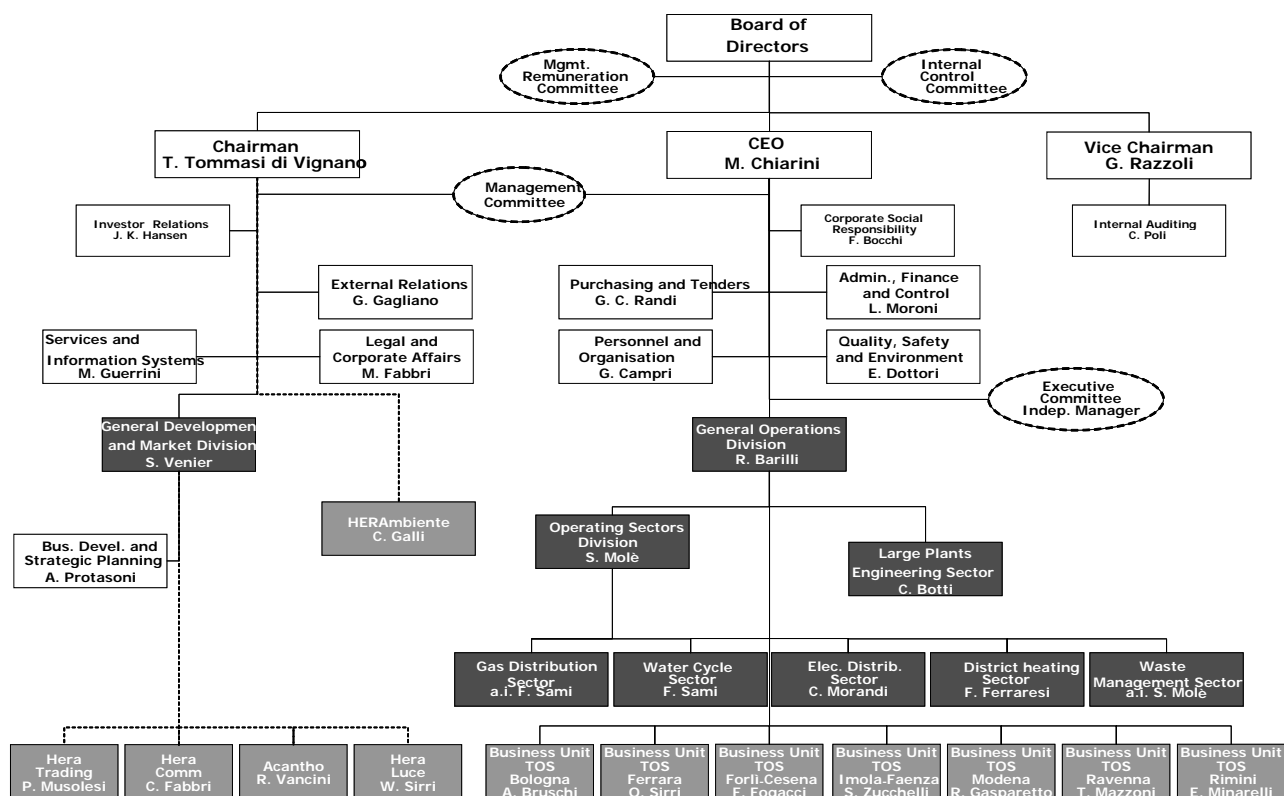
In 2010, the Operating Sectors Department was established within the General Operations Department, which ensures an integrated perspective of the activities carried out by the Sectors which report to it (Water Cycle, Gas Distribution, Electricity Distribution, District Heating, and Waste Management Services) and the activities of Meter Reading and Planning, Control and Scheduling of compliance activities.

Processes related to regional back-office activities, also those supporting the Sectors in operations and specialist management, were consolidated in the individual Territorial Operating Structure Business Units.

Finally, the process of fluid remote-control centralisation is in the closing phase.

Three committees have been set up for corporate management purposes:

- Managing Committee: analyses and obtains group-wide consensus on policies, strategies and operational planning decisions, while fostering integration between the various functions;
- Executive Committee: meets every three months to monitor management trends and the progress of Balanced Scorecard projects;
- Coordination Committee of Heads of the Territorial Operating Structures: monitors progress with respect to locally managed services, while ensuring alignment of the activities of the various territorial structures.



Effective 31 December 2009, for the promotion and development of strong local roots, each TOS shall set up a Territory Committee composed of members representing the local area the Committee covers (including the Chairman), in addition to the Manager of the local TOS Business Unit. The Committee periodically focuses on some key themes such as monitoring customer satisfaction and the quality and sustainability of services offered. The Committee is also in charge of supporting the Group's top management in its dealings with public institutions and other local stakeholders.

Governing Corporate Social Responsibility

The Corporate Social Responsibility Department

This unit was established by the Board of Directors of Hera S.p.A. in May 2005 and reports to the Chief Executive Officer. The CSR Organisational Unit, which has been a Division since 2010, ensures that the social responsibility principles are an integral part of corporate planning and management. The CSR Division is in charge of defining and proposing corporate guidelines concerning corporate social responsibility, reporting on sustainability, ensuring the continued development of the integrated balanced scorecard system with sustainability strategies, and proposing and managing the execution of social responsibility projects. In October 2010 the Balanced Scorecard System Management, Sustainability Reporting and CSR Projects offices were established in the Department.

The Internal Auditing Department

In 2003, Hera S.p.A.'s Internal Auditing function, a Department since 1 March 2010, was instituted according to the provisions of the Code of Conduct for Listed Companies prepared by Borsa Italiana. Since 2006, the Internal Auditing Department has reported directly to the Vice Chairman of the Hera S.p.A. Board of Directors, thereby ensuring its independence from other operational structures.

Under the supervision of the Internal Control Committee, the Internal Auditing Department evaluates corporate risks, delineates and executes the long-term audit plan and implementation, executes the related specific audits, and provides internal consulting about risk management. Audits may regard the infrastructures, activities, processes and information of Hera S.p.A. and its subsidiaries. In 2010, the total tasks carried out resulted in 44 audit reports. For the purpose of Italian Legislative Decree 231/2001, 743 information flows were examined.

Group management assigns the Internal Auditing Manager the responsibility for Internal Control, in compliance with the provisions of the Code of Conduct for Listed Companies prepared by Borsa Italiana S.p.A.

The Board of Directors of Hera S.p.A. assigns the Executive Committee the task of overseeing the implementation of the action plans resulting from audit reports.

The organisational model for corporate crime prevention

Italian Legislative Decree 231/2001 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, directors or managers on behalf of the entities, or by natural persons acting under the supervision or management of such persons.

The Board of Directors of Hera S.p.A. and the main subsidiaries of the Group adopted an Organisation, Management and Control model (called "Model 231") to ensure conditions of correctness and transparency in conducting company business and activities. The supervisory body includes the Internal Auditing Manager, the Legal and Corporate Affairs Manager and one external member.

Following the mapping of "sensitive" company activities, at risk of the offences included in the Decree, the Group companies defined specific protocols to be followed in carrying out specific activities, and made the consequent information flows available on a periodic basis. These protocols are circulated to the entire workforce through the corporate intranet. Their application is monitored during the audit phase. No cases of corruption have arisen that result in advantages being gained by the Group, and thus, defined as significant as per Model 231.

In 2010, the Board of Directors of Hera S.p.A. approved and distributed the new "Procurement" Protocol through a dedicated Internal Regulation and the revision of the "Sponsorship Management" and "Donations and Perks Management" Protocols.

Model 231 of the Hera Group includes the principles of conduct formalised in the Code of Ethics.

Notifications and trainings on Model 231 were carried out in a widespread manner for all employees through AlfabEtico (Code of Ethics training) in 2008, and they are also provided to each new hire through AlfabEtico. Furthermore, the same Internal Auditing Department ensures assistance to various corporate functions in drawing up and implementing corrective actions in relation to lacks identified during audits.

The 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, quality 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 consolidating a positive corporate reputation.

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, and, beginning from 2006, supplier qualification is subject to acceptance of the Code of Ethics.

A “living” Code of Ethics

In 2010, the three years for the pilot application of the Code ended and therefore the Ethics Committee coordinated an update verification. In July 2010, the work group was re-formed to update the document, which included managers of various business areas. Then, focus groups with around 50 employees were carried out and a dedicated email account was opened to receive comments from employees. The new document, which is therefore the product of a participative updating method, was approved by the Hera S.p.A. Board of Directors on 26 January 2011.

The new Code of Ethics will be approved by the Group companies involved in "Progetto 231" and, during 2011, its approval will also be planned in all of the Group's subsidiaries.

The training provided to all employees through AlfabEtico with the first edition of the code will continue for each new hire in 2011. Furthermore, also in 2011, additional Code of Ethics awareness and distribution initiatives will be carried out for all employees.

Risk analysis

Risk factors and critical points are identified and weighed through a process of assessing the risk of the Group's business segments and infrastructure processes, in order to update and define the three-year Internal Audit Plan which provides a breakdown based on risk level for each segment to be verified. Internal Audit activities are focused on the segments with the highest risk levels. The resulting Audit Plan is approved by the Board of Directors of Hera S.p.A. following receipt of the opinion of the Internal Control Committee.

Regarding specific risks related to the topics included within the scope of Italian Legislative Decree 231/2001, the Supervisory Body defines an Audit Plan based on the risk assessments, any extension to companies which were previously excluded from the Group's "Progetto 231", coverage of new processes, regulatory developments and the extension of the scope of activities of the companies.

Risk management

In January 2004, Hera created the Risk Management & Insurance department within its organisation, in order to optimise the company's risk profile, adopt pro-active

behaviours in relation to pure corporate risk, minimising threats and taking advantage of opportunities, in order to ensure increasingly efficient protection of human, material and intangible business assets, and contribute to the growth of corporate value.

Risk Management processes are applied in a continuous and circular process including typical phases such as risk awareness, danger identification, risk analysis, risk management and treatment, and the control and auditing of the Risk Management policies carried out.

To pursue corporate objectives, both in terms of wealth preservation and growth of value, the Hera group integrates synergy actions offered by two main risk management tools: an insurance coverage program provided by leading international insurance companies and the implementation of a strategy to eliminate or reduce risks through specific and effective intervention programs.

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. In October 2008 the Global Compact sent a letter to the Chief Executive Officer of Hera S.p.A. regarding the excellent quality of the 2007 Sustainability Report and its value as an example to be followed by other members.



The Quality, Safety and Environmental Management System

The Group views management systems as an essential governance tool.

The implementation of these systems allows for Hera to improve:

- measurement and problem analysis ability and definition of corrective actions on objective bases of priority and criticality, through a systematic approach to non-compliances;
- cross-functional coordination, through the contributions of the Quality, Safety and Environment structures;
- definition of training plans and skills growth, through a systematic analysis of criticalities and necessary competencies;
- input collection and definition to complete investment plans;
- internal benchmarking and sharing of problems, through the implementation of audit and control activities (both internal and external);
- implementation of Group guidelines, procedures and operating instructions.
- the control of regulations applicable to its activities.

Among the results obtained in 2010, particularly of note is achieving the prestigious environmental management system certification and validation of the environmental declaration for the purpose of the Imola's Casalegno cogeneration plant EMAS registration.

Furthermore, in February 2011, the OHSAS 18001 certification process concluded positively: all of the services managed by Hera S.p.A. are now certified. In 2011, we expect to obtain the OHSAS 18001 certification of the activities carried out by Uniflotte and by Herambiente.

Also during 2010, the project of revising the processes to assess environmental and regulatory compliance aspects continued.

There was a remarkable commitment to carrying out internal inspection controls. This is a fundamental task for checking the level of efficiency and effectiveness of management systems. Eight complete internal audit cycles were completed in 2010, for a total of 195 internal inspection controls.

At the end of the year, the process to reorganise the Quality, Safety and Environment Central Division began, with the aim of strengthening internal resource specialisations and favouring synergies on sector technical aspects.

In 2010, Hera Group achieved the important goal of obtaining the ISO 14001 certification of Uniflotte's management system, regarding activities carried out by the company motor vehicle maintenance and repair offices. In 2011, the certification process is expected to begin for activities carried out by the analysis laboratories, which already have the ISO 9001 quality management system.

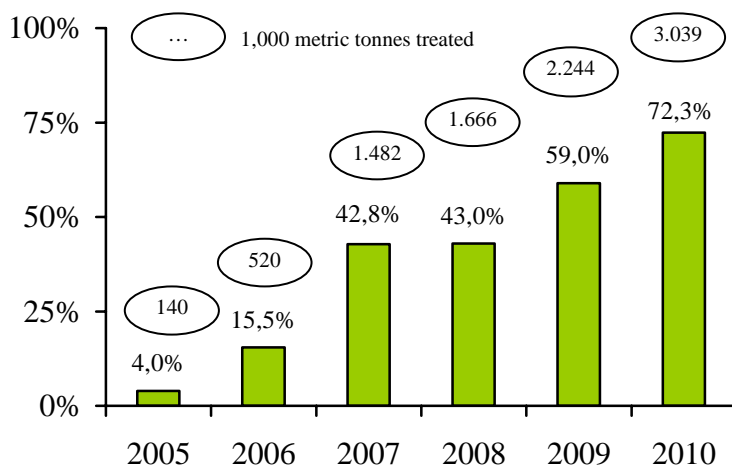
In 2010, Hera Group companies passed all of the controls needed to maintain and renew the certification of their management systems in accordance with the ISO 9001 standard. In 2011, the certification process is expected to begin for activities carried out by Famula On Line.

Hera's commitment to quality, safety and environmental certifications

The quality management systems, certified according to the international ISO 9001 standard, are the main and broadest tool to guarantee the control of activities carried out and services provided. The distribution of the ISO 9001 management systems in the Hera Group companies has reached 96% of open-ended contract workers. The distribution of ISO 14001 management systems, on the other hand, has reached 87% of employees, while the distribution of the OHSAS 18001 management systems has reached 73%. 95% of the total waste treated in Group plants was disposed of in the disposal plants that are ISO 14001 certified.

There are 34 plants with EMAS registration in total and a further 13 plants have passed the test carried out by the inspection company and are awaiting ministerial validation. In 2010, waste disposed of in plants with EMAS registration amounted to 56% of the total waste treated in Group facilities. This percentage rises to 72% if the plants for which the validation from the external certification company has been received and for which the investigation for registration is still underway at the Ecolabel-Ecoaudit Committee are counted.

Waste disposed of in plants with EMAS registration (a percentage of the total waste disposed of in Group plants and the total waste disposed of in thousands of metric tonnes)



In 2010, waste disposed of in plants with EMAS registration amounted to 3 million metric tonnes of waste or 72% of the total waste treated in Group plants. The urban waste treated in plants with EMAS registration amounted to 951 thousand metric tonnes or 67% of the total urban waste treated in Group facilities.

The EMAS project, which aims for the progressive registration of all Herambiente plants, continued in 2010. The project received the European EMAS Award Italy in 2005 as it was considered to be one of the most interesting in Europe.

The sites which positively passed the environmental declaration validation by the certification body during the year are still in the phase of being investigated by the EMAS Committee: the site in Ravenna, Via Baiona (4 plants), the site in Forlì, Via Grigioni (4 plants), the landfill in Civitella (Forlì-Cesena), and the composting plant in Cà Baldacci (Rimini).

Due to delays in 2010 in the establishment of the Ecolabel and Ecoaudit Committee as the competent EMAS authority for the plants indicated (Il Pago landfill in Firenzuola (Florence), composting plant in Voltana (Ravenna), landfill under post-closure management in Piangipane (Palermo)), only the Bellaria (Rimini) transfer service was registered.

In 2011, the activities to validate the environmental declarations of the following sites and plants are expected: Stradelli Guelfi (Bologna) transfer service, “Area 2” plant site (Modena), and the landfill for non-hazardous waste in Zocca (Modena).

The section “The environment and future generations” sets forth a list of the plants with the ISO 14001 certification and the EMAS registration.

Major regulatory developments most impacting sustainability

As regards the mandate to incorporate EU regulations, the government approved important new regulations about Hera Group business segments: the decree that defines and governs high-efficiency cogeneration (in application) and the Italian Legislative Decree to reform the regulation on renewable sources (being discussed in the applicable parliamentary commissions).

The Italian Legislative Decree on the renewable sources regulation involves important new elements and marks a change in relation to the support organisation applied up to now in Italy: from a market mechanism through marketable securities (green certificates corresponding to the portion of electricity produced from renewable sources and introduced into the grid), we are moving towards a dual layout which involves a support tariff for electricity produced by small plants and a withdrawal tariff for larger plants established based on an auction. Both tariffs are differentiated based on technology and size. The obligation to cancel green certificates, as well as the corresponding portion of energy produced from renewable sources, decreases until cancelling itself out at the end of the transition period, which should end within 2012. During the transition period, the GSE will continue to withdraw the surplus green certificates at a value lower than 22% of the previously established value (until 2015 for plants that may become operative by the end of the transition period).

The Italian Legislative Decree also incorporates interesting new elements into energy efficiency incentives (extending the duration of the right to white certificates for larger projects) and district heating networks, for which a specific support contribution is expected. In the version approved by the government in the beginning of March following the examination for opinion by the Parliamentary Commissions, of note is the essential "block" of the direct incentive schemes for photovoltaic energy (known as the energy account); due to the emergence of costs deemed excessive for the system overall, the government decided to terminate the current support scheme as of 31 May 2011, postponing the definition of the incentive received by plants that may enter into operations after that day to a further decree to be implemented by 30 April 2011. Given the strongly negative effects caused in the photovoltaic sector by an unexpected intervention (which was not, moreover, part of the legislative decree submitted to the Chambers), at least a partial revision of the "block" is expected; however, at the moment it is not assessable.

The approval of the decree on the design of gas distribution areas for competitive procedures set forth by the Letta decree is significant: the number of areas was definitively set at 177 (higher than the AEEG indications and also more than the initial amounts proposed by the government), while their composition and other detailed regulations for carrying out tenders were postponed to further decrees. The "areas decree", which, *inter alia*, sets forth the block of individual tenders that the Municipalities may possibly institute, has not yet been published at this report approval date.

Among the significant regulations in this regard, please note, finally, the publication of the expected regulation implementing the reform of local public services (23 *bis* of Italian Law 133/2008) and the Ministry of Economic Development directive which, responding to the commitment made before Parliament during the conversion of the so-called energy decree, definitively recognises the rights acquired by renewable source plants which entered into operation in 2007, which were in the situation of regulatory lack due to the subsequent reforms implemented by financial laws for 2007 and 2008.

As regards actual regulatory activities (AEEG), please note that the seven-year mandate of the Board which came into office in 2003 has expired, and the new Authority, made up of five members set forth by the Marzano law, shall be appointed. The delay in

appointing the new Board, for which the qualified majority in parliamentary commissions called to express their consent on the members pre-chosen by the government is required, required the extension of the exiting Authority, which remained in office during the last part of 2010 to complete current administrative tasks. The measures to reform the code of commercial conduct governing the sale of electricity and natural gas and the establishment of an integrated IT system at the Single Buyer, aimed at building a standardised platform of relevant information for the purpose of reporting between distributors and sellers in the de-regulated market, also affect Hera's operations.

Some important consultations that began during the second half of 2010 will have significant effects during 2011: particularly, please note the regulatory reform of electricity distribution service quality and the overall revision of the natural gas balancing regulation, also to encourage competition. The increasing complexity in network operations, with particular reference to the increase in active connections due to the spreading of renewable sources, caused the start-up of an innovative regulatory trend (smart grids) which will probably affect the electricity distribution tariff reform. The consultation process for the latter began at the beginning of 2011 in view of the beginning of the new regulatory period on 1 January 2012.

Of note, with effects to occur in 2011 and the next years, is the reiteration of the final natural gas price regulation for the protected segment. Regional Administrative Court (TAR)'s cancellation of the regulation previously in force (AEEG resolution no. 79/2007) and the intervention on this topic, which is by now being consolidated by EU law, suggests the opportunity for an overall revision of the approach, both in terms of a possible restriction of the area of protection (with the institution of a protection market, similar to the electricity market), and in terms of reference price establishment mechanisms, which are difficult to define in a market that by now is completely de-regulated and systematically the subject of disputes.

Dialogue with stakeholders

An industrial group with Hera's characteristics must take into account the needs and demands of its many stakeholders.

Hera periodically surveys the satisfaction of its customers and employees. The results are used to define improvement initiatives.

Hera's stakeholders

An industrial group with Hera's characteristics must take into account the (frequently conflicting) needs and demands of its many stakeholders.

Corporate Social Responsibility means considering, within company decisions, all legitimate demands of the various categories of stakeholders, balancing these demands and integrating them into company 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 a breakdown was provided for each. The presence of targets of particular interest and the issues of particular significance to these targets were also identified. Then, an assessment was made of the influence that each group exerts on corporate decision-making processes and the significance with respect to corporate activities. These two aspects are assessed in the light of decision-making power, the existence of legal or contractual obligations, the company's employees and links with corporate strategies.

Mapping of the stakeholders and key issues to be targeted by involvement actions enabled us to pinpoint the stakeholders that are the most important for the company (workforce, customers, shareholders), a second group of stakeholders with interests of a broader nature, however able to influence corporate decisions (financial institutions, suppliers, public administration, local communities), and a category of stakeholders whose interests are only indirectly represented (the environment and future generations).

Main dialogue and consultation initiatives

Stakeholders	Main classes	Key issues	Main dialogue and consultation initiatives
Workforce	<ul style="list-style-type: none"> - Employees - Non-employee workforce - Union organisations 	<p>Stability, internal climate, training, career advancement, bonuses, remuneration, life/work balance, equal opportunity, safety, internal communication</p>	<ul style="list-style-type: none"> - Biennial internal climate survey: after the survey carried out in 2009, 15 improvement actions were identified, 10 were carried out in 2010 and 5 are in progress. The fourth survey shall be carried out in 2011 - survey on quality perceived by internal services: planned in the first months of 2011, a questionnaire was issued to a sample (around 10%) of the company population - Meetings of the Chairman and Chief Executive Officer to illustrate the Business Plan to all personnel (16 meetings held in March 2010, with all personnel) - Improvement groups (2 groups launched and concluded in 2010) - Meetings to present the 2009 Sustainability Report (involving approx. 470 employees) - on 24 March 2010, subscription of the Hera Group Supplementary Collective Labour Agreement: confirmation of the commitment to corporate social responsibility, the introduction of LaborHERA (technical study for organisational and work quality innovation). LaborHERA met three times in 2010.
Customers	<ul style="list-style-type: none"> - Residential customers - Customer bases in areas served - Business customers - Consumer groups and trade associations 	<p>Service quality, tariffs, transparency, safety, service reliability, communication and information</p>	<ul style="list-style-type: none"> - Residential and business customer annual survey: approximately 3,000 interviews of residential customers, a stratified sample by local area, consumption range and service, 1,220 interviews with the various types of business customers, a stratified sample by local area and turnover - Satisfaction survey for the district heating service with 404 customers interviewed - Satisfaction survey for the public lighting service with around 1,500 customers interviewed - Conclusion of the experimental period begun on 1 February 2009 and implementation of the joint mediation procedure, with 93 requests for mediation from Hera customers received in 2010 - Start of the creation in the entire area of a relationship model that involves direct contact with consumers' associations (single contact person, dedicated telephone number and email), periodic meetings to check results and provide details with topic-focused seminars, which will conclude by April 2011

Stakeholders	Main classes	Key issues	Main dialogue and consultation initiatives
Shareholders	<ul style="list-style-type: none"> - Public shareholders - Institutional investors - Private investors - Financial community - Ethical funds 	Dividends, share performance, investor relations, corporate governance aligned with best practices	<ul style="list-style-type: none"> - Investor Relations activities: meetings with 461 investors - Participation in the Oddo Environment Forum which takes place each year in Paris; meeting with over 30 ethical investors. - The yearly publication of the calendar of corporate events - Real-time publication in Italian and in English of communications such as approval and publication of financial statements, quarterly and interim reports, business plans and significant operations, on the Group's website in the Investor Relations section - Two important international road shows carried out in 2010 to meet the largest investment funds - Introduction of new tools on the website such as the accessible version of the financial statements, an interactive description of corporate governance, a simple analysis of the historical trend of in the share price and the opinions of independent financial analysts - Implementation of a weekly chat which allows the company to interact with users in real time - Increased shareholder participation in the assembly held on 30 April 2010: shareholders representing 66% of the share capital participated
Financial institutions	<ul style="list-style-type: none"> - Banks - Bond market 	Continuity of relations, long-term financial solidity	
Suppliers	<ul style="list-style-type: none"> - Suppliers of goods and services and temping agencies - Qualified suppliers - Local suppliers 	Continuity of relations, qualification, bargaining conditions, payment deadlines	<ul style="list-style-type: none"> - Meetings with representatives of social cooperatives working in the areas served by the Hera Group, to share the 2009 results and opportunities to work together in 2010 - Help desk to assist suppliers on the e-procurement platform: over 9,000 requests were received, and 99% were resolved in the expected times - Meeting on 15 February 2010 with trade associations (Confartigianato and area CNAs) in order to inform/train regarding the functions and potentials of the Hera Group Supplier Portal - Involvement and training of suppliers on the e-procurement platform

Stakeholders	Main classes	Key issues	Main dialogue and consultation initiatives
Public Administration	<ul style="list-style-type: none"> - Reference local authorities: Municipalities, Provinces, Regions, their associations and local chapters - Regulatory and control bodies - Universities and research institutes - State agencies 	Transparent communication, concern over local issues, compliance with the law, correct management practices, innovation. partnerships	<ul style="list-style-type: none"> - Periodic meetings with auditing committees in all regions - Permanent roundtables on service quality and city integrity with the Municipalities of Bellaria (Rimini), Cattolica (Rimini), and Riccione (Rimini) - "Cesena opens a dialogue with Hera" on 15 December 2010, an entire day of meetings between the Hera management and the municipal administration of Cesena, and residents
Local community	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - Residential Advisory Board– (RAB) in Ferrara, Imola and Raibano (Rimini) - Convention in Bologna on 28 May 2010 to present the 2009 Sustainability Report - Conventions and meetings for the presentation of the 2009 Sustainability Report to the local stakeholders of Imola, Ravenna, Forlì, Rimini, Ferrara and Modena - An informational branch at the Modena waste-to-energy plant, active by appointment every Tuesday afternoon from 4:00 PM to 7:00 PM - From October 2010, online reservation of guided visits to the waste-to-energy plants
Environment and future generations	<ul style="list-style-type: none"> - Environmental associations - Trade associations - Technicians and experts from other companies - Technicians and persons competent in environmental issues elected by the inspectorates 	Production of energy from renewable sources, energy and water saving, district heating, water withdrawal, greenhouse gas emissions, atmospheric emissions, separate waste collection, waste disposal and management	<ul style="list-style-type: none"> - Local initiatives to promote energy and water savings, the use of tap water and separate waste collection

Hera's significant commitment to the development of stakeholder involvement initiatives is by now an internal structural element of the operating procedures of the units handling the relations with various stakeholders.

The internal climate survey, the meetings of the Chairman and Chief Executive Officer with the workforce to present the business plan, the customer satisfaction survey, the RAB (Residential Advisory Boards), the improvement groups, the meetings for the presentation of the Sustainability Report: these are all ongoing actions that take place periodically as they are now consolidated practices representing the regular methods used to analyse a situation and identify areas for improvement and the subsequent actions required.

In the sections that follow, the approach used and the results of the main dialogue and consultation initiatives carried out in 2010 are set forth by stakeholder category.

Dialogue on the Sustainability Report

On 28 May 2010, Hera presented the 2009 Sustainability report in Bologna: after opening with an explanation of the report's main elements, Prof. Jacques Attali, Chairman of the Freedom for Growth Commission established by French President Sarkozy, addressed the causes, consequences and scenarios of the economic and financial crisis. The discussion continued with a roundtable, with the participation of Group stakeholder representatives: Anna Maria Cancellieri, Official Receiver of the Municipality of Bologna, Giovanni Moro, Chairman of Fondaca - Fondazione per la cittadinanza attiva [*Foundation for active citizens*], Simonetta Saliera, Vice President of the Emilia-Romagna Regional Government, Andrea Segrè, Principal of the Agriculture Department at the University of Bologna and Chairman of Last Minute Market, Pierluigi Stefanini, Chairman of Unipol Gruppo Finanziario and of Impronta Etica. Around 350 people participated in the event.

The Report was also presented at public meetings with local participants. These began on 16 June in Imola, to then continue in Ravenna, Forlì, Rimini and Ferrara, until the last meeting was held on 5 July in Modena. The meetings opened with presentations by the Chairmen and General Managers of the Territorial Operating Structures on the local views of the Sustainability Report: sustainability figures, commitments and objectives relating to the specific area were presented.

All of the meetings involved the participation of stakeholder representatives, for a total of 35 interventions in six meetings organised. Statutory auditors, regional and provincial directors, other local directors, ATO Agency technicians, Arpa and Local Health Authorities, technicians from the recovery consortia, consumers associations and associations to promote corporate social responsibility, trade associations, union officials, journalists, rectors, principals of university departments and university professors all spoke to give their opinion on Hera's approach to sustainability and their needs and expectations.

Some topics discussed were translated into solicitations to launch or extend Group initiatives, including the traceability of waste flows begun for recovery after separate waste collection, an increase in the Group's commitment to prevent waste and the establishment of structured dialogue channels for some stakeholder categories.

There were over 900 participants in the meetings, which were closed by the Chief Executive Officer of Hera S.p.A., Maurizio Chiarini, who highlighted that two distinctive objectives of the Hera Group are achieved through these meetings: connection to the community and availability for dialogue.

Results and Value added

This section includes the key data on economic responsibilities of the company. In 2010, value added distributed to stakeholders amounted to Euro 1,010.4 million (+3% compared to 2009), of which Euro 803.3 million were distributed to stakeholders in local areas.

Operating results

Consolidated income statement

(in millions of €)	2009	2010
Revenues	4,204.2	3,668.6
Change in inventories of finished products and work in progress	-2.9	-1.7
Other operating income	234.7	210.4
Raw materials and consumables (net of changes in inventories)	-2,777.6	-2,140.5
Costs for services	-765.3	-810.7
Other operating costs	-37.7	-38.8
Personnel costs	-352.0	-361.9
Capitalised costs	63.9	81.9
EBITDA	567.3	607.3
Amortisation, depreciation, allowances	-276.0	-291.9
EBIT	291.3	315.4
Financial charges	-113.4	-109.8
Other non-operating expenses	-15.3	-
Pre-tax profit	162.6	205.6
Tax	-77.6	-63.6
Net profit for the year	85.0	142.1

At the end of 2010, the Hear Group's results improved sharply compared to 2009.

The Consolidated Income Statement incorporates the application of the interpretation of accounting standard IFRIC 12 "Service Concession Arrangements" which changed the procedure for reporting company events for companies operating in industries regulated by specific concessions (for more information, please refer to the company Financial Statements). In accounting terms, the effect of the application of this principle, which does not alter the results, is the representation in the income statement of the investment work carried out on assets under concession, limited to grid services. Consequently, other operating income, costs for services and capitalised costs incorporate the evaluation of the activities carried out for this purpose in the part of the year in question. Therefore, other operating income was higher by Euro 135.2 million for 2010 and by Euro 151.9 million for 2009, capitalised costs were lower by Euro 35.4 million in 2010 and Euro 39.0 million in 2009 and operating costs for services, materials and other operating costs expenses were higher by Euro 99.8 million in 2010 and Euro 112.9 million in 2009.

Accounting reclassifications were carried out both in 2009 and in 2010, increasing costs for services and capitalised costs by an equal amount. This reclassification became necessary the better to represent the completion of the plants and other works between companies operating within the Group.

The reduction in electricity trading activity and the decline in the price of the raw material component on sales of methane gas, linked to oil price fluctuations, is the main reason for the decrease in revenues, which declined from Euro 4,204.2 million in 2009 to Euro 3,668.6 million in 2010. These effects are partly offset by the greater volumes sold in the energy areas and disposed of in waste management services. The other operating revenues, i.e. Euro 210.4 million, decreased by Euro 24.3 million relative to the comparable period of the previous year, mainly by effect of the IFRIC 12 reclassification, which impacts by Euro 151.9 million on 2009 and by Euro 135.2 million on 2010; net of this reclassification, the other operating revenues are reduced by Euro 7.5 million, or 9.1% in percentage terms.

The decrease in the costs of raw materials and consumables, i.e. Euro 637.1 million from the previous year, is linked to price trends in the energy businesses discussed above.

Other operating costs (Service costs were up by Euro 45.4 million and Other operating costs by Euro 1.1 million), saw a total increase of Euro 46.5 million (+5.8%); these items were impacted both by the application of the IFRIC 12 standard, which leads to a decrease of about Euro 22.0 million, and by the effect of the accounting reclassification on the completion of the plants between the companies of the group, which causes a growth of Euro 12.8 million in service costs between 2010 and 2009. The net increase in other operating costs is Euro 55.8 million between 2010 and 2009. About half of this growth is due to the higher electricity transport costs, linked to higher volumes sold, and the other half to higher costs of works for the completion of plants and facilities.

The increase in Personnel costs, which rose from Euro 352.0 million in 2009 to Euro 361.9 million in 2010 (+2.8%), is mainly connected to changes in contractual dynamics.

The increase in capitalised costs, which rose from Euro 63.9 million to Euro 82.9 million, is due to the accounting reclassification associated with works for plants between the Group's companies for Euro +21.1 million and to the effect of the application of the IFRIC 12 standards for Euro +3.6 million; therefore, the actual decline in capitalised costs was Euro -6.7 million (-8.4%).

The consolidated Group EBITDA of 2010 grew from Euro 567.3 million as of 31 December 2009 to Euro 607.3 million (+7.1%), thanks to the result of all the Group's main businesses: the energy areas exhibited the highest volumes sold and distributed with the best margins, the water cycle had had the tariff increases to cover the additional services provided and waste management had the greatest volumes treated.

Amortisation, depreciation and allowances grew by 5.8%, from Euro 276.0 million in 2009 to Euro 291.9 million in 2010. The increase is mainly due to the higher bad debt provisions and, for the remainder, to the commissioning of the new plants that offset the effect of the reduction in depreciation rates in the Gas distribution and District Heating services.

Thus, EBIT in 2010 was Euro 315.4 million, up 8.3% from 2009.

The result of financial operations in December 2010 amounted to Euro 109.8 million compared to Euro 113.4 million in 2009. Net of the extraordinary effect linked to interest expense on the amounts returned in relation to so-called "state aid", i.e. Euro 12.3 million in 2009, costs were higher due to the following main factors:

- decrease by effect of the average indebtedness for about Euro 1.6 million;
- increase by effect of a higher portion of long-term debt on total net indebtedness for about Euro 9.8 million.

The total cost of financial operations also reflects a Euro 0.4 million increase for changes in profits from associated companies, dividends and IAS effects.

It should also be noted that as of 31 December 2009 the Group discounted an additional Euro 15.3 million connected to the tax moratorium in the item “other non operating costs”.

As a result of the above, profit before taxes increased from Euro 162.6 million in 2009 to Euro 205.6 million in 2010, up by Euro 43.0 million or 26.4%.

Taxes decreased from Euro 77.6 million to Euro 63.6 million and they include Euro 25.6 million of non-recurring positive effects relating to the freeing, by means of substitute tax, of the higher values recorded in the financial statements as a result of extraordinary transactions already carried out in 2009. The final tax rate is 30.9%.

The net profit as of 31 December 2010 amounted to Euro 142.1 million, up 67.2% compared to Euro 85.0 million as of 31 December 2009.

Balance sheet

(in millions of €)	31-Dec-2009	31-Dec-2010
Net fixed assets	3,986.8	4,142.3
Net working capital	25.8	-29.1
Provisions	-420.0	-382.8
<i>Net capital employed</i>	<i>3,592.5</i>	<i>3,730.4</i>
Shareholders' equity	1,700.7	1,870.2
Long-term debt	2,143.7	2,292.1
Net short-term position	-251.9	-431.9
<i>Net financial position</i>	<i>1,891.8</i>	<i>1,860.2</i>
<i>Total sources of financing</i>	<i>3,592.5</i>	<i>3,730.4</i>

The net capital employed in 2010 increased 3.8% from Euro 3,592.5 million to Euro 3,730.4 million as a result of the substantial investment plan put in place.

With regard to net fixed assets, which as of 31 December 2010 amounted to Euro 4,142.3 million versus Euro 3,986.8 million in December 2009, of note is the increase in tangible and intangible assets.

Provisions at the end of 2010 were Euro 382.8 million versus Euro 420.0 million in December 2009. The decrease is mainly due to provisions for deferred taxes, partially offset by an increase in provisions for other risks.

Net working capital decreased from Euro 25.8 million as of 31 December 2009 to Euro -29.1 million as of 31 December 2010. The reduction is mainly due to the higher payables both for consumption taxes and for the substitute tax related to the freeing of the higher values recorded upon transfer of the assets formerly owned by Area Asset, Con.Ami and Hera Reti Modena.

Shareholders' equity grew from Euro 1,700.7 million of 2009 to Euro 1,870.2 million in 2010 and the debt to shareholders' equity ratio improved markedly, from 111.2% in 2009 to 99.5% in 2010.

Operating investments (non financial)

(in millions of €)	2008	2009	2010
Gas/District Heating/Heat Management Services	67.6	64.1	48.8
Electricity/Industrial Cogeneration Services	48.9	37.9	39.0
Integrated Water Services	114.1	105.4	94.2
Waste Management Services	125.2	119.1	98.7
Other Services	6.3	12.0	13.3
Central Structure	57.5	54.0	51.8
Total	419.7	392.5	345.8

Total investments in the district heating decreased with respect to the previous year by effect of fewer initiatives to extend the district heating network. Initiatives for the gas service on the local area refer to network extensions, clean-up work and regarded expansion, enhancement and upgrading of networks and distribution systems. District heating service investments concerned extension work to the service in the areas of Bologna, Imola, Forlì-Cesena, and Ferrara whereas Heat Management service investments concerned structural work on thermal plants operated by companies of the Group.

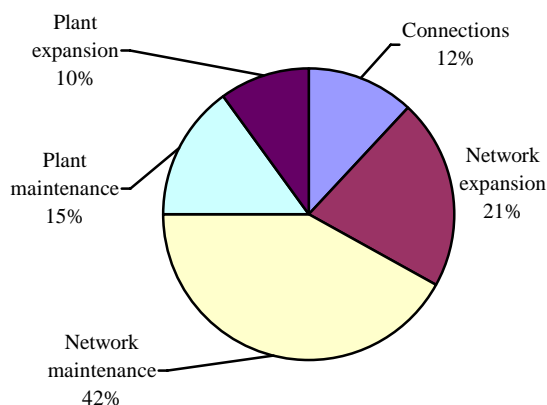
Investments in the Electricity Services concerned service extensions and extraordinary maintenance of plants and distribution networks in the territories of Imola and Modena, and the network service support; they increased in relation to the development of new plants for the generation of electricity from renewable sources, such as the photovoltaic plant built at the Bologna Freight Village. Significant and in line with the previous year was the effort for the mass replacement of current meters with electronic meters, to comply with the replacement plans resolved by the AEEG. This item also includes the investments in plants producing electricity and heat specifically related to the construction of the cogeneration plant in Imola, currently undergoing final commissioning, and the construction of new cogeneration plants at local companies.

With regard to the Integrated Water Cycle, it saw an overall reduction of operations compared to the same period of the previous year, due to the significant streamlining of activities. They mainly refer to expansions, enhancements and upgrades of networks and facilities, and to regulatory compliance mostly in the water treatment and sewage segments.

Hera participation in the Technical Roundtable of the Rimini Municipality for sewage system separation

In 2010, Hera participated in the Technical Roundtable of the Rimini Municipality for the completion of the splitting of the city's sewage systems. The Plan to split the sewage systems was submitted in early 2011. This is a very significant initiative, considering the marked reduction in environmental impact which would be brought about by this work; it aims to provide an effective response to the European Directive that prescribes, by 2016, a 70% reduction in the polluting charges caused by wastewater spillways in single sewage systems.

Investments in the integrated water service (2010)



In 2010, 68% of investments were for extraordinary network maintenance, plant maintenance and enhancement. In particular 42% of total investments were made to replace the networks of the aqueduct service and of the sewage service.

In the waste management service, initiatives for the maintenance and enhancement of existing facilities were in line with the previous year. With regard to waste-to-energy plants, initiatives are aimed at the completion and expansion of the Modena plant and to the construction of the Rimini plant.

Other Services experienced an increase in telecommunications networks investments related to the implementation of the regional telecommunications plan, and a reduction in investment in the Public Lighting service.

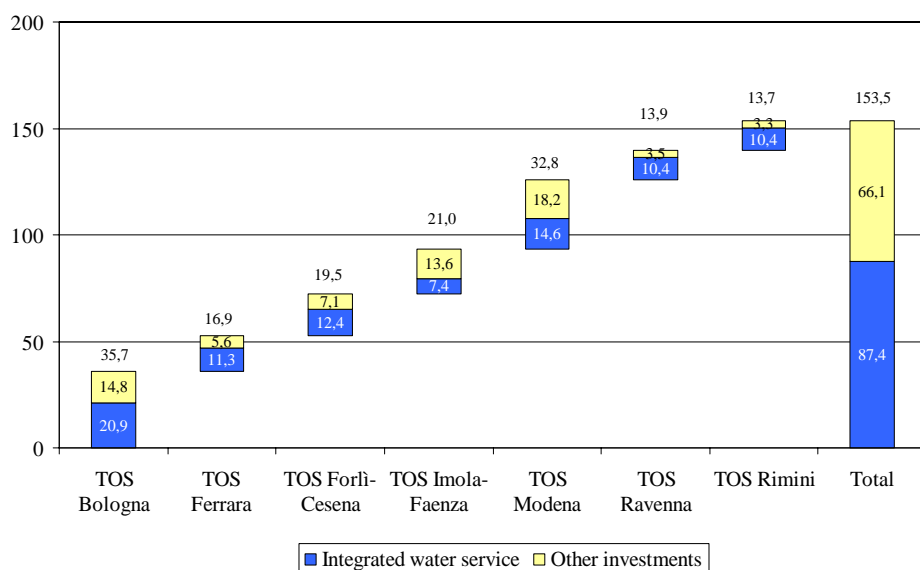
There was an overall decrease in investments within the Central Structure relative to the same period of the previous year, due to the completion of the restructuring of company information systems and the rationalisation of the operating fleet. Investment increases, on the other hand, were connected to the upkeep of the Group's real estate assets. Other investments include work to complete the laboratories and other lesser investments linked to the structure of area companies.

Financial equity investments and acquisitions

(in millions of €)	2008	2009	2010
Investments	9.9	36.8	8.1

In 2010, financial equity investments for Euro 8.1 million were made. The investments refer to the enhancement capabilities in the energy sectors through equity stakes in new plant initiatives, such as the construction of the Galsi gas pipeline and the Enomondo biomass combustion plant.

Total investments of the Territorial Operating Structures (millions of €)



57% of Area Company investments are on the integrated water service

Environmental costs and investments

In 2009, a project was launched which aimed to quantify the value generated by environmental sustainability initiatives in economic as well as environmental terms. The quantification of the costs and investments made for these interventions is the first result of this project; the project continued in 2010 with the assessment of the environmental advantages produced by the initiatives that were launched. In particular, the economic and environmental benefits of initiatives for the generation of energy from renewable and similar sources and for purification were assessed.

With regard to energy generation from renewable and similar sources, 9 initiatives conducted in 2009 were analysed. The quantification of the environmental benefit led to savings of about 30,000 tonnes of CO₂ emissions (i.e., 5% of total emissions from the Group's plants).

The environmental benefits of the 21 initiatives on the wastewater treatment plants were also assessed. In this case, environmental improvement over the previous situation was assessed on the basis of seven indicators (plant potential, ability to reduce pollutants, energy consumption, sludge production), with improvement ranging from 20% to 300%, depending on the indicators.

The measurement of the costs and the environmental investments makes it possible to quantify in economic terms the interventions carried out in order to improve the environmental sustainability of the Group and the territory in which it operates, thereby showing how much of the activity translates into environmental improvement.

Any cost or investment connected to interventions which resulted in a significant positive environmental impact was defined as an environmental expense. Taking account of the activities managed by Hera, several characteristic activities carried out by the company such as separate waste collection, the operation of composting plants or the expansion of treatment plants were also taken into consideration.

Environmental costs and investments

(thousands of €)	2009	2010
Costs	219,680	239,189
Investments	172,912	147,585

With respect to the energy services, environmental costs pertain to the emergency response services for gas network safety, ordinary maintenance of the gas network, the operation of plants for the generation of energy from renewable sources, the operation of the networks and district heating plants.

For the water service, environmental costs are connected to the emergency response service, the ordinary maintenance of the aqueduct and sewage systems and to the disposal of wastewater treatment and purification sludge.

For the environmental services, the activities considered were the management of separate waste connection, the operation of waste selection, separation and composting plants and the disposal of the waste produced by disposal plants. Furthermore, the fees paid to Municipalities for the environmental compensations relating to the waste disposal plants were counted.

Lastly, the costs involved in energy savings activities, the environmental management system and for the purchase of methane fuel for the motor vehicles were considered.

In total, the operating costs connected to interventions aimed at improving environmental sustainability amounted to Euro 239.2 million in 2010 (8% more than in the previous year). The most significant increases pertained to urban waste management services, mainly due to the development of separate waste collection, and to energy services initiatives, also connected to compliance with white certificate obligations.

With regard to investments, in relation to energy services, the activities considered were those aimed at the extraordinary maintenance of the gas networks, the construction or upkeep of plants for the generation of electricity from renewable sources or similar sources and the management of district heating systems. The investments related to industrial cogeneration were also considered.

For the water service, the interventions aimed at reducing losses within the water systems, the extensions of the sewage network and treatment plants and the interventions for the improvement of the environmental performance of the plants themselves were counted.

For the waste management services, the activities connected to separate waste collection, e.g. investments in Equipped Drop-Off Points, the construction or upkeep of the waste selection, separation and composting plants, the reduction of atmospheric emissions from waste-to-energy plants, the generation of electricity in waste-to-energy plants were considered. Also considered were the investments for environmental compensation prescribed by the authorisations for waste disposal plants and those pertaining to the disposal of waste produced by the company (landfill leachate collection facilities in landfills and waste disposal plants).

With regard to the central structure, investments for the purchase of methane-fuelled vehicles and of bins and “igloo” bins for separate waste collection were considered.

Total environmental investments amounted to Euro 147.6 million, down 15% from 2009, mainly as a result of the completion of the upgrade work on the waste-to-energy plants, of the completion of construction work on the Imola cogeneration plant and of the reduced extension of the district heating network. Environmental investments accounted for 43% of non financial operating investments.

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* (sustainability report study group) (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. In addition, different to the proposal of the GBS, the portion of value allocated to financial institutions was calculated considering the balance of financial income and charges, as deemed a better quantification of the relationship of this type of stakeholder, as opposed to the sole figure of financial charges. With this framework, the gross overall value added distributed is almost equal to the gross value added produced by normal operations.

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. Secondly, through this report it connects the Sustainability Report with 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 2010 amounted to Euro 3,668.6 million. Of this value, the share destined for suppliers of raw materials (methane and electricity destined for sale) amounted to Euro 2,013.9 million.

Production of value added

(in millions of €)	2008	2009	2010
Revenues	3,716.3	4,204.2	3,668.6
Change in inventories of finished products and work in progress	2.6	-2.9	-1.7
Other operating income	73.1	234.7	210.4
Grants received from public institutions	-2.7	-3.1	-4.2
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	-2,421.4	-2,777.6	-2,140.5
Costs for services	-624.7	-675.5	-724.0
Bad debt provisions	-22.4	-26.4	-37.1
Accruals to provisions for contingencies and other provisions	-28.3	-25.0	-30.6
Other operating costs	-19.3	-18.7	-18.4
Capitalised costs	248.5	63.9	81.9
Gross value added	921.7	973.5	1,004.6
Portion of profit (loss) pertaining to associated companies	2.1	3.9	5.9
Gross overall value added	923.8	977.4	1,010.4

Gross overall value added generated for stakeholders in 2010 came to Euro 1,010.4 million, an increase of Euro 33 million on the previous year (+3.4%) and of Euro 86.6 million on 2008 (+9.4%).

Distribution of value added to stakeholders

(in millions of €)	2008		2009		2010	
Workforce	331.1	35.8%	352.0	36.0%	361.9	35.8%
Shareholders	98.1	10.6%	103.1	10.6%	125.2	12.4%
Company	209.0	22.6%	206.4	21.1%	241.1	23.9%
Financial institutions/Banks	94.0	10.2%	105.0	10.7%	115.6	11.4%
Public Administration	189.9	20.6%	208.8	21.4%	164.8	16.3%
Local community	1.7	0.2%	2.1	0.2%	1.8	0.2%
Gross overall value added	923.8	100.0%	977.4	100.0%	1,010.4	100.0%

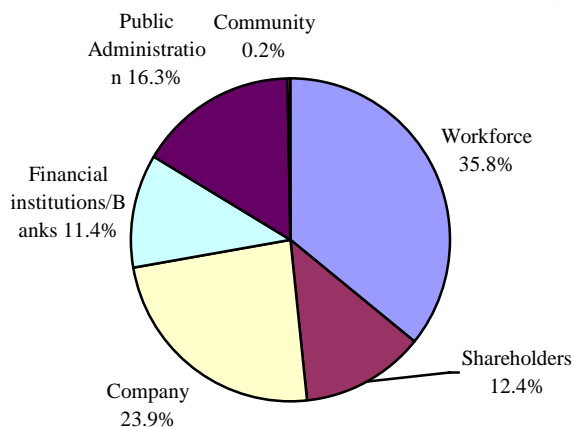
The portion of value added allocated to the **workforce** increased by Euro 9.9 million (+3%) compared to 2009. Compared to the total value added produced, this portion represents 35.8%, and consists of wages and salaries (including employer social security contributions and provision for employee leaving indemnities).

The portion allocated to the **shareholders** of Hera or of subsidiaries rose by Euro 22.1 million (+21%) and is equal to 12.4% of the total. Of this portion, Euro 100.4 million was allocated as dividends distributed to Hera S.p.A. shareholders, and Euro 24.8 million was allocated as dividend for minority shareholders of the subsidiaries of Hera S.p.A.

A portion totalling 23.9% of the value added generated in 2010 was re-invested in the **company**. This portion includes the net profit for the year not allocated to shareholders (Euro 16.9 million) and amortization of area investments effected by the company (Euro 224.2 million).

The portion of value added allocated to **financial institutions** in 2010 came to Euro 115.6 million (11.4% of the total, +10% compared to 2009). This share comprises Euro 206.6 million in financial charges, and Euro 91 million in financial income.

Distribution of value added to stakeholders (2010)



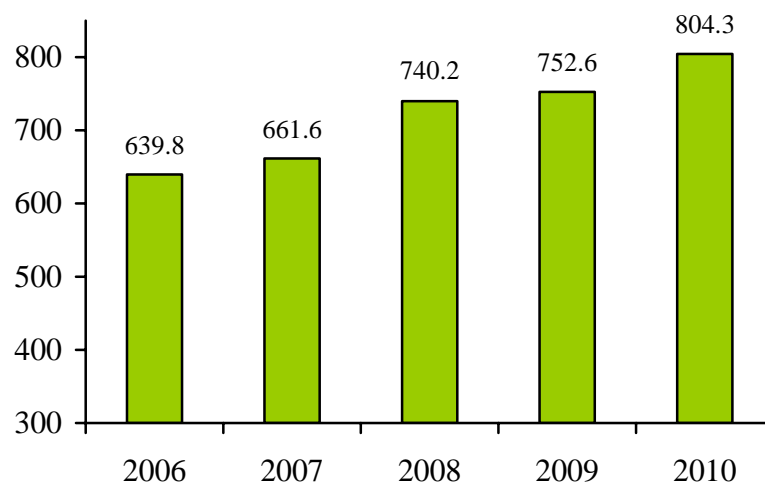
The portion distributed to **Public Administration** amounted to Euro 164.8 million, 16.3% of the total (-21% compared to 2009). Duties and taxes amounted to Euro 80.2 million (7.9% of the total value added distributed, -14% compared to 2009). Of the taxes and duties, Euro 44.8 million was allocated to the State, Euro 33.9 million to the Regional authorities and Euro 1.4 million to the Municipal authorities. Income taxes decreased from Euro 77.6 million to Euro 63.6 million and they include Euro 25.6 million of non-recurring positive effects relating to the freeing, by means of substitute tax, of the higher values recorded in the financial statements as a result of extraordinary

transactions already carried out in 2009. In 2009, the portion distributed to Public Administration included the return of the so-called “state aid” received in the late Nineties by Italian companies in the utilities sector, and declared illegal at EU level by European Commission Decision 2003/193 of 5 June 2002. Law Decree 10/2007, converted into Law 46/2007, regulated the methods for returning these amounts. For Hera, the amount due to the Revenue Office totalled about Euro 27.6 million (of this, Euro 12.3 million is accounted for under financial charges).

The plants and installations used by the company are in part owned by shareholding municipalities, and rental payments are made out for their use. Environmental compensations are also paid to the municipalities regarding the waste treatment plants. In 2010 total payments for use of the assets of shareholder municipalities and environmental compensations came to Euro 88.8 million.

Grants received amounted to Euro 4.2 million (Euro 3.2 million was allocated as plants grants, Euro 0.7 million as operating grants and 0.3 as others grants). This amount was subtracted from the portion allocated to the public administration. Differently from previous Sustainability Reports, grants pertaining to the management of the separate waste collection service were not included among operating grants. These grants are paid by the Conai consortium which, while prescribed by Italian Legislative Decree 22/1997, is a private consortium associating the companies that manufacture and use packaging materials. The data of the two previous years were recalculated accordingly. Lastly, Euro 1.8 million was allocated to local community **donations** (Euro 0.2 million) and **sponsorship** (Euro 1.6 million); details on these items can be found in the “Local communities” section.

Value added distributed to local areas (millions of €)



In 2010 value added distributed to stakeholders in the local areas amounted to Euro 804.3 million (+7% compared to 2009).

It comprises:

- employee salaries (45% of the total);
- dividends to local shareholders (10%)
- duties, taxes and fees to local authorities (15%)
- charitable donations and sponsorships (0.2%)
- resources re-invested in the company (30%)

If value added for local suppliers is also considered (which represents 64%, amounting to Euro 848.6 million), the total wealth distributed to local areas in 2010 amounted to Euro 1,652.8 million.

Workforce

Hera had a workforce of 6,656 people as at 31 December. On average, 95.8% of workers have an open-ended contract. In the last 3 years, 570 people were hired on the basis of open-ended employment contracts, 176 of which in 2010 alone.

Objectives and performance

What we said we would do...	What we have done...
<ul style="list-style-type: none"> Carry out the 15 actions to improve the internal climate, which were defined as a result of the Climate survey 2009 and which aim to achieve a satisfaction index of 60 within 2011. Fully activate the training plan by providing 120,000 hours of training in 2010 (20 hours per capita) and taking particular care insofar as the following initiatives: Scuola dei Mestieri, communities of practice, Progetto Laureati [<i>Graduates' Project</i>], Alti potenziali [<i>High Potential</i>] Define within the development and personnel management processes a Group leadership model that is in line with the company's values and principles of operation. Further improve the accident frequency index: reach an accident frequency index in 2010 lower than the total value for 2009. Obtain OHSAS 18001 certification for the integrated water service in 2010. Begin the procedures to obtain the SA 8000 certification. Realise the action plan aimed at strengthening and developing the potential and competences of differently-abled workers: complete the four actions started in 2009. Verify the feasibility of increasing the availability of positions for the children of employees in intercompany crèches. Carry out the first survey among employees on the quality of internal services. 	<ul style="list-style-type: none"> Of the 15 scheduled improvement actions, 10 were completed and 5 are currently underway (see page 81) 143,658 hours of training took place in 2010, which corresponds to approximately 23 hours per capita. All initiatives were continued in 2010. (see page 62) In 2010, the Hera Group leadership model was defined. It was sent to all executives and managers and will be the subject of further specific training initiatives in 2011. (see page 66) The accident frequency index for 2010 was 29.6, less than the 32.6 recorded in 2009. (see page 72) In February 2011, the OHSAS 18001 certification was obtained for the integrated water service and therefore, Hera S.p.A. is certified for all services managed (see page 71) The project to obtain the SA 8000 certification shall begin in 2011 following the receipt of the OHSAS 18001 certification. (see page 18) All of the four actions were completed (see page 61) With the September 2010 opening of the "L'Hera dei Bimbi" crèche in Ravenna, the places available overall for the children of Group employees increased from 46 to 51. Starting in September 2011, another 3 places (which may increase to 5) will be available in Bologna. (see page 60) The first phase of the internal services quality survey was completed. In February 2011, a sample questionnaire was provided to 600 employees, whose results are currently being processed. (see page 81) Four touch screen stations were installed in

<ul style="list-style-type: none"> • Extend to the operations staff the possibility of accessing the company intranet through the installation of touch screen stations. 	Modena at the operations department to consult the company intranet. (see page 79)
We shall...	
<ul style="list-style-type: none"> • In 2011, carry out the fourth internal climate survey, with the aim of reaching at least 57% participation and a satisfaction index of 60. • Provide 143,000 hours of training in 2011, equal to 23 hours per capita. • Extend the "Work Force Management" IT system to all TOSs with the aim of increasing the efficiency, effectiveness and quality of network services. • In 2011, launch the "Year for safety" project, with the intent of making employees aware of the culture of health and safety. • In 2011, obtain the OHSAS 18001 certification for the companies Herambiente and Uniflotte. • In 2011, launch the project to obtain the SA 8000 certification. • Define and launch additional initiatives intended to promote a culture of equal opportunities and the appreciation of differently-abled employees. • Support all Group managers and executives in managing the changes introduced in the leadership model. • Define improvement actions on the basis of the internal services quality survey results and monitor their implementation. 	

Breakdown

Staff figures at the close of the year

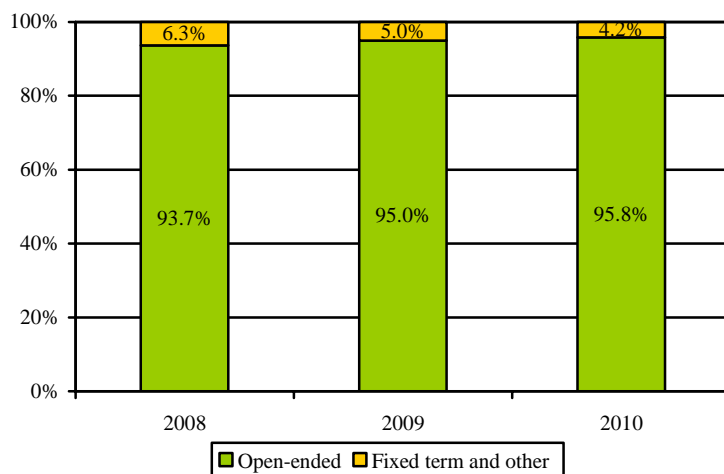
(No.)	2008	2009	2010
Executives	115	123	125
Managers	306	328	342
Administration	2,980	3,194	3,297
Manual	2,990	2,836	2,727
Open-ended contract employees	6,391	6,481	6,491
Fixed-term contract workers	116	105	78
Job training and entrance contracts	81	79	74
Fixed-term contract employees	197	184	152
Staff leasing contracts	75	29	7
Project based contract workers	6	17	6
Total	6,669	6,711	6,656

As of 31 December 2010, there were 6,491 employees in Group companies with open-ended contracts, including 21 open-ended contract employees from Naturambiente S.r.l., a company of the Marche Multiservizi Group, consolidated as of July 2010. With the same perimeter as 2009, there is a slight decrease in open-ended contract workers (by 11 resources) which involved a decrease in blue collar workers that has been partially offset by an increase in white collar employees.

The reduction in personnel designated as blue collar is mainly caused by the move from the role of blue-collar worker to white-collar worker (56 employees), retirement and voluntary resignation.

Please note that the data also include the companies Acantho and Satcom beginning from 2009.

Workforce numbers (average)



On average, 95.8% of workers have an open-ended contract. We hereby reiterate the Group's will to limit the usage of flexible contracts to urgent situations only (seasonality, extraordinary and temporary work peaks, substitution of workers who are absent temporarily). However, the employees hired through flexible contracts provide a priority recruitment pool for hiring with open-ended contracts.

For 2010, we also confirm the trend of reducing the average number of workers with staff leasing contracts, which decreased by 26% overall compared to 2009 and by 69% compared to 2008.

Open-ended contract employees (breakdown by function)

(No.)	2008	2009	2010
Grid services	2,183	2,181	2,150
Waste Management Services	1,919	1,889	1,849
Other Services	522	618	603
Commercial	493	602	649
Coordination activities	1,274	1,191	1,240
Total	6,391	6,481	6,491

Over 28% of the workforce operates in the waste management sector and 33% in grid services (gas, electricity, district heating, and water service). Of the workforce, 10% are employed in the commercial structure and an additional 9% in other services (information technology management, fleet management, laboratories, public lighting, and cemetery services). Coordination activities absorb 19% of the Group workforce.

Open-ended contract workers whose place of work is in a different province than their place of residence

(No.)	2008	2009	2010
Number of workers	562	708	790
<i>of which resident outside the province of service</i>	285	285	315

Approximately 12% of open-ended contract workers live outside the province where they work (the province with the highest number of workers who live in other provinces

is Bologna): approximately 40% of these employees are residents outside of the area served, a number which has increased compared to 30 resources in previous years. In 2010, 24 managers lived outside the province of service.

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

(No.)	2008	2009	2010
Bologna TOS area	1,769	1,763	1,764
Ferrara TOS area	545	526	510
Forlì-Cesena TOS area	536	570	594
Imola-Faenza TOS area	474	605	612
Modena TOS area	1,117	1,104	1,102
Ravenna TOS area	685	664	664
Rimini TOS area	728	705	682
Marche Multiservizi area	510	517	535
Other	27	27	28
Total	6,391	6,481	6,491

The increase in workers in the Forlì-Cesena area is due mainly to the continued centralisation of the remote control centre for fluids at the Forlì branch. In Rimini, the decrease is due to Hera's sale of the drinking water production business unit to Romagna Acque - Società delle Fonti. The decrease in Ferrara is mainly due to retirements within the operating structure.

Open-ended contract employees by educational qualification and position (2010)

(No.)	Executives	Managers	Administration	Manual	Total
Primary education	0	0	13	48	61
Junior secondary education	3	5	592	1,795	2,395
High school diploma	13	122	1,988	879	3,002
University degree	109	215	704	5	1,033
Total	125	342	3,297	2,727	6,491

The level of education is increasing, and 62% of employees overall have high school diplomas and university degrees, compared to 61% in 2009 and there was a 9% increase in college graduates (a total of 1,033 resources).

Average age and average seniority of employees with open-ended contracts by role (2010)

years	Age	Years of service
Executives	50.2	12.8
Managers	47.6	15.4
Administration	44.7	15.3
Manual	47.8	16.3
Total	46.2	15.7

The average age and average years of service of employees with open ended contracts are 46.2 and 15.7 years, respectively. These indicators have progressively increased over the last two years.

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

(hours)	2008	2009	2010
Illness	65.6	63.0	60.0
Maternity/paternal and family leave	10.0	12.1	11.7
Accidents	13.0	10.0	9.0
Strikes	3.6	2.2	3.7
Union meetings	2.1	1.3	1.0
Union leave	6.9	6.4	6.7
Total absences (h)	101.2	95.0	92.1
Regular hours worked	1,503.8	1,536.3	1,537.1
Overtime hours worked	62.4	55.6	53.0
Total hours worked	1,566.2	1,591.9	1,590.1

The data refer to the following companies: Hera S.p.A., Marche Multiservizi, Famula on Line, Uniflotte, Hera Comm, Hera Trading, Herambiente, FEA, Acantho (since 2009), Satcom (since 2009), Hera Luce.

It can be seen that there was a decrease in hours of absence due to illness (-5% compared to 2009 and -9% compared to 2008; compared to 2007, it has decreased by 15%). Overtime continues to be a lower proportion of the total of hours worked, and in any case is progressively decreasing: since 2007, in which there were 67.8 hours per capita, there has been a 22% decrease in overtime hours. The downward trend continues in the hours of absence due to accidents, which have decreased by 10% in the last year. Furthermore, please note that differently-abled personnel hired with law 68/99 accumulated 133 hours of absence per capita in 2010.

Hera: one of the "Top Employer" companies



Last March, the Hera Group received the "Top Employers" 2010 certification, by passing the assessment carried out by the Crf Institute and placing among the 25 Italian companies with the highest human resource management standards. After experts from the Crf Institute issue questionnaires and conduct interviews, the Top

Employers project judges and recognises the highest standards in this area, in its search for companies in Italy which demonstrate excellent performance in human resources management. Compensation and benefits, training and development, working conditions, career opportunities and corporate culture are the areas in which best practices were analysed, and which make a company worthy of this title.

Turnover

The current personnel policy is to back up the process of integrating the companies within Hera with a plan for efficient use of the workforce made available as a result of internal streamlining processes and outsourcing of activities that generate limited added value.

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.

New employees are generally hired for top-ranking professional positions (both specialised and operative), which are difficult to cover with internal personnel. Selection generally took place by internal research for white-collar and blue-collar jobs. External employment selection agencies were called in for top ranking professional positions.

Personnel hired during the year (breakdown by position)

(No.)	2008	2009	2010
Executives	3	3	5
Managers	11	8	10
Administration	161	161	134
Manual	19	28	27
<i>Open-ended contract employees</i>	<i>194</i>	<i>200</i>	<i>176</i>
Fixed-term contract workers	124	119	115
Staff leasing contracts	176	130	54
Job training and entrance contracts	38	59	38
Project workers and freelance contracts	35	60	29
Seasonal workers and apprentices	11	11	5

In 2010, 176 open-ended contract employees were hired, totalling 570 in the last three years. In 2010, 49 people under 30 years old were hired with open-ended contracts.

The company confirmed its commitment to use staff leasing contracts only for temporary needs, executing 54 new contracts in 2010 compared to 130 in the previous year and 176 in 2008. In the last three years, 570 people were hired with open-ended contracts, of which 373 following an initial period in the Group with a non-open ended contract.

In 2010, 66 females were hired with open-ended contracts (38% of the total), and there have been 239 since 2008, totalling 42% of the total open-ended contract hirings during the three years.

Job leaving by open-ended contract workers by reason

(No.)	2008	2009	2010
Resignation	83	52	40
Retirement	86	118	116
Death	6	12	7
Dismissal	7	4	0
Incapability	16	20	10
Transfer to other company	36	3	14
Total	234	209	187

In 2010, there were 187 terminations. 83% of these cases of job leaving were due to retirement and voluntary resignation. In 2010, the 14 transfers to other companies were related to the disposal of the Rimini Territorial Operating Structure business unit and the Water Cycle Sector to Romagna Acque.

Turnover rate for open-ended contract workers by role

%	2008	2009	2010
Executives	6.1%	6.5%	7.2%
Managers	8.5%	3.6%	4.4%
Administration	3.0%	2.4%	1.9%
Manual	3.8%	3.9%	3.7%
Average	3.7%	3.2%	2.9%

Turnover rate for open-ended contract workers by gender

%	2008	2009	2010
Men	3.9%	3.7%	3.5%
Women	2.7%	1.7%	0.8%
Average	3.7%	3.2%	2.9

Turnover rate for open-ended contract workers by age

%	2008	2009	2010
Under 30	0.7%	2.5%	2.9%
From 30-50 years of age	1.9%	0.8%	0.9%
Over 50	8.1%	8.8%	6.7%
Average	3.7%	3.2%	2.9

The turnover rate is calculated by dividing the number of leaving employees by the number of employees at the end of the year. In 2010, the turnover rate was 2.9%. There are higher-than-average values for executives, men and employees over 50 years old, while there is a decrease in turnover compared with 2009, particularly for women and employees over 50 years old.

Career advancement during the year (breakdown by position)

(No.)	2008	2009	2010
Executives	3	9	6
Managers	21	22	20
Administration	513	453	456
Manual	368	285	289
Total	905	769	771

There were 6 promotions from manager to executive in 2010. In 2010, 5 executives were hired from outside the company.

Ad interim positions covered

(No.)	2008	2009	2010
Ad interim positions at the beginning of the year	10	18	20
Ad interim positions covered	5	5	7
<i>of which by internal personnel</i>	<i>4</i>	<i>4</i>	<i>7</i>

There are some organisational positions within the company organisational chart whose responsibilities are assigned ad interim. Particular attention has been paid to decreasing the ad interim positions in the organisation by enhancing internal resources. With regard to the 18 ad interim or open positions for executives and managers at the beginning of

2010, 7 positions were covered during the year, almost exclusively using internal personnel.

Not counting the employees who transferred from Satcom to Acantho, 55 employees changed companies in 2010.

Internal mobility is a direct consequence of the complete activation of the reorganisation that the Group has been carrying out since it was formed.

The objective of internal mobility is to create an opportunity for Hera employees to increase their knowledge and capacities transversally, while allowing them to continually place themselves in new contexts while strengthening their sense of belonging to the Group and developing richer and more complete professional characteristics.

Since July 2008, there has been a section of the company intranet dedicated to internal mobility, which allows all employees to view announcements for open Group positions and self nominate for the position. Since its origin, the dedicated page has received 89,314 visits, and there have been 115 announcements and 53 positions filled; only in 2010, 44,513 visits were posted for the page, and there were 61 announcements and 27 positions filled.

The job posting was further enhanced in 2010, making it easier to use and enhancing its accessibility. The job profiles are also available on all company corkboards in order to guarantee that the searches in progress are even more widespread.

Diversity and equal opportunities

Equal opportunities and appreciation of diversity

In its relations with the workforce, as a part of its personnel management and work organisation practices, and in its dealings with all stakeholders, the Group is committed to making sure no discrimination takes place in the workplace, and it is committed to promoting equal opportunities and developing a culture that appreciates diversity. In selecting personnel, it specifically aims to protect equal opportunities by assessing professional and psychological profiles and aptitudes, while respecting the candidate's private sphere and opinions.

In October 2009, Hera signed the charter for equal opportunities and equality in the workplace, promoted, among others, by the Sodalitas Foundation, Impronta Etica and the National Office of the Equality Councillor, with the participation of the Ministry of Labour and the Ministry of Equal Opportunity. The Charter contains 10 commitments contributing to the fight against all forms of discrimination in the workplace and the championing of diversity within organizations. The commitments include the identification of corporate functions which should be assigned clear responsibilities regarding equal opportunities: in 2010, Hera planned an implementation program that shall be carried out beginning from 2011.

Furthermore, the initiative to update the Group's Code of Ethics, completed in December 2010, led to the formalisation of the commitment to equal opportunities, work-life balance and the appreciation of diversity within this fundamental guiding document for the Group.

Female staff (breakdown by position)

%	2008	2009	2010
Executives	13.0%	13.8%	14.4%
Managers	29.7%	28.9%	29.8%
<i>Total managers and executives</i>	<i>25.2%</i>	<i>24.8%</i>	<i>25.7%</i>
Administration	37.4%	38.8%	39.1%
Manual	5.3%	4.7%	4.7%
Total	21.6%	22.9%	23.7%

Female staff levels among open-ended contract workers reached 23.7% in 2010, a constant increase on the two years and the last few years. The percentage of female managers and executives has increased to 25.7%. Considering all contractual qualifications that provide for a managerial role (managers, executives and management employees), women have risen to 31.3%, compared to 29.5% in 2009.

Personnel by age group

%	2008	2009	2010
Under 30	2.3%	2.4%	2.1%
From 30 to 50	69.3%	67.5%	64.1%
Over 50	28.4%	30.1%	33.8%
Total	100.0%	100.0%	100.0%

There were over 2,100 workers with open-ended contracts aged over 50 (this category increased by 12.5% compared to 2009).

Part-time contracts

(No.)	2008	2009	2010
Men	37	38	30
Women	190	190	187
Total	227	228	217

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.

It is characterised by the voluntariness, reversibility and compatibility with technical, organisational and productive needs of the company and with the needs of worker.

Family and health needs, the need to help others with disabilities, 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 the manager approves, the contract is changed.

Furthermore, out of 35 requests in 2010 for part-time work from female employees after maternity leave, 33 were approved.

Maternity, paternity and family leave (2010)

	Women	Men	Total
Maternity leave used (no.)	85	0	85
Paternal leave used (no.)	115	43	158
Per capita duration of family leave used (days)	48	20	41

The data refer to the following companies: Hera S.p.A., Marche Multiservizi, Famula on Line, Uniflotte, Hera Comm, Hera Trading, Herambiente, FEA, Acantho, Hera Luce, Akron, Medea, Nuova Geovis, Sinergia.

Mummy & Daddy at work: in a leaflet about opportunities and rights

In October 2010, Hera created the leaflet "Mummy & Daddy at work. Opportunities and rights for balancing work with childcare". Created jointly with the Group's union organisation, the leaflet aims to improve employee awareness about maternity, paternity and family leave. It is available on the company intranet, at the Personnel and Organisation offices, and, especially, it is distributed to new hires in their welcome kits. This tool is one of the positive actions that the company has implemented after the research carried out with Impronta Etica and the University of Modena and Reggio Emilia, on the use of maternity, paternity and family leave in 22 companies in Emilia-Romagna: the study was presented in Bologna as part of the 7th international seminar "Leave policies during the economic crisis" in October 2010.

In 2010, there were no absences for paternity leave. The data show that out of the total of family leaves (the voluntary absence period which both parents may use, after the obligatory leave for the mother, when the child is from 0 to 8 years old), 73% is taken by female employees.

The Group continues its commitment to the work-life balance, particularly through company and intercompany crèches: there are three active crèches as of today, totalling 51 overall places available for the children of employees.

The Hera crèches: work-life balance experiences

The experience of the company and intercompany crèches, which began in 2007, is among the most significant actions to favour the work-life balance in Hera. "Tirithera", the first Group crèche, which opened at the corporate headquarters in **Cesena** in 2007, hosted 23 children between 12 and 36 months in 2010, including 6 children of Hera employees.

In 2009, the intercompany crèche in **Imola** called "Il nido di Cornelia" was opened through a joint initiative by the Hera Group, Legacoop and Cna, with the contribution of the Province of Bologna, the Cassa di Risparmio di Imola Foundation and the support of the Municipality of Imola. In 2010, it hosted a total of 74 children from 5 to 36 months: 4 were children of Hera employees.

In October 2010, the intercompany crèche "L'Hera dei Bimbi" was opened in **Ravenna**: 35 children from 3 to 36 months old were looked after in the first year, 8 of which were children of Hera employees.

In January 2011, by signing an agreement with the Emilia-Romagna Regional Government and the Municipality of Bologna, Hera decided to reserve 3 places (which may be increased to 5) in the intercompany crèche being built near the **Bologna** office (opening in September), which will have around 70 places available.

All of the crèches also provide places to the Municipalities, which helps to decrease waiting lists for public crèches.

People belonging to the categories set forth in law 68/1999

(No.)	2008	2009	2010
Persons belonging to protected recruitment quotas	353	346	347

The data refer to the following companies: Hera S.p.A., Marche Multiservizi, Famula on Line, Uniflotte, Hera Comm, Hera Trading, Hera Luce, Herambiente, Akron, FEA, Medea, Nuova Geovis, Sinergia, Acantho (since 2009), Satcom (since 2009).

In all areas where it works, Hera respects the obligations set forth in Italian Law 68/1999, also through the territorial offset system (set forth in article 5 of the Law, which authorises hiring more employees than required in one business unit, in order to offset the lower number hired in other business units in the same region) and through a convention in place in the Bologna territory between Hera and the applicable offices, which aims to find solutions negotiated by the company, the Centri Territoriali per l'Impiego (local job placement and career advice agencies), and the workforce. This law promotes the recruitment and integration within the sphere of work of certain classes of persons (the differently-abled, orphans etc.), via targeted support and job placement activities, and provides auxiliary technical instruments for assessment, in order to provide differently-abled persons with the most suitable work roles.

At the end of 2010, there were 347 people in Group companies who belonged to the categories indicated in law 68/99: 298 were present in accordance with the categories set forth in article 1 of the law (differently abled). In total, excluding Marche Multiservizi and Acantho, those employed come out to: 125 manual, 182 employees and 3 managers/executives.

In 2010, 5 people were hired in accordance with law 68/99.

Please note that the latest interpretations of the law, made at the end of 2010, excluded travelling collection personnel and personnel who collect and conduct waste management services from the employee base used to calculate the amount set forth by the law; this caused a decrease in the Group's obligatory quotas.

Developing resources: 2010 Action Plan implemented

Enhancing the competences and potential of differently-abled personnel in the company, analysing their satisfaction, improving their work and, if necessary, implementing work requalification to increase productivity: this is why "Developing resources" was created in 2008, a project carried out in collaboration with the ASPHI Foundation (Foundation for the Development of Projects to Reduce Handicap by Means of Information), which works to promote the integration of differently-abled personnel in schools, work and society.

Four actions were carried out in 2010:

- a model was developed to monitor the entry and first year of work of the differently-abled employee;
- an extraordinary reconnaissance of the workplace was carried out in seven of the Group's main offices, with the involvement of differently-abled employees;

- eleven individual projects were activated (specific training, skill change, teaching of IT skills, innovation of auxiliary resources);
- in February 2011, an additional training initiative was carried out for personnel managers on the methodology for beginning employment and on managing the disability beginning from the recruitment phase.

Furthermore, in 2010, a section of the company intranet was designed that is dedicated to disabilities and to the project; it has been online since February 2011.

Training and professional development

Approximately 144,000 hours of total training were provided in 2010, in line with expected objectives.

Total training hours per area of intervention

(hours)	2008	2009	2010
“Scuola dei Mestieri” and critical skills	77,714	51,483	51,518
Quality, safety, environment	28,341	38,926	35,730
Specialised training (incl. hands-on training)	15,911	18,648	17,649
Institutional and managerial training	66,859	30,171	34,327
Training to support new IT system and basic computing	18,735	5,670	4,434
Total	207,560	144,898	143,658

The data refer to Hera S.p.A., Herambiente, Hera Comm, Hera Trading, Uniflotte, Famula On-line and Hera Luce.

A comparison of the 2010 results with those of 2009 and 2008 shows that in 2008 the training on the Code of Ethics took place which involved all employees and resulted in a non-recurring increase in the hours of training provided.

The hours related to the "Scuola dei mestieri" [*School of trades*], which has now been implemented in all areas, are essentially the same as the previous year, although posting a slight increase. 2,400 employees were involved in 2010.

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

(hours)	2008	2009	2010
Executives	42.4	21.5	21.8
Managers	52.6	28.6	28.7
Administration	31.5	22.6	20.1
Manual	32.4	23.4	26.2
Project based contract workers and workers with staff leasing contracts	38.4	6.3	4.5
Average	33.2	23.0	23.0

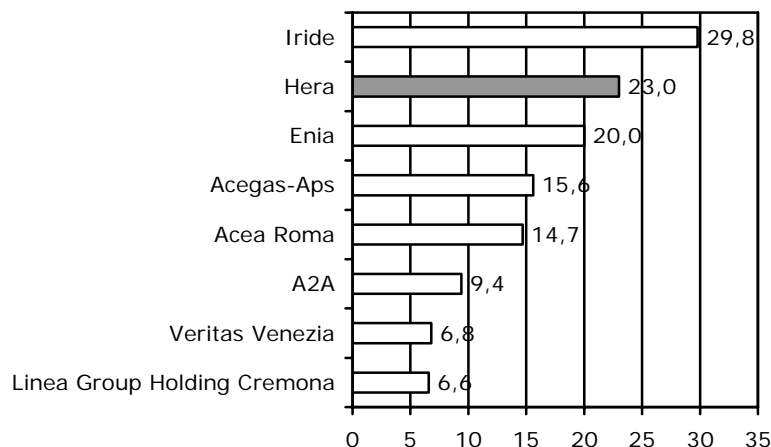
The data refer to Hera S.p.A., Herambiente, Hera Comm, Hera Trading, Uniflotte, Famula On-line and Hera Luce.

The per capita hours of training amounted to 23, substantially in line with the figure for 2009 (in 2008, this figure reached 33 hours, due to the dissemination of the Code of Ethics). 46% of the training hours involved manual personnel. 41% of the hours were provided by internal personnel.

Professional training in the main Italian utility companies

Hera is the second of 8 multiutility companies considered in a comparative analysis carried out between the main Italian utility companies as regards the training hours per capita provided to employees.

Per capita training hours (2009)



Training, including hands-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.

% of workforce attending at least one training course

%	2008	2009	2010
Executives	97%	92%	95%
Managers	99%	94%	96%
Administration	96%	93%	95%
Manual	100%	95%	98%
Project based contract workers and workers with staff leasing contracts	92%	67%	81%
Total	97.6%	93.4%	96.0%

The data refer to Hera S.p.A., Herambiente, Hera Comm, Hera Trading, Uniflotte, Famula On-line and Hera Luce. This index was calculated by dividing the persons involved in at least one training event by the total employees present at the end of the year.

In the period considered, 96% of employees were involved in at least one training event (95% of female personnel and 97% of male personnel), also thanks to the informational and awareness activities regarding safety in the workplace, training on the new Work Force Management system, and managerial training.

Work Force Management, IT at the service of network and plant management

Work Force Management is the Group's new single and integrated IT system, designed to improve all programmable and non-programmable operating activities on networks and systems, regarding the different business lines (gas, water, electricity and district heating). The Group has set three main objectives with this new system:

- overcoming the fragmentation of the IT applications used;
- sharing and organising company knowledge;
- improving services provided to customers.

It is a complex project in which an interdepartmental workgroup has been involved since 2009. The project, the first introduced in a multiutility company in Italy, was completely launched in the pilot TOSs of Bologna and Imola-Faenza in the beginning of 2011. In the other TOSs, the initial phase will only involve changing the management of customer appointments, while the complete system will enter into effect in all TOSs by summer 2011.

Assessment of training

%	2008	2009	2010
Degree of satisfaction of trainees (perceived quality)	81%	84%	83%
Outcomes (correspondence with needs)	68%	59%	64%

The data refer to Hera S.p.A., Herambiente, Hera Comm, Hera Trading, Uniflotte, Famula On-line and Hera Luce. The degree of coverage of the 2010 outcomes involves 100% of the courses.

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 co-workers and on reduction of organisational problem areas linked to trainee roles. The degree of satisfaction is generated by assessments conducted by trainees once the course is over, on a scale from 0 to 5. The table indicates the average grade obtained, on a scale of 0 to 100.

The outcomes are the result of the assessment carried out by managers during the grading phase, which is provided for each role.

The reported percentage values indicate scores of 4 or 5 (1-5 scale).

Total training cost per area of intervention

(thousands of €)	2008	2009	2010
“Scuola dei Mestieri” and critical skills	231.0	185.9	110.1
Quality, safety, environment	176.5	128.8	157.9
Specialised training (incl. hands-on training)	155.8	205.1	147.3
Institutional and managerial training	416.8	207.1	255.2
Training to support new IT system and basic computing	53.3	33.1	7.1
Other (costs for development and support activities)	195.0	120.3	180.0
Total	1,228.4	880.2	857.6

The data refer to Hera S.p.A., Herambiente, Hera Comm, Hera Trading, Uniflotte, Famula On-line and Hera Luce.

The overall financial investment for training amounted to Euro 857 thousand net of costs for personnel in training and in-house trainers. In 2010, Euro 100 thousand was used from the Multi-sector Training Fund

Key training programmes

In the area of institutional and managerial training programmes, individual coaching and training initiative paths involving managerial roles continued on public utility economic and management aspects, in collaboration with CRISP (Inter-university research centre for public utility services).

Furthermore, the second Managerial Development course aimed at consolidating managerial competences and developing the managerial capacities of associates was carried out in collaboration with the Alma Graduate School. Also in cooperation with the Alma Mater Foundation, the fourth and fifth editions of the high-level training course "Regulation and the Market for Public Utility Services", intended for managers and executives, were provided.

The employee training activities on quality, safety and environmental management systems were offered broadly: 36,000 hours of classroom training or instruction were provided in 2010.

In the second half of 2010, a meeting programme was developed to update executives on health and safety as per Italian Legislative Decree 106/2009 (which amended Italian Legislative Decree 81/2008).

As part of the Work Force Management project, train-the-trainer courses involving 80 employees were held in the Network areas of the two pilot Territorial Operating Structures (Bologna and Imola/Faenza). Train-the-trainer courses were carried out to provide teaching and learning management methodologies, with particular attention on motivation and cultural shift, linked to the technological innovation model brought by the new system.

The main training activities for 2011 include courses on security in daily work activities and particular courses aimed at developing a widespread culture of safety.

The Scuola dei Mestieri and its progress

The Scuola dei Mestieri, which has now reached its sixth year, is a project for efficient use of the technical and operational skills that are present within the Hera Group. The aim is to raise the level of awareness of professional conduct and of skill transfer potential from operator to operator.

There are 12 notebooks printed and published for the Scuola dei mestieri: in 2011 a thirteenth will be published about training courses for employees who manage and maintain networks and electric stations.

Developing the organisational performances and strengthening the company sense of belonging are among the objectives that led us to further develop the Scuola dei Mestieri model, directing the evolution of the communities of practice. Communities of practice are mainly ad hoc and self-regulated social groups which are characterised by the production and sharing among their ranks of procedures and practical knowledge applied to a specific trade, through behaviours inspired by the principles of cooperation among peers. In 2010, thanks to the new "construction" work regarding customer management of revising operating instructions, which involved all areas, a dedicated online forum and the creation of a wiki to publish new instructions were implemented.

Progetto Laureati (Graduates Project)

This project, which began in 2004, aims to recruit and hire young, high-potential graduates. There are currently 99 employees that joined the Group through this project in the five-year period from 2004 to 2009.

In 2010, 11 young employees were hired and during the year they concluded the required basic management course.

Concurrently, the recruitment and selection phase for the new version of the project began at the end of 2010.

The selection provides for an initial assessment phase which is attended by candidates that have been previously selected through the CVs received by the company and who meet specific requirements regarding their identity and studies.

In 2010, 64 young graduates participated in the assessment. In the initial months of 2011, this selection phase will be concluded and approximately 13 new employees will join the company through an 18-month entrance contract.

The Hera Group Professional System

During 2010, a project was carried out to identify key roles and enhance resources in the General Operations Division: in 2011 it will be extended to the Environment area of the General Operations Division.

Courses focusing on the development of potential

Starting in 2008, a new project was launched which aims to enhance and develop the potential of young employees of the Group.

All resources belonging to the 2004, 2005 and 2006 editions of the Graduates Project are part of this initiative, along with young resources with similar backgrounds and experience, identified following an assessment of professional growth potential: in total, there are 90 people present as of today, for which the most suitable individual development paths have been created. During 2009, the resources involved undertook training and development initiatives on the basis of an annual action plan; during 2010 the individual development plans and their monitoring continued: training was focused on managerial capacities.

The leadership model

In 2010, the Leadership model was launched which, created on the basis of the interpretation of strategic challenges that the Group faces, describes the key elements necessary for interpreting Hera's mission and values as well as possible. The capabilities that Hera managers must possess and develop are linked to four key elements: complexity management, orientation towards excellence, focus on service and exemplary leadership. Each manager is called to invest in himself to grow and continuously acquire more authority, with the objective of making a contribution to reaching corporate objectives, with attention on results and the external and internal customer, motivating co-workers and ensuring professional development in line with the content of their role. To make management aware of the Model and its role in relation to other employee management processes, in the beginning of 2011 a widespread training initiative was rolled out for managers involved in the first phase of the project: in the first two months of the year, a training session was held which involved the participation of all executives and managers.

Agreements with Universities

The Hera Group has reached a framework 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-month scholarships for final year students, and twelve-month scholarships for recent graduates.

In this context, a specific agreement with the Department of Industrial Chemistry allows young graduates or final year students to benefit from curricular training, vocational training or orientation.

The Hera Group also provided availability in 2010 for the PIL (Courses on entrance into the workforce) Project of the Università degli Studi di Ferrara, aimed at organising company internships for graduates and final year students.

Internships

(No.)	2008	2009	2010
Interns hired over the year	152	151	82
<i>of whom aged under 18</i>	<i>17</i>	<i>21</i>	<i>55</i>
Interns recruited following internship	9	15	

82 persons had an apprenticeship with Hera in 2010. Of these, 9 were hired.

Pay, salaries and bonuses

All Group employees are hired through national collective labour agreements, with the exception of project-based contract workers, which do not have a collective labour agreement, covering 0.4% of average employees in 2010. Employees with staff leasing contracts, amounting to 0.7% of average workers in 2010, have the same economic conditions as those provided in the contracts applied to employees with open-ended contracts (including the productivity bonus).

Relation between minimum pay and salary conditions according to labour agreements and Hera pay and salary levels (Federgasacqua contract – 2010)

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	2,516	2,736	9%	4,082	62%
Administration	1,407	1,471	5%	2,365	68%
Manual	1,407	1,407	0%	2,058	46%

The data refer to the following companies: Hera S.p.A., Famula On-Line, Uniflotte, Hera Comm, Hera Trading, Herambiente, FEA.

The table illustrates the gaps between gross monthly pay/salary levels at Hera and those specified by the Federgasacqua labour agreement, which governs the employment relationship of 46% of Group workers and is the most common contract. 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 9% for managers, 5% for employees, and in line with the contractual figure for blue-collar workers. The average salary, on the other hand, is 62% higher than the minimum labour agreement conditions, 68% higher for white-collar workers and 46% higher for blue-collar workers.

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

Euro	2010
Minimum according to labour agr. (A)	4,385
Hera minimum (B)	5,355
% Gap (B:A)	22%
Average Hera compensation (C)	9,133
% Gap (C:A)	108%
Average market salary for managers	9,742
% difference compared to the market	-6%

Data do not include Marche Multiservizi.

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 of Hera managers is 108% higher than the minimum salary stipulated in the contract, while the minimum salary is 22% higher than the Confservizi contract.

The average salary of Hera managers is 6% lower than the average market salaries for managers, as these are reported in the Hay Compensation Report – Total Cash Italia 2010, compared to a difference of 9% in 2009.

Average compensation by gender (2010)

Euro	Men	Women
Executives	9,331	7,869
Managers	4,089	4,068
Administration	2,429	2,272
Manual	2,064	1,962

There is slightly lower compensation for women within each staff level. The difference between female and male employees is slightly higher since 66% of managerial staff are men. However, the salary difference between men and women within the managerial tier is significant (approximately Euro 1,500), but the lower number of female managers compared to men affects the figure: in 2010, there were 3 women out of 27 members of the Executive Committee.

Gross performance bonus, per capita

Euro	2008	2009	2010
Managers	1,755	1,755	1,534
Administration	1,495	1,495	1,318
Manual	1,387	1,387	1,221
Weighted average	1,452	1,452	1,289

The data refer to the following companies: Hera S.p.A., Famula On-Line, Uniflotte, Hera Comm, Hera Trading, Herambiente, FEA.

With the renewal of the Group's supplementary collective labour agreement, signed on 24 March 2010, the performance bonus for Group managers, administrative staff and manual employees was also redefined. The new agreement is still based on a single parametrical scale for all personnel and on a breakdown of profitability, productivity and sustainability indicators. The profitability and productivity indices consist of the Group's gross operating margin and the per capita gross operating margin of the companies belonging to the Group and the Territorial Operating Structures.

Among the 2010 sustainability indices (which have an effect of up to 20%), are: decrease in number of claims, percentage of separate waste collection, commercial quality standards defined by AEEG, respect for standards defined in the water service charter, frequency indices, seriousness and frequency of accidents, near-accident indices, water service activation times, percentage of water network undergoing active loss research, business and residential customer satisfaction index and the average arrival time in response to emergency calls.

Finally, the agreement identifies the amount of the performance bonus in 2010-2012, as well as the portions that will be assigned to personnel in the three years, such as consolidated productivity, deducting them from the overall amount of the bonus.

Other incentive systems

Starting from 2006, the incentive system for executives of the Hera Group has been linked to the balanced scorecard. This system was introduced to the Group gradually through an initial application to senior executives and managers and a subsequent extension to all executives. According to this system, the variable component of individual compensation for managers and executives is calculated as a percentage value of gross annual salaries on the basis of results obtained relative to the objectives assigned at the start of the year.

The balanced individual scorecard is structured in three parts:

- the first consists of specific project-objectives deriving from translation in operating terms of the objectives contained in the Group's strategic map;
- the second contains the economic objectives defined in the budget for the year;
- the third provides for a valuation on specific organisational behaviours, some of which are connected to the Code of Ethics (for example, resource management and development).

With reference to organisational behaviours, in 2010 the set of behaviours being assessed was reviewed: those set forth in the new leadership model formalised at the end of 2010 will be included in the 2011 bonus system.

The structure of the balanced individual scorecard, or the weights assigned to the three areas, varies according to the seniority of the employee and the department.

The final distribution of the bonus is also weighted based on results reached on some Group parameters: company economic/financial results and customer satisfaction index for residential customers.

The assignment of the objectives to employees and the assessment of their achievement takes place through a clearly defined process which is based on the decision of the top management for the individual balanced scorecards of the directors and managers and of the directors for the individual balanced scorecards of the executives. The activity is

carried out with the coordination of the Corporate Social Responsibility Department's Balanced Scorecard System Management and personnel functions.

Approximately 51% of the variable remuneration of senior management of the Hera Group is linked to the completion of the projects planned in the balanced scorecard system (the remaining 49% is linked to respect of budget objectives and compliance with specific organisational behaviours).

A total of 372 managers and executives received a bonus linked to the Balanced Scorecard in 2010. This is added to 262 employees who received an incentive bonus in the forms provided by the merit-based policies of the Group in 2010.

Sustainability in the performance bonus and other incentive schemes

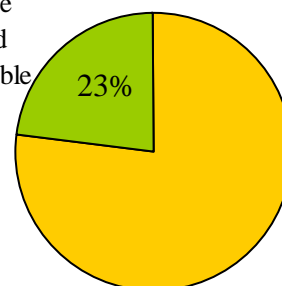
Aspects that refer to sustainability are present in the incentive system for executives and managers and the system for the determination of the performance bonus used by the Group.

The performance bonus is influenced by indicators that are connected to quality and the environment while the incentive system connected to the balanced scorecard provides for a part of the incentive to be connected to the achievement of sustainability projects.

In 2010, 23% of the Group's manager and executive salary is linked to sustainability objective projects (improvement of quality, environmental impact, image, personnel involvement, professional development, dialogue with stakeholders).

A maximum portion of 20% of the performance bonus is linked to goals related to quality and the environment.

Key: percentage of manager and executive variable compensation linked to sustainability projects



Pension funds

As of December 2010, there were a total of 4,534 employees enrolled in the pension funds, which comes to around 70% of total employees.

The Hera Group has three main pension funds: Pegaso for employees under the Federgasacqua and Federelettrica national collective labour agreements, Previambiente for employees under the Federambiente national collective labour agreement, and Previndai for executives. 94% of total employees enrolled in pension funds are enrolled in these three funds.

The table below sets forth the yield of the balanced subfund within the two main pension funds, which comprise 92% of workers participating in the pension funds.

Yield of the main pension funds (balanced subfund)

	2008	2009	2010
Pegaso	-7.43%	9.11%	4.82%
Previambiente	-8.09%	9.53%	4.66%

Health and safety

The year 2010 was characterised by the positive conclusion of the OHSAS 18001 certification procedure for Hera S.p.A. Furthermore, in 2010, as part of occupational health and safety, the Hera Group initiated a strong development of IT support tools in order to facilitate activity standardisation and coordination. Specifically:

- a new health surveillance IT process was created which ensures the correct and standard application of health protocols with the most operational efficiency;
- the implementation into IT systems of the management process to record accidents and identify preventive actions to achieve a decrease in the number and seriousness of injuries, near-accidents and accidents is complete;
- an IT form dedicated to analysing duties was created, through which it is possible to carry out a basic analysis of work activities, with particular focus on the workplace in which the activities are carried out and with the means, equipment and substances used.

Hera S.p.A. obtains the OHSAS 18001 certification

In September 2008, Hera S.p.A. submitted a project to the Sincert accreditation body (now called Accredia) to undertake the procedure to become certified according to the OHSAS 18001 standard in gradual steps, to be completed between 2008 and 2010. Sincert approved the request, considering Hera's particular and unique organisational complexity, and the certification procedure was structured into gradual steps.

After having passed the certification process for the first two parts in 2009, in 2010 the third and last part was submitted for certification, which includes the management of the integrated water service operations and plants. The certification process showed that the safety management system is in compliance with the OHSAS 18001 standard, and therefore the objective of certification was achieved in February 2011.

In order to improve occupational health and safety management, a series of initiatives and projects are planned for 2011, including:

- the completion of the monitoring and implementation system of safety in the work place;
- carrying out a climate survey on occupational health and safety behaviours in the work places within the company;
- defining a path to grow and develop the culture and awareness of employees regarding safety.

Accident indices

	2008	2009	2010
Frequency Index	37.6	32.6	29.6
<i>of which for ongoing accidents</i>	5.9	4.0	5.9
Severity index	1.2	1.8	0.9
Rate Index	6.0	5.2	4.8

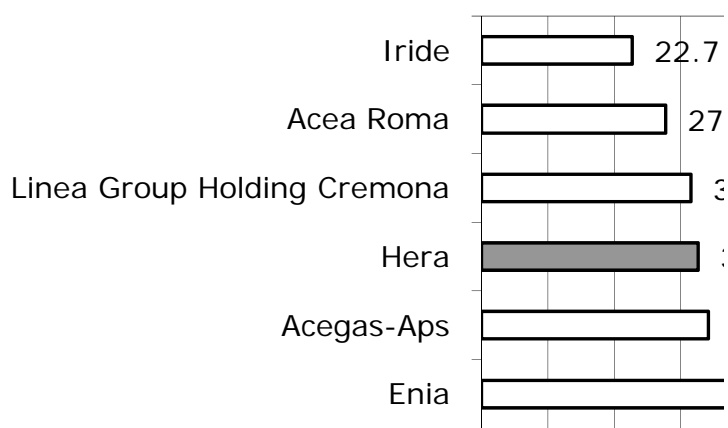
The frequency index is the number of accidents per million hours worked. The severity index is the number of days of absence per accident divided by thousands of hours worked. The rate index is obtained by dividing the number of accidents by the number of workers, multiplied by 100. The data refer to Hera S.p.A.

As shown in the data in the table, the performance of accident indices is continuously improving, with an increase in the ongoing injury frequency index. The final figure for the year culminates in an accident frequency for Hera S.p.A. of 29.6, which is lower than the figure for the previous year.

Occupational safety in the main Italian utility companies

Hera is the fourth of 8 multiutility companies considered in a comparative analysis carried out among the main Italian utility companies as regards the injury frequency index. Iride and Acea are the only company among the eight considered that do not manage environmental services.

Accident frequency index (2010)



The injury severity index posted in 2010 is 0.9, a clear improvement compared to 2009, the year in which a mortal accident occurred at the waste-to-energy plant in Forlì, while an employee was carrying out waste disposal using his own vehicle. The findings phase on this occurrence is still in progress.

The number of ongoing accidents (home-work travel) in Hera S.p.A. in the year considered has increased to 43 from 31, therefore increasing from 12% of the total in 2009 to 20% in 2010.

The accident indices are higher for manual employees, who are more exposed to the risk of accidents. In 2010, the injury frequency index for manual workers was 57.2 while the severity index was 1.8.

Frequency index (breakdown by area of activity)

	2008	2009	2010
Grid services (TOS)	36.5	28.1	29.6
Waste Management Services (TOS)	54.5	56.9	56.4
Other Services (TOS)	16.8	14.0	24.0
Hera S.p.A. (excluding TOS)	25.8	17.6	6.1
Average	37.6	32.6	29.6

The data refer to Hera S.p.A.

Frequency index (breakdown by area)

	2008	2009	2010
Bologna TOS area	39.3	29.6	25.0
Ferrara TOS area	31.4	21.1	16.4
Forli-Cesena TOS area	38.4	17.2	19.8
Imola-Faenza TOS area	20.8	12.5	30.3
Modena TOS area	37.9	43.7	25.2
Ravenna TOS area	21.9	23.8	24.2
Rimini TOS area	59.8	62.3	73.4
Average	37.6	32.6	29.6

The data refer to Hera S.p.A.

An analysis of the frequency index by area shows a decreasing index in Bologna, and especially in Modena and Ferrara, and an increase in the other areas. As regards the increasing index in Rimini and Imola-Faenza, please note that in Rimini, in 2010, 23% of accidents out of the total occurred on the street, while in Imola-Faenza, the majority of accidents occurred in situations that were not risky, resulting from incorrect employee behaviour and not due to lacks in the plant structures or lack or incorrect usage of individual or collective protection devices. In both areas, there was an increase in ongoing accidents, which doubled in Rimini (from 9% to 18%), while in Imola-Faenza it was 25% (0% in 2009).

Safety at "Tavolo 81" [Table 81]

The Imola-Faenza TOS participated in "Tavolo 81", an interesting initiative dedicated to the culture of health and safety at work. Italian Legislative Decree 81/2008 deeply innovated the legislation on this topic, extending the issues linked to work place safety and health to all sectors and productive areas. One of the activities proposed by "Tavolo 81" was the establishment in Imola of a testing field for training personnel, in which it is possible to test and experiment with machines, techniques and materials, acquiring experience which would otherwise require months, if not years, of training.

Accident indices of some subsidiaries (2010)

	Marche Multiservizi	Herambiente	Nuova Geovis	FEA	Uniflotte	Hera Luce	Hera Comm
Frequency Index	57.6	27.2	23.3	39.0	65.8	7.2	8.7
Severity index	1.9	0.5	0.2	97.5	0.8	0.1	0.3
Rate Index	9.4	4.5	3.8	6.4	10.1	1.1	1.4
Workforce	480	555	26	47	148	90	509

Regarding accidents in the subsidiaries taken into consideration, against some improvements in the frequency index, such as at Hera Luce (7.2 from 36.7) and Hera Comm (8.7 from 19), there were some increases, such as at Uniflotte where the index increased by 9 points but which still remains notably below the level recorded in 2008.

The 2010 injury severity index of FEA was affected by a mortal accident which occurred in December 2010 at the Bologna waste-to-energy plant while an employee was inspecting/maintaining part of the plant. As of the report approval date, the dedicated bodies are carrying out inspections in relation to this occurrence.

The overall frequency index for all the companies considered (Hera S.p.A. and the main subsidiaries included in the table) amounted to 30.4, showing a decrease compared to

the previous year's figure of 35.1: the number of ongoing accidents is 18% of the total accidents (14% in 2009). Severity index is equal to 1.6 compared to 1.7 in 2009.

In Modena, safety travels by mobile phone

After the experience gained in Bologna, the Modena TOS undertook an initiative in 2010 to increase awareness of safety in the work place through company mobile phones. The management regularly sends SMSs to the mobiles of operative personnel to remind them that health and safety should always be kept in mind. The messages, which intend to favour reflection on prevention, were planned by the employer with the cooperation of the Prevention and Protection Office and the Health and Safety Representatives. The contents report useful information and suggestions to always work safely during daily work activities.

In 2010, development was completed on the IT system to collect, analyse and standardise accident data, and it was extended to all main subsidiaries and a process was launched to analyse the main Group near misses (15 in 2010, of which 9 were events involving motor vehicles), in order to share the most information possible regarding accident event prevention.

The Group is also developing a project to increase and consolidate a culture of health and safety in the work place, which will be made up of individual sub-projects that will begin in 2010.

For Uniflotte, during 2011, the OHSAS 18001 certification process will begin and a series of targeted actions will be developed starting from the beginning of 2011 to analyse accidents and the related corrective actions.

Health checks performed

(No.)	2008	2009	2010
Hearing tests	1,052	907	1,038
Respiratory tests	1,644	2,188	1,943
Laboratory tests	1,395	1,180	1,317
Sight and eye tests	686	1,670	663
Total check-ups performed	3,052	3,505	2,822
Total workers examined	3,034	3,505	2,822

The data refer to Hera S.p.A.

Hera and the university together for occupational safety

The Hera Group participates in the "Roundtable on health and safety in the work place" which began in 2009 and is promoted by the University of Bologna and the Alma Mater Foundation with the patronage of the President of the Republic. The activities continue with the planning of a meta-model to choose, analyse and validate occupational health and safety management systems. Also part of the project is the study on the procedures for measuring the effectiveness and suitability of the organisation and management model implemented in accordance with Italian Legislative Decree 231/2001 on administrative liability. The stated objective is in any case linked to the strong desire of all participants to contribute to a substantial improvement of safety levels in the work place. Throughout 2011, there will be experimental phases in the field to assess the applicability of the project. Afterwards, the model will be distributed to many

participating organisations and, for the Hera Group, it will be integrated during the "year for safety in the work place".

During 2010, the IT application for managing health supervision was completely extended to all areas. With the same risk profile, this IT application, together with the new health protocol, guarantees a standardisation of services and health verifications and, through the system's automated elements, it facilitates operating activities and the overall verification in compliance with regulations currently in force.

16 employees were declared as inappropriate for the specific duty they carried out following a medical check up in 2010.

In 2011, the Group's company physicians will check the possibility of implementing a voluntary "Health awareness" programme, according to the principles of social responsibility, as set forth in the Consolidated Law on safety.

Industrial relations

The Group's supplementary collective labour agreement, signed on 24 March 2010, with an analysis launched in September 2009 on the basis of a platform presented by the union organisations, also led to the definition of a new agreement on the Group's 2010-2012 performance bonus.

The updated Group supplementary collective labour agreement revised the common rules of union relations, for the first time establishing a technical study group for organisational innovation and work quality within the new Industrial Relations Protocol. The group, which is not focused on bargaining, is called LaborHERA and is made up of experts appointed by the union and the company, who will monitor safety and training initiatives, also in tenders, and corporate social responsibility, monitor development and investment programmes and draw up possibilities to sustain the labour organisation's evolution with a focus on experimentation and innovation. The objective was to identify different and additional paths of involvement compared to the normal negotiation procedures. In July 2010, LaborHERA began to monitor the indicators agreed upon in the Group agreements of 23 June 2010 on profitability and productivity related to the 2010 performance bonus. Work continued on the same topic in a second meeting in December 2010, when the performance of objectives was analysed and assessments were made in this regard. The third meeting of the year committed LaborHERA on the topic of safety, with particular attention to workplace accidents, during which initiatives were discussed which were better outlined in the first meeting of 2011. The next meeting, the fifth since the beginning of work, planned for March 2011, will involve LaborHERA's commitment to monitoring the state of the art of safety initiatives set forth by the Group's supplementary collective labour agreement of 24 March 2010.

The chapters on training and safety of atypical work and non-open ended contracts were also changed in the Group's supplementary collective labour agreement, and the chapter on the representation and relations model for safety in the workplace was completely rewritten. This chapter defined that Health and Safety Representatives competent for each activity shall work in each of the Group's Companies/Business Units. Furthermore, a Group Coordination of Health and Safety Representatives shall be identified and be involved on general or transversal topics. In relation to tenders, a technical roundtable

was established between union and company organisations, with the task of studying and understanding the scenarios generated by implementing national and regional legislative changes regarding tenders to assign local public services.

Finally, as regards indemnities and regulatory remuneration, a technical commission was established to define a system to harmonise indemnities and regulatory remuneration existing in the Hera Group, also progressively standardising the travel and canteen compensation, and updating the geographic mobility wages.

In the beginning of 2011, union talks, which began in 2010, concluded with the result of standardising work hours in Herambiente's waste-to-energy area. A single staff rotation system in work shifts on all of the company's waste-to-energy plant was defined and financial and regulatory remuneration due to the personnel involved was standardised.

Open-ended contract workers that are members of unions (breakdown by trade union)

(No.)	2008	2009	2010
CGIL	2,513	2,420	2,365
CISL	584	542	565
UIL	719	665	661
CISAL Federenergia	44	34	24
FIADDEL	70	61	104
RDB	35	35	32
UGL and other	2	6	12
COBAS	5	0	0
ASSOQUADRI	26	24	21
Total	3,998	3,787	3,784
Percentage of entire workforce as at 31 December	63.4%	58.8%	58.3%

The data refer to the following companies: Hera S.p.A., Marche Multiservizi, Hera Comm, Hera Trading, Famula on Line, Uniflotte, Herambiente, Hera Luce, Medea, Sotris, Nuova Geovis, Akron.

58.3% of the Group's open-ended contract employees were enrolled in a union, a decrease of 0.5 percentage points compared to 2009. The rate of employees in unions is higher for manual employees (69%), which shows a slight increase, while there was a slight drop in administrative employees (54%) and managers (30%) compared to 2009.

Open-ended contract workers that are members of unions (breakdown by position)

%	2009	2010
Managers	33%	30%
Administration	56%	54%
Manual	67%	69%

The data refer to the following companies: Hera S.p.A., Marche Multiservizi, Hera Comm, Hera Trading, Famula on Line, Uniflotte, Herambiente, Hera Luce, Medea, Sotris, Nuova Geovis, Akron.

Strikes (hours)

(hours)	2008	2009	2010
Total time on strike (hours)	21,983	14,148	23,270
Time on strike (per capita)	3.6	2.2	3.7

The data refer to the following companies: Hera S.p.A., Marche Multiservizi, Famula on Line, Uniflotte, Hera Comm, Hera Trading, Herambiente, FEA, Acantho (since 2009), Satcom (since 2009).

Four strikes were announced in 2010. Three strikes - two promoted by CGIL and one by CUB - were against government policies, and the other strike, announced by only Filctem CGIL, regarded the renewal of the Federgasacqua national labour contract.

Litigation with the workforce

(No.)	2008	2009	2010
Litigation pending at the close of the year	40	55	40

Considering the Hera Group with the sole exclusion of Marche Multiservizi, as at 31 December 2010 36 cases of litigation were pending (of which 17 initiated in 2010), with specific balance sheet provisions made in view of the consequent costs.

Of these, 5 were for recognition of a higher position, 5 were for dismissal due to just cause or completion of protected periods, 3 for nullity of the fixed-term contract, 4 for recognition of an open-ended employment relationship, 11 for indemnification of the payment of wage differences (due to joint liability in contract work) and the application of contractual terms, 1 for disciplinary sanctions, 2 promoted in the first instance by the company, and 5 other cases.

The Marche Multiservizi Group has 4 pending cases with staff, 2 in the first instance and 2 in appeals, for recognition of a higher position.

In 2010, 187 disciplinary measures were taken against Group employees, in compliance with the applicable national labour agreements applied. They mainly involved oral or written reprimands (103 cases), withholdings on salary (56 cases totalling Euro 3,328) and temporary suspensions from work (22 less serious cases and 6 more serious cases). No employee was dismissed. Compared to previous years the sanctions are less serious (28 suspensions compared to 46 in 2009).

Please note that the three employees involved in the preliminary investigations in 2009 regarding the possibility of the crime of bid rigging ended their employment relationship with Hera in 2010. In 2009, the company had adopted a cautionary suspension measure from service against the employees while waiting for the outcome of the proceeding in their regard.

Internal communication

During 2010, the improvement of instruments of communication with the workforce continued, while new initiatives were launched to enhance cohesion in the name of involvement, integration and transparency.

The activities to enrich the contents of the House Organ continued, to favour a better use of it as a source of useful and updated information, which announces news to all colleagues. In order to involve employees with timely information, special reports were published on the internal climate survey, the processes of merging/integrating with other companies and the Group's financial results.

Articles were introduced to improve visibility of plants that represent excellence, organisational updates, the corporate structures and important Group projects. Furthermore, ongoing articles were published on the certifications obtained, privacy,

occupational safety, environmental training and education in schools and the management's meetings with workers. Interviews were also included to demonstrate the talents of Hera's employees, also outside of work (sports, art, writing, commitment to social and solidarity initiatives) to increase the sense of belonging and facilitate the creation of an internal community. A new column was also introduced, dedicated to items of interest, and the commitment to maintain special sections and inserts on free time activities was strengthened (cultural events, engagements and notices from the CRALs) to retain the reader and make the tool even more useful and enjoyable.

The content of Video Hera, the plasma TVs located in the main employee gathering points, was enhanced thanks to ever-more frequent news from Hera and Ansa (over 35 pieces of news per day).

The GenteHera offer, which is offered to all the Group's employees for electricity and gas supplies at advantageous conditions, was channelled through all of Hera's internal communication channels (House Organ, corporate intranet and VideoHera).

The Group's new supplementary collective labour contract was widely disseminated through all internal communication instruments and was also published in the leaflet "Mamma&Papà al lavoro", in order to better inform the Group's employees on maternity, paternity and family leave.

Awareness was also spread about the project to create the Hera intercompany crèche in Ravenna, the work of the Ethics Committee, and the *CiboAmico* campaign launched in the Imola and Rimini areas to support the project to recover unused food in company canteens and donate it to assistance organisations.

As part of the projects to promote sustainable behaviours, all employees received the brochure "Sulle tracce dei rifiuti" [*On the trail of waste*], which shows how much waste is collected from separate waste collection and from where. Furthermore, all of the internal communication instruments carried initiatives to promote saving energy, appreciating the water resource and awareness about the use of tap water instead of mineral water.

VolontariHeraPer ... BolognAIL

In December 2010, VolontariHeraPer was launched, a project to promote volunteerism that unites the company, employees and community associations in a common effort of social commitment. The project began with the cooperation of the Bologna section of AIL, the Italian Association against Leukaemia - Lymphoma and Myeloma. 24 Hera employees in the Bologna area gave their time to help manage one of the banquets that AIL organises in December to distribute poinsettias: the employees offered their time and Hera, in accordance with service requirements, provided the necessary work hours. The project achieved the goal of financing one year of shuttles to transport the sick. VolontariHeraPer will be implemented in all areas throughout 2011, the European year of volunteering.

In June 2010, the "Bimbi in Hera" [*Children in Hera*] initiative was organised and carried out in the 7 main corporate offices with games, events and a parade of Hera resources dedicated to employees' children, with the aim of showing them where their parents work.

The “C’è uno spettacolo per te” [*A Show for You*] initiative which provides employees with discounted or free tickets to concerts, exhibitions and shows in the territory, was further strengthened, aiming to promote cultural and after-work activities, thereby creating a venue in which colleagues belonging to different entities within the territory can get together.

Entertainment-athletic initiatives have increased in order to promote the gathering of employees from different territories, including through collaboration with the Coordinamento Circoli Interaziendali Hera [*Coordination of Hera Group Intercompany Associations*], together with which very successful events were organised: The “Hera Cup”, the Hera Group sailing regatta was organised for the fourth year in May 2010, with over 250 participants, while the “Trofeo Hera Ski Adventure” – the company giant slalom – was organised for the fourth time, with 400 participants.

The Corporate Intranet

In 2010, an average of 1,350,000 pages per month were viewed on the new Corporate Intranet reserved to Group employees, an increase of 3.5% over 2009. The home page provided visibility on information and initiatives involving employees, to increase the sense of belonging and favour the sharing of corporate goals and values. More videos were used to more effectively communicate on the most important topics (around twenty company videos made in 2010). The internal community appreciated the creation of an online announcement board, where it is possible to post announcements. To better reach operating personnel, innovative internal communication instruments were tested, through a format which utilises the contents of the portal and distributes them through new touch screen stations located throughout the plant areas. These are large monitors which enable employees to navigate on the intranet and access documents and information of general interest by simply touching the screen. The six-month pilot phase was launched in Modena with the installation of 4 stations, and the project's extension will be assessed on the basis of the results.

Renovation of premises

In 2010, the journey of achieving compliance with building codes in all of the offices was completed, with a mainly non-productive focus.

Over Euro 7.5 million was spent for maintenance work, over half of which was for safety and workplace compliance and environmental compliance of the applicable areas required for the ISO 14001 and OHSAS 18001 certifications.

Work on the new Uniflotte office in Bologna was completed, as was the renovation of the area that was previously occupied by Uniflotte, in order to subsequently and definitively house the new Bologna TOS warehouse there in April 2010.

The management of Bologna TOS was also transferred from the Berti Pichat office to a new office on the outskirts of the city in 2010. At the same time, the work to consolidate the Modena TOS site and the new cleaning spaces for the Rimini TOS site were nearing completion. A detailed study was launched on the access halls and the porter's buildings in all offices according to a coordinated design aimed at external corporate communication.

In 2011, the work on the access points of all sites will be completed, and the Hera S.p.A. management will transfer to a renovated property on viale Berti Pichat. Numerous automation applications were incorporated in this renovation with a view to energy efficiency, including the controlled lighting of area lights (with motion

detectors/and natural brightness), the management of air conditioning systems and air circulation in meeting rooms. Thanks to these solutions, the building is now compliant with class A required by the Decree of the Regional Government no. 152/2008.

Intercompany associations

The workforce has the option of taking part in the activities organised by the cultural associations of the various areas, set up in order to foster relations among employees. The associations organise cultural, recreational, sports and tourism activities, promote special commercial agreements, organise dinner parties, outings, Christmas and carnival events, competitive sports events, fishing competitions and ski excursions. These associations also provide theatre season tickets and book-lending services.

For their members, the associations contribute a portion to book spending on the part of student workers and the children of employees and other contributions for sporting activities and discounts from several businesses.

The associations are managed independently by a Management Board whose members are elected directly by association members. The Group contributes to the activities of the associations by guaranteeing the financial resources envisaged as a part of national collective labour agreements and of locally stipulated agreements and provides space for recreational activities or for management of these activities which are also promoted through the internal communications instruments.

In 2010, 4,832 employees were members of the associations. The activities of the circles have been financed with contributions by the company (approximately Euro 587 thousand) and the employees (around Euro 20 thousand).

Excluding Marche Multiservizi, over 26,000 people participated in the activities organised by the cultural associations.

The internal climate survey

The internal climate survey is a fundamental instrument in the ongoing process of improvement, involvement and enhancement of the workforce, which are two of the operational principles set forth in the Hera Group Charter of Values. It began to be applied in the Hera Group in 2005 and is carried out every two years to enable the implementation and consolidation of improvement initiatives.

After analysing the results of the survey carried out in 2009, 15 improvement actions were defined: results and actions were communicated through the House Organ to all employees in February 2010. These actions were assigned to a manager and monitored on a quarterly basis using the balanced scorecard. Of the 15 actions planned, 10 were fully carried out in 2010 and 5 will be completed or carried out in 2011.

Among the other actions, a survey was also planned on the perceived quality of internal services (facility management, canteen, information systems). The first step of the survey was concluded in the first weeks of 2011, and consisted of interviewing the managers of the services involved and holding focus groups with a sample of employees who manage the services and users. Subsequently, in the first few months of 2011, a

questionnaire was sent out to a sample of approximately 10% of the company population.

Progress as at 31 December 2010 of the improvement actions launched as a result of the 2009 internal climate survey

Role in Hera	
Improvement actions	The situation as at 31 December 2010
<ul style="list-style-type: none"> • To further consolidate the Scuola dei Mestieri by completing the projects begun in 2009 and assessing the activation of new workshops. • To further develop the Communities of Practice in the customer management area as a method for organisational integration and sharing of knowledge. • To review the methods applied for the realisation of the top management roadshow in the local areas and the Management/Executives Convention. • First-level managers to carry out top down periodic communication meetings with the personnel belonging to their organisational units on specific issues. • To carry out initiatives aimed at making employees aware of the global economic value of their compensation, with particular attention on non-monetary benefits and considering the current economic context. • Implement communication initiatives directed to employees on the renewal of employment contracts used in the Hera Group and the new collective labour agreement, the performance bonus indicators and the criteria for determination of the latter. 	<ul style="list-style-type: none"> • In 2010, remote control and electrical networks projects were completed and Knowledge Management workshops were launched in Hera Trading. • A workshop to review operating instructions was created, and a pilot group of Hera Comm back-office experts was called in to define the methodological layout and rewriting of the contents by activating a dedicated online forum and creating a wiki environment to publish to operating instructions. • In 2010, the senior management roadshow in the areas and the manager/executive conventions were carried out in new ways (more effective presentation of topics discussed and more attention to the setting of the places where the meetings take place). • In all business units, periodic internal communication meetings were held, generally on a quarterly basis, with different operating procedures, on specific topics such as the performance of the economy and investments, customer-focused actions implemented, the performance of TOS indices and the performance bonus, and objectives/actions for the balanced scorecard projects. The operating procedures in the TOSs, and eventually in Herambiente, are expected to be standardised in 2011, using the experience gained in Modena as a basis. • This topic was discussed on HO in April 2010 when the Group's new supplementary collective labour agreement was signed. • The initiative involved the 2010 publication of articles on HO regarding the renewal of the electricity sector National Collective Labour Agreement and the inclusion of the union agreement on the corporate intranet. Employees received a copy of the Federambiente National Collective Labour Agreement and a document was published with the summary illustration of the 2010 performance bonus indicators and objectives
Workplace	
Improvement actions	The situation as at 31 December 2010
<ul style="list-style-type: none"> • To further improve and enhance the internal services (e.g., helpdesk, maintenance requests) • To carry out an in-depth survey on the perceived quality of internal services. • To carry out communication initiatives on restructuring of the premises. 	<ul style="list-style-type: none"> • In relation to maintenance in 2010, precise monitoring was carried out on maintenance service levels for the offices and the canteen. A revision of the ticket management procedures and the overall improvement of the Facility section on the corporate intranet were planned. At the helpdesk, ticket management monitoring was launched, after which new targets will be defined. • Interviews were conducted with internal service managers and the relative focus groups were organised. In the first quarter of 2011, a questionnaire was distributed to a sample of around 10% of the company population. • Communication activities related to the new branch layout (the restyling of the branches in Ferrara, Lugo and Modena was completed in 2010) with an internal event for employees who work in the branches involved and shown on company media. Articles were published on the HO in September and November on the renovation of the viale Berti office and the transfer of the

	warehouse from viale Berti to via del Frullo.
Immediate superiors	
Improvement actions	The situation as at 31 December 2010
<ul style="list-style-type: none"> • Ensure continuity in the training initiatives which develop managerial skills for executives, managers and supervisors in charge of organisational units and personnel 	<ul style="list-style-type: none"> • In cooperation with the Alma Mater Foundation, a new edition of the "Regulation and the Market for Public Utility Services" course was provided. Furthermore, in cooperation with Alma Graduate School, the second year of the "Managerial skills and development" course was implemented. The Group's new leadership model was presented at the managers and executives convention on 14 October and training workshops on the model began.
Corporate culture	
Improvement actions	The situation as at 31 December 2010
<ul style="list-style-type: none"> • To carry out Improvement Groups in the structures that are most affected by the organisational and corporate changes and proceed with the monitoring and feedback activities on the implementation of approved proposals. • To verify and update the Code of Ethics with the involvement of the stakeholders, thus concluding the three year experimentation period. • To carry out top-down initiatives aimed at developing and disseminating a culture of security with the involvement of all the employees and reducing the "work-related stress" factor. • To carry out initiatives that aim to develop in employees an understanding of the level of customer satisfaction regarding Hera services. • To realise specific communication initiatives aimed at the environmental impacts of the initiatives carried out by the Hera Group (energy savings, Hera₂O, separate waste collection, etc.). 	<ul style="list-style-type: none"> • Two Improvement Groups were formed: one on accidents and near-accidents in Herambiente and one on the analysis of near-accidents in Forlì-Cesena TOS. At the end of 2010, a group was formed to manage gas, water and district heating meters in Bologna TOS. The relative reporting was monitored and drawn up. • The Workgroup planned work to update the Code of Ethics, after which notifications were distributed to employees through corporate media. Interviews were conducted with the directors of DCPO, DCAA and the Hera Comm CEO and 4 focus groups with employees, after which the Workgroup approved the proposal to update the Code of Ethics discussed and approved on 26 January 2011 by the Board of Directors, together with the distribution and communication plan. • In 2010, the planning began on alternative models to the top-down training on the culture of safety. A project was drawn up on "work-related stress" which will be tested in the Ferrara area to then be extended to the whole Group by 2011. • Four articles were published on HO in 2010, information was posted on Video Hera and the corporate intranet, with a video interview with Cristian Fabbri, the Hera Comm CEO. • An article was published on the HO about energy savings, and the promotion on LFC high-efficiency light bulbs was launched, with information on how to correctly dispose of them. • In the first quarter of 2010, articles were published on HO along with video interviews and news on the corporate intranet/Video Hera regarding the participation of the Hera municipality shareholders in the Mayor's Water Event. Articles were written in the new edition of the "In buone acque" [<i>In good water</i>] report, regarding the study on the ecological impact of tap water and mineral water, and the results of the Hera₂O project. • In the first and second quarter of 2010, articles were published on HO containing first-page news about the corporate intranet/Video Hera and materials were developed to support the launch of the CiboAmico project (extension to the canteens in Granarolo, Imola and Rimini, final report on the Bologna canteen). • As part of the "Sulle tracce dei rifiuti" project, an article was published on HO, the brochure was attached to the October HO, and the new section of the Group's site was published. • In the VedoHera newsletter, brief articles were published on using ecologic and recycled paper in Group offices, printing bills on mixed-type FSC paper, the construction of photovoltaic plants in used landfills, and the photovoltaic project at the Bologna freight village. • Implementation and updating on the corporate intranet of pages dedicated to Energy Management, with information about energy saving, energy efficiency (white certificates, tax exemptions, etc.) and renewable sources (green certificates) initiatives. • In January 2011, there was an article on VedoHera about

	<p>RAEEbilitando (recovery of materials with assignment of activities to a non-profit organisation), a CiboAmico report, and a brief article on the EMAS registration of the Imola cogeneration station</p> <ul style="list-style-type: none"> • Default front and back, black and white printing began, with considerable savings of paper and polluting materials (toner)
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Other dialogue and consultation initiatives

Also in 2010, the Chairman and chief executive officer met with all employees to present the industrial plan and the main elements of the 2009 Sustainability report: 16 meetings were held in the various areas.

During 2010, the involvement of personnel continued through Improvement Groups aimed at promoting active participation in the improvement of daily work activities: 3 new groups were formed in 2010.

Furthermore, the involvement of union organisations continued on commitments to corporate social responsibility.

In March 2010 and for the fifth consecutive year, the Chairman and Chief Executive Officer presented to the entire workforce the Group's industrial plan and the main elements of the 2009 Sustainability report; 16 meetings were held in the various areas: in the second part of the meetings, participants were able to ask various questions and request clarifications on various issues relating to the company. The meetings were updated with new presentation contents and new room layouts, to promote comfort and involvement.

The improvement groups have been representing the medium through which the workforce can become involved since 2006 and were adopted by Hera in order to stimulate active participation in the improvement of daily work activities, enhance professional skills and improve the climate, motivation and sense of belonging.

In the second half of 2010, 2 new improvement groups were created in response to specific requirements indicated by the departments involved. The Forlì-Cesena TOS created a group with a view to analyse "near-accidents", with the aim of registering and mapping more than 50% of these events. Herambiente dedicated a group to classifying accidents and analysing near-accidents, looking in detail at the causes and identifying possible suggestions to reduce the risks they generate. The respective proposals were presented to the applicable Departments between the end of 2010 and the beginning of 2011. At the end of 2010, the Bologna TOS began a group dedicated to the auxiliary activity management process and controlling gas, water and district heating meters in the networks and networks management area. As is our usual practice, throughout 2010 the improvement initiatives approved by the Departments were specifically monitored in their operating and execution phases.

In compliance with the commitments assumed when the Group signed the updated supplementary collective labour agreement on 24 March 2010, Hera involved the union representatives by presenting the foundational elements of the 2009 Sustainability report to them. In particular on the topic of workplace safety, the study group named LaborHERA was launched, which was set forth by the aforementioned Group

supplementary collective labour agreement and aims to define each initiative focused on improving the culture of safety. LaborHERA was called three times: two meetings, at the deadlines set forth for June and December, to monitor the performance of objectives, and then proceeding with assessments on that performance in relation to the performance bonus, and a third meeting on safety, with a particular focus on workplace accidents, during which initiatives were introduced to improve attention to safety. The initiatives were better outlined in the fourth meeting, held at the beginning of 2011: in subsequent meetings, planned in 2011, LaborHERA will be committed to monitoring the status of the applicable safety initiatives.

The updated, collated copy of the updated Federambiente National Collective Labour Agreement was distributed to employees and the national agreement renewing the Electricity Sector National Collective Labour Agreement was published on the corporate intranet. Furthermore, the renewed Group supplementary collective labour agreement was published on the corporate intranet along with a complete and analytic description of the indicators and objectives for the 2010 performance bonus.

Customers

Hera serves approximately 3.2 million customers in its reference areas, which are mainly located throughout the six provinces of Emilia-Romagna. Hera also offers its services to area companies, for which it has preferential relationship channels.

In de-regulated services (gas and electricity), Hera sells gas and electricity to 1.5 million customers in almost all of the regions of Italy.

Since 2005, Hera has annually controlled customer satisfaction. Customer satisfaction surveys are carried out, and the results are used to define improvement objectives.

Objectives and performance

What we said we would do...	What we have done...
<ul style="list-style-type: none"> • Improve the customer satisfaction index by defining and monitoring improvement actions: reach an index of 70 for residential customers within 2011 and 67 within 2013 for all business segments. • Further reduce waiting times at branches: 14 minutes in 2010. • Restructure the branches in Modena and Ferrara in 2010, applying the new Group layout. • Supervise call centre waiting times: maintain the average waiting times at levels reached in 2009. • Improve response times to complaints, guaranteeing compliance with the response times set by the AEEG in at least 97% of cases. • Guarantee compliance with specific commercial quality standards for gas and electricity services, and the standards set forth in the approved Service Charters, in 98% of cases. • Promote the HER@ ON-LINE channel, providing incentives to increase the number of members and the requests for electronic bills. • Continue to propose offers for the free market which are clear, transparent and economical. • Improve the legibility of the electricity bill. • Continue to promote the quality of drinking 	<ul style="list-style-type: none"> • The customer satisfaction index reported in 2010 was 69 for residential customers, remaining stable since the previous year. The business customer satisfaction survey showed an index of 65, remaining steady since 2009. (see page 123) • In 2010, the average wait time at branches was 14.5 minutes. (see page 119) • The new Modena and Ferrara branches were inaugurated in May and October, respectively. (see page 120) • The call centre waiting times were 34 seconds for residential customers (33 seconds in 2009) and 22 seconds for business customers (25 seconds in 2009). (see page 118) • The response time to claims set by AEEG (40 calendar days) was respected in 86.1% of cases. (see page 121) • The percentage of compliance to specific standards was 98.6%, compared to 97.6% in 2009. (see page 102) • The number of people enrolled in the Her@ON-LINE branch increased by 40%, while the number of customers receiving bills electronically more than doubled, increasing from 11,800 to 23,528. (see page 117) • In February 2011, the "Momento Giusto" [<i>Right moment</i>] offer was launched for residential customers and small businesses. The customer may choose from among three discount profiles available. (see page 87) • Since September 2010, the electricity bill has been updated, incorporating in advance the

water distributed by Hera through the preparation of the second "In buone acque" report and other initiatives.	simplification and comparability objectives established by AEEG. (see page 92) <ul style="list-style-type: none"> The second edition of the "In buone acque" report was published in September 2010 and 4,000 copies were distributed. Among the other promotion initiatives are the Mayor's Water Manifesto promotion in Ravenna, signed by numerous area mayors in March 2010. (see page 107)
We shall...	
<ul style="list-style-type: none"> Guarantee a call centre waiting time of no more than 40 seconds for households and no more than 25 seconds for companies in 2011. Limit calls with waiting times over 2 minutes to 9% for households and 4% for companies. Guarantee a branch waiting time of no more than 14 minutes in 2011 and reduce contacts with waiting times of over 40 minutes to 7%. Renovate additional branches in 2011 to adopt the Group's new layout. Guarantee compliance with specific commercial quality standards for gas and electricity services, and the standards set forth in the approved Service Charters, in 98% of cases. Improve claims response times, guaranteeing respect for the response time established by AEEG in at least 94% of the cases. Continue to promote sending electronic bills: increase the customers who use this service by 50% in 2011. Implement specific actions to improve contact between operating technical staff and customers. Continue with information/training activities for consumers' associations and implement a dedicated contact channel in all areas. Create guidelines for reading and understanding the electricity bill. Anticipate publication times for the "In buone acque" report, expanding its content. 	

Breakdown

Energy services customers

(thousand)	2008	2009	2010
Gas customers	1,073.1	1,079.0	1,081.6
Electricity customers	286.9	335.9	382.5

Integrated water service customers

(thousand)	2008	2009	2010
Total customers	1,153.9	1,170.6	1,181.1

Urban hygiene services

	2008	2009	2010
Municipalities served (no.)	172	173	181
Citizens served (thous.)	2,667	2,705	2,757

The overall number of contracts continues to rise for all services, but especially and very notably in the electricity area, thanks to intense commercial activities in the de-regulated market. Despite strong competition in the market, electricity contracts have, in

fact, increased by over 40,000 units. The affiliate company Marche Multiservizi's acquisition of the company Naturambiente, which works in 8 municipalities in the province of Pesaro-Urbino (24,000 residents), contributed to the increase in residents served for urban hygiene services.

The excellent results achieved were possible thanks to:

- product innovation;
- a multi-service offering;
- proximity to customers;
- simplification of management.

In particular, product innovation was represented through cost-effectiveness and transparency, proposed by the new free market offerings.

Proximity to the customer was strengthened with widespread activities in 84 area branches, with excellent service levels offered and an additional strengthening of the sales force. On these last two aspects, strong attention was placed on maintaining high performance standards, in line with the Code of Ethics and AEEG's code of commercial conduct governing the sale of electricity and natural gas.

In 2011, the company will continue to focus on customer needs and the service level offered by:

- developing new products and offers aimed at providing customers with added value;
- continuously improving in management streamlining;
- continuously training contact and sales operators, maintaining direct and continuous quality controls.

Commercial policies

This increase in customers for free market services was obtained by following a policy of commercial development that is based on the following:

- multi-service offer: simplifying management for customers by proposing a single contact point and only one bill for energy services (gas and electricity) and the concessions (water and urban hygiene) in the areas handled;
- proximity to the customer: to be physically close to customers through the network of branches and the widespread sales structure; to be quickly accessible through a call centre and the web; to be socially responsible and contribute with our activities to the growth of the territory and of the local communities;
- simplification of management: customers given the option of managing bills on their own through the new Her@ ON-LINE portal and requesting electronic mailing of the bill;
- cost-effectiveness and transparency: proposing offers that are always competitive and clear, suited to the needs of all customers (over thirty offers are available, many of which can be further personalised).

The commercial strategy is based on various customer types: households, small and medium companies, large companies, condominiums, and the public administration.

In 2010, the households segment was offered the CasaDolceCasa [*Home, sweet home*] and Casa&Bottega [*Home and work*], dual fuel offer, which provide a discount on raw

material components and in February 2011, residential customers and small businesses were offered "Momento Giusto", which provides discounts based on time of day. Regarding the sale of electricity to companies, Hera Comm has proposed both offers of electricity alone and in conjunction with gas (dual fuel offer), providing the Energia Verde (Green Energy) option of acquiring energy produced from renewable sources, also for 2010. The possibility was also introduced to purchase energy at prices in line with wholesale prices increased by marketing costs.

Tariffs and billing

Hera manages regulated services (e.g. the integrated water service, urban waste, and gas and electricity distribution) and free market services (e.g. waste disposal and gas and electricity sales). Hera applies tariffs to administrative services which are governed by the control authorities (AEEG and the Water and Waste Management Authorities), while for open market services, tariffs are freely determined by the sales company. As regards sales tariffs, on a quarterly basis AEEG defines and updates prices for domestic and non-domestic electricity customers who chose to not participate in an open market offer and for domestic customers of the natural gas service that had not acceded to the offer of free market and benefit from the economic conditions for protection of AEEG.

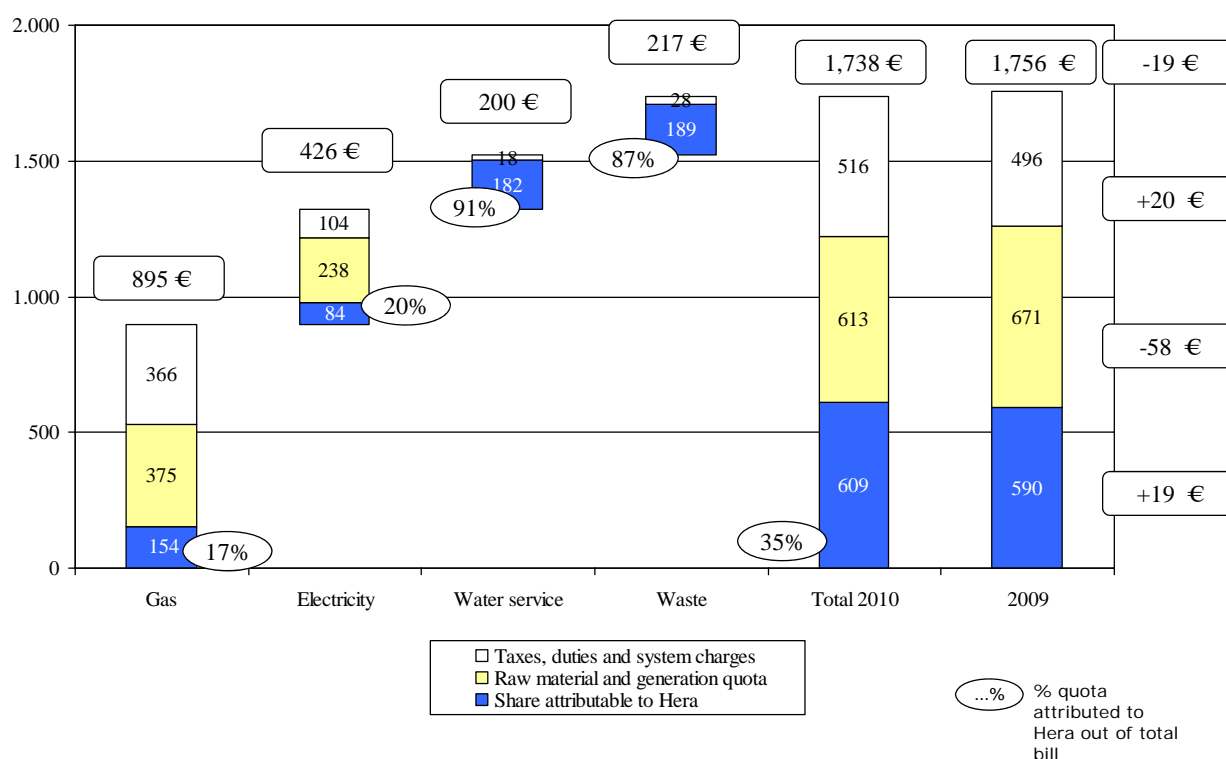
The costs of Hera services for an average customer

Euro	2008	2009	2010	Change 2010/2009
Gas	936.97	947.58	926.06	-21.52
Electricity	470.43	453.60	425.64	-27.96
Water services	185.72	187.45	200.02	12.57
Waste	204.17	211.57	217.16	5.59
Total	1,797.29	1,800.20	1,768.88	-31.32
<i>of which attributed to Hera</i>	557.05	592.93	611.34	18.41
<i>of which attributed to raw materials and generation</i>	735.67	701.00	626.64	-74.36
<i>of which taxes, duties and system charges</i>	504.57	506.27	530.90	24.63

In 2010, an average customer spent Euro 1,769 for Hera's services; of this amount, only 35% represents elements of the bills issued by Hera. 2010 recorded a decrease in the total cost of Euro 31 compared to 2009. This reduction was mainly caused by the reduction in the raw materials and generation portion, which decreased by Euro 74. In percentage, the overall cost for Hera services reduced by 1.7% since 2009.

The Euro 18 addition of Hera's portion corresponds to 1.0% of the total amount of Hera bills and mainly concerns the water service (Euro 11) and the waste management services (Euro 5). The "Momento Giusto" offer that Hera Comm has proposed to residential customers since February 2011 allows for a maximum savings of Euro 21 on the electricity bill reported above, variable on the basis of the chosen consumption profile, and around Euro 30 on the gas bill.

The costs of Hera services for an average customer



The gas bill

Euro	2008	2009	2010
Raw material component	446.32	431.96	388.45
Sale quota	31.56	39.30	42.79
Distribution tariff	103.99	115.34	114.05
System charges	1.51	3.16	13.01
Consumption tax	185.64	191.01	197.97
Regional tax	35.75	36.27	37.43
VAT (10%/20%)	132.20	130.54	132.37
Total	936.97	947.58	926.06

Attributable to Hera: 17%
out of the total bill

Arithmetical average of six bills for a residential customer in the municipalities of Bologna, Ferrara, Forlì, Imola, Modena and Ravenna, whose yearly consumption totals 1,200 cubic meters of methane gas. The grey areas refer to tariff components not falling under the responsibility of Hera. A protected customer was considered here, so the conditions defined by AEEG were applied. The calculation criterion for the prior year data has been aligned with the data for the year underway. The complete data regarding the gas supply tariffs are available on the Group's internet site.

The gas bill for 2010 was 2.3% less than that of 2009. This decrease is mainly due to the decrease in the raw material component (Euro -44). This decrease was partially offset by the increase in the sales portion (Euro +3), in the distribution tariffs and system charges (Euro +9) and taxes (Euro +10).

What is the C coefficient?

The energy contained in the volume of natural gas measured by the residential meter varies depending on the temperature and pressure and so, for example, depending on the altimetry. Therefore, it would be necessary to consider three variables in order to determine the energy actually consumed and correctly invoice: volume, temperature and pressure. To do this, since 1 July 2009 the Authority decided to take the volumes to standard pressure and temperature conditions by apply the C coefficient to the volumes. This coefficient allows for specific pressure and temperature conditions area by area.

In this way the unit price of gas was made uniform throughout the country as it is applied to a standard value called "standard cubic metre" (SCM). The M coefficient was used before 1 July 2009 and it was applied not to the volumes consumed, but to the total expense, so the unit prices were necessarily different from one area to the next.

By applying the corrective coefficient on the volumes instead of on the price, since 1 July 2009 the invoiced volumes are different from those measured by the meter. The gas bill carried in this report considers the consumption measured by the meter, on which the C coefficient is applied starting on 1 July 2009.

Hera presented administrative recourse to the Lazio Regional Court Administration with regard to the duly paid sanction.

The gas distribution tariffs are set annually by AEEG on the basis of the criteria set forth in resolution ARG/Gas no. 159/08, which governs the gas tariff scheme for the current 2009-2012 regulation period. The tariffs are differentiated based on the six macro-regions into which the country is divided, and are determined to guarantee the coverage of capital and operating costs incurred by distributors at the macro-area level. Specifically, the tariff levels of the obligatory natural gas distribution and measurement service tariffs for the 1 January - 31 December 2010 period were approved with resolution ARG/Gas no. 206/09.

The distribution tariffs impacted around 12.3% of the total bill in 2010. The important increase in the distribution tariff recorded in the last two years is due to the calculation method of said resolution 159/08, mainly in relation to the following effects:

- adaptation of the tariff quotas to cover capital costs, where the issue between 2009 and 2010 of the second portion in the process of transitioning between the previous and current regulation systems is relevant; this system will be fully implemented in 2012;
- the important inflationary trend recorded in the tariff updates introduced by AEEG (3% for capital costs and 2.4% for operating costs between 2009/2010), in line with the appropriate ISTAT indicators recorded in December 2009.

Part of the distribution tariff includes components to cover general gas system charges (such as energy saving promotion costs) which the individual distributors treat as contra-items, paying the relative proceeds to the national Adjustment Fund. These components were highlighted separately in the aforementioned bill and included in the item "system charges".

This component, increasing in 2010 following the amendment to the tariff regulation introduced by resolution ARG/Gas no. 159/08, includes tariff components which finance the fund for energy saving measures and initiatives and the development of renewable sources in the natural gas sector (Euro 2.75 in 2010), the account for gas service quality (Euro 0.29 in 2010), the account for gas distribution tariff equalisation

(Euro 3.99 in 2010) and for the remaining amounts, the aforementioned component offsetting the increase in the sales quota.

The sales quota in relation to the protected service economic supply conditions, defined by AEEG, is regulated by resolution ARG/gas no. 64/09. This resolution particularly defines:

- the wholesale component, which is updated on a quarterly basis; resolution ARG/gas no. 89/10 then amended, for the thermal year from October 2010 to September 2011, its quarterly updating formula by introducing a coefficient to attenuate the change related to fuel costs;
- the components to cover transport and storage costs;
- the retail sales component in effect from 1 July 2009; in particular, the AEEG has recognised that the costs incurred by the selling company which are covered by this component are of a mainly fixed nature (invoicing and sales management costs) and therefore have little relation to consumption. It was furthermore established that this component shall be the same for all selling companies and will no longer be differentiated by tariff area. For the reasons above, this tariff component was changed from a binomial formula differentiated according to the territory (fixed amount of Euro 3.6/customer + variable amount which varies from area to area) to a single binomial formula for the entire country (Euro 36.82/customer + 0.48 Eurocent/cubic metres). The effect of the increase in the fixed portion of the retail sales component (which would significantly affect the customers with limited levels of consumption in percentage terms) is partially mitigated by the introduction of a compensation component introduced as an increase to the distribution tariffs which also provides for a negative fixed portion which is defined each quarter by the AEEG.

The raw material component is calculated as the sum of the wholesale components and the transport and storage components and, in 2010, it made up, on average, 41.9% of the total bill.

Lastly, in 2010, taxes account for an average of approx. 39.7% of the total in 2010. These taxes are due to the State and the regions (revenue tax, additional regional tax and VAT). Taxes are set by specific provisions by the Ministry of the Economy and Finance and the regional government authorities, and vary according to the use of the gas, whether for heating or only for cooking or industrial uses. Beginning from January 2008, VAT is applied at 10% for up to 480 cubic metres annually, and above that, VAT is set at 20%.

Hera Comm began a new offer in February 2011 called "Momento Giusto". Customers participating in the promotion may have a discount on the wholesale component defined by AEEG by choosing from among three different profiles and obtaining a higher discount in the period of significant consumption. Participating in the "Momento Giusto" offer provides a savings of approximately Euro 30, equal to 3% of the bill indicated above. Before participating in offers introduced by Hera Comm in the free market, the customer receives a sheet summarising the fees, drawn up in the ways defined by AEEG resolution ARG/com no. 104/10, in which the estimate of annual expenses generated by the offer proposed is compared with the estimate of the annual expense from the economic conditions of the supply for protected service, defined by AEEG.

The electricity bill

Euro	2008	2009	2010	
Energy quota	265.93	248.24	214.18	
Dispatching quota	23.42	20.80	24.01	
Distribution and sales quota	75.12	83.91	83.83	Attributable to Hera: 20% out of the total bill
System charges	40.83	37.05	43.96	
Tax	22.36	22.36	20.97	
VAT (10%)	42.77	41.24	38.69	
Total	470.42	453.60	425.64	

Bill for a residential customer with an installed capacity of 3kW and a yearly consumption of 2,700 kWh. The grey areas refer to tariff components not falling under the responsibility of Hera. A customer from the most protected market with a residential contract was considered.

For electricity bills of residential customers in the most protected category, the total decrease recorded in 2010 compared to the previous year (-6.2%) is the direct result of the approximately Euro 34 decrease in the generation/energy quota (as a result of the trend in the price of oil and the consequent decrease in the wholesale electricity market price), partly offset by the approximately Euro 7 increase in system charges. The distribution and sales quota remained essentially the same. It is only this latter portion of the bill which is attributed to Hera for coverage of the management and maintenance costs of the power grid incurred by the distributor Hera S.p.A. and the costs for sales activities (invoicing, bill sending, etc.) which are incurred by the sales company Hera Comm. This amount is 20% of the bill total.

On 1 July 2010, AEEG established the gradual introduction for domestic customers in the most protected market of twin rate prices, differentiated depending on the time of day and days of the week during which electricity is used. These prices were applied gradually, after an appropriate disclosure campaign on the bill, to all consumers with the new reprogrammed electronic meters. To gain more advantage from the new system, customers must concentrate more than two-thirds of their electricity consumption in the most advantageous hours.

Since September 2010, the domestic bill of Hera Comm for the most protected market and for the free market was updated, including in advance the billing document goals of simplification, comparability and harmonisation established by AEEG in resolution ARG/com no. 202/09. The new bill highlights a summary box where the customer can immediately find the most pertinent information (characteristic information of the supply, consumption, readings, summary of invoice amounts), and a detailed area broken down into the macro-items characteristic of the service: sales services (with details about each item applied), network services (aggregated by application in a fixed portion, a variable portion and a power portion, they cover costs for transport, distribution and metering services, as well as general costs) and taxes.

The above bill refers to customers of the market with the highest protection, with a residential contract, which are households that have not adhered to tariff offers in the free market, which have been possible from 1 July 2007 as a result of the complete de-regulation of the electricity sector.

Hera Comm began a new offer called "Momento Giusto" for residential customers and small businesses, available since February 2011. Participation in the offer provides

customers with a higher discount during the times they use more energy by choosing from among three available consumption profiles. The maximum discount is Euro 21, coming out to 5% of the bill indicated above. Before participating in offers introduced by Hera Comm in the free market, the customer receives a sheet summarising the fees, drawn up in the ways defined by AEEG resolution ARG/com no. 104/10, in which the estimate of annual expenses generated by the offer proposed is compared with the estimate of the annual expense from the economic conditions of the supply for the most protected market, defined by AEEG.

Integrated water service bill

Euro	2008	2009	2010	
Aqueduct	89.02	87.55	91.51	
Sewage	18.62	19.26	21.12	
Purification	50.94	52.71	57.35	
Fixed quota	10.26	10.89	11.86	
VAT (10%)	16.88	17.04	18.18	
Total	185.72	187.45	200.02	

Attributable to Hera: 91%
out of the total bill

Arithmetical average of six bills for a household of 3 residents in the municipalities of Bologna, Ferrara, Forlì, Imola, Modena, Ravenna and Rimini whose yearly consumption totals 130 m³ of water. The grey areas refer to tariff components not falling under the responsibility of Hera.

The average bill for a residential customer for 130 cubic metres per year increased from Euro 186 in 2008 to Euro 200 in 2010, an increase of 6.7% last year, and of 0.9% the previous year.

In 2005, the tariffs for the water cycle were set by the ATOs, now the Water and Waste Regulatory Authorities (they had previously been defined by the CIPE) with regard to all components relative to the variable water quota, the fixed quota, and sewage and purification quotas.

The tariffs applied for the 2008-2009 period are those resolved by the Authorities in accordance with agreements subscribed for the 2008-2012 five-year period, in application of the new regional method introduced by the Regional Council President Decree no. 49 (with the exception of the Modena Water and Waste Regulatory Authority, for which the national method is still applied).

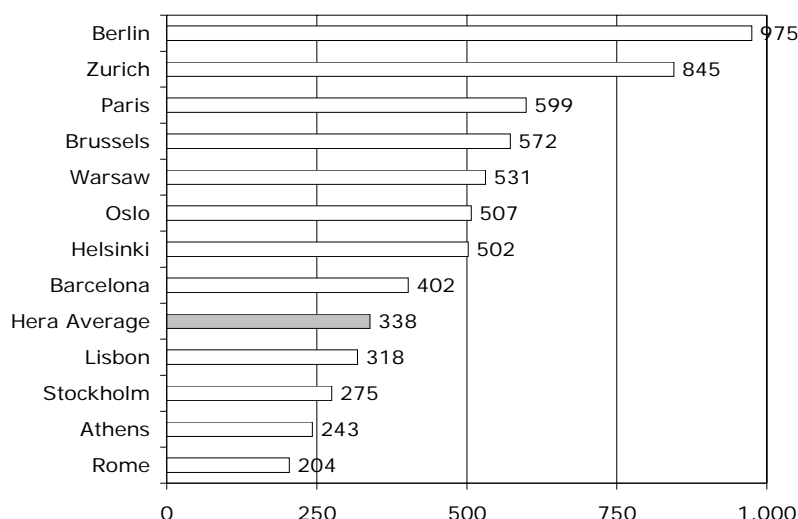
Since 2008, the tariff has also included the costs for management of rainwater for Water and Waste Regulatory Authorities of Bologna, Ferrara, Forlì-Cesena (limited to a small part of the municipality of Cesenatico), Modena, Ravenna and Rimini.

The cost of water in Italy and Europe

Parliament's Annual Report on the status of water service, published in 2010 by the Italian Water Resource Watchdog Committee, compares the water tariffs of different countries: "The availability of international data for some large foreign cities shows that, even adjusting the overall water service expense to take into account different purchasing powers, Italian tariffs on average had an expense level below that of other countries."

The average cost of water in other countries is Euro 2 per cubic metre, with values close to Euro 5 for Berlin, and higher than Euro 3 in Warsaw, Zurich and Paris.

Total cost per user in some European cities and in the area served by Hera (200m³, EUR, source: Utilitatis)



According to the eighth national sample survey on national water service tariffs published in 2010 by Federconsumatori Modena, the average Italian cost for the consumption of 200 cubic metres was Euro 286 in 2009 with significant differences in the 72 province capitals analysed: it goes from Euro 108 in Milan to Euro 448 in Florence. The average expense in the province capitals served by Hera was Euro 338 in the same year.

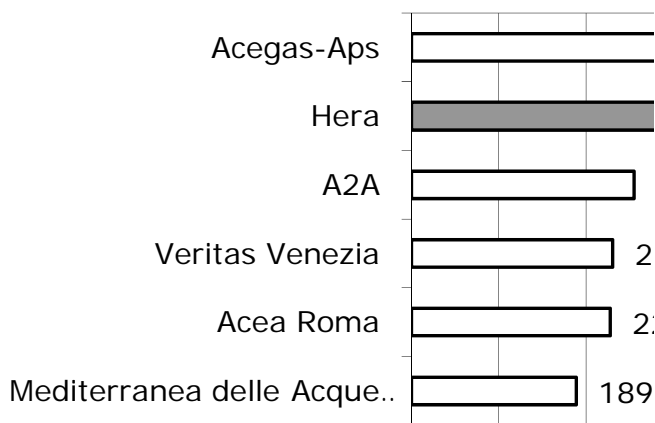
The average expenditure for the integrated water service differs in the various areas in which Hera operates, sometimes significantly, and this depends on the different industrial cost structures in the various local areas, this also being due in particular to need to procure water from third party suppliers and the tariff structure set by the applicable Authority, which could affect domestic use to a greater or lesser extent.

The trend in tariffs over the three-year period enabled the implementation of considerable investments aimed at improving the quality of the integrated water service, with specific focus on reducing water loss and on the quality of wastewater management. In 2009, the tariff portion earmarked for investments aiming to guarantee a return on investment was 22% of applied tariffs. To this end, we note that still, in some Water and Waste Regulatory Authorities the applied tariffs do not yet allow for recovery of capital as set forth in the legislation in force.

Water investments in the main Italian utility companies

It is notable that in 2009, Hera was in second place out of 8 companies considered in a comparative analysis carried out between the main Italian utility companies regarding investments in the water sector by 1,000 cubic metres of water invoiced.

Water investments per 1,000 m³ billed



The Italian Ministerial Decree dated 30 September 2009, implementing Law no. 13/2009 regarding customers connected to the sewage network without purified sewage, establishes that if there are no purification plants in place, or if such plants are temporarily off-line, users connected to the sewers do not have to pay the portion of the tariff regarding purification. Nonetheless, charges already incurred and expected for the design and construction of purification plants shall be deduced from the amount to be returned/subjected to the provisions of law. The Ministerial Decree sets the term for returning the tariff component regarding purification at 5 years. Hera already took note of the users connected to the public sewage network and not connected to a purification plant and has identified the amounts paid by each user for the purification service, the volumes of water billed to them and the relative period and provided this information to the Water and Waste Management Authorities, which must resolve and authorise the operator to proceed with the refunds. At the approval date of this Report, the Water and Waste Management Authorities in Ferrara, Pesaro-Urbino, Ravenna and Rimini already authorised the refund of the purification tariff unduly paid: customers residing in these ATOs can verify their position of entitlement on the Group's website.

In the area served by Hera, 0.9% of the total users are connected to sewage networks that are not purified. In 2007, approximately 17% of users in Italy were in this situation (Blue Book, Utilitatis, 2009).

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 urban 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 “normalised method” for tariff setting). Within the area served by Hera, the tariffs situation is fairly varied from this point of view.

For the urban waste management service, in the municipalities where the tariff is set forth by the Ronchi decree (TIA), 93% of costs were covered in 2009.

Insofar as the integrated water service though, 97.6% of the costs and the return on investment foreseen in the plans agreed with the Water and Waste Regulatory Authorities was covered by the tariffs that were effective in 2010.

Billing for waste management

Euro	2008	2009	2010	
Fixed quota	73.88	73.04	73.81	<i>Attributable to Hera: 87% out of the total bill</i>
Variable quota	103.66	110.93	115.02	
Additional province charges	17.75	18.40	18.89	
VAT (10%)	8.88	9.20	9.44	
Total	204.17	211.56	217.16	

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 m². The grey areas refer to tariff components not falling under the responsibility of Hera.

On average, a household of 3 people, residing in an apartment measuring 80 square metres paid approximately Euro 217, an average increase of 2.6% on 2009, around Euro 6, in line with the average increase at national level in costs for waste collection services (national consumer price index for the entire country, waste collection, source: ISTAT). The highest increases were due to the introduction of new waste collection services enacted to increase separate waste collection and the gradual progress toward a complete coverage of costs. An evasion and avoidance recovery project is active in all areas, which allows for reducing user tariff growth.

Hera incentivises separate waste collection in all areas, applying discounts to customers who bring waste to collection centres; the extent of the discounts applied is different in the different areas and is subject to the approval of the Water and Waste Management Authorities or the municipalities.

Waste: Incentives for prevention and reuse

Hera works and participates actively in prevention and reuse initiatives: as an example, we note the discounts on the TIA (Environmental Hygiene Tariff) provided by the Ferrara Water and Waste Regulatory Authority for business concerns that donate food and other still usable products to aid associations rather than sending them for disposal as waste (in 2010 a total of 210 metric tonnes of products were donated) and the financial incentives provided to hotels that are members of Legambiente Turismo, which Hera signed a specific memorandum of understanding with in 2007, recognising the commitment of these entities insofar as the reduction of waste.

Assuming that a family of 3 members brings 213 kilograms of waste per year to a Collection Centre (paper/cardboard, glass/cans, other materials such as oil, batteries, etc.), the average discount would be approximately Euro 21 which, added to the savings from VAT and additional provincial tax, comes out to around 11% of the average bill.

In some areas where there is not a public organic waste collection service, it is possible to compost at home, which involves another discount which, calculated for a family of 3 members, provides the following results: in Ferrara, the discount is over Euro 17, in

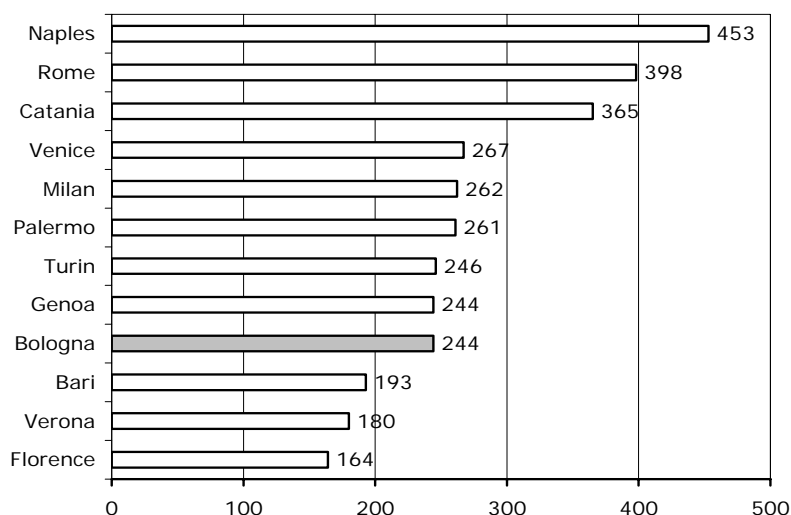
Imola the discount is over Euro 15, in Modena it is Euro 23, and in Ravenna it is Euro 15, while there is no discount in Forlì and Rimini, for an average discount in the six municipalities of around Euro 12. Residents who bring their own waste to collection centres and use domestic composting may therefore benefit from a Euro 33 discount which, added to the savings from VAT and the additional provincial tax, comes out to around 17% of the bill.

In the various areas the possibility was investigated of establishing agreements with schools for environmental education initiatives, providing rewarding incentives for schools actively participating in the agreed projects. For schools participating in separate waste collection, discounts of up to 80% of the tariff are provided.

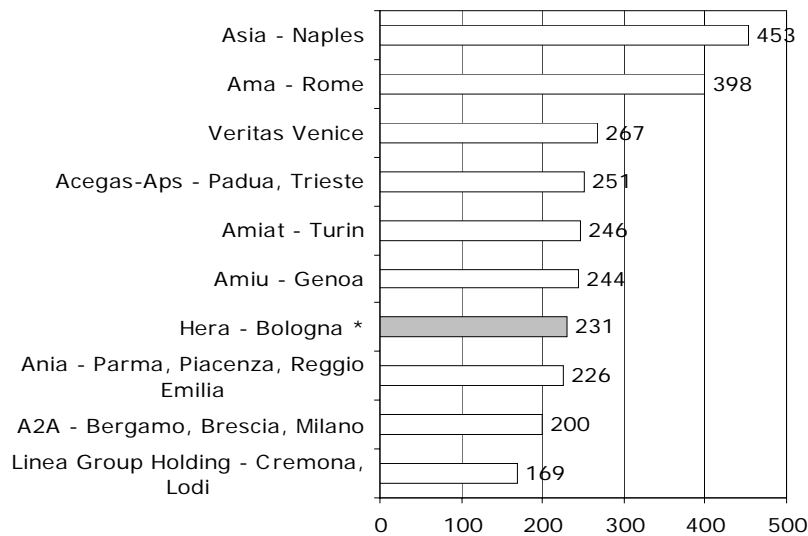
The cost of urban hygiene services in Italy

The Waste Dossier published in 2010 by the *Osservatorio Prezzi e Tariffe di Cittadinanzattiva* compares the tariffs for urban hygiene services in various Italian provincial capitals.

Total cost per user in cities with over 250,000 residents (3 occupants, 100 m², EUR)



Total cost per user in the main Italian companies (3 occupants, 100 m², EUR)



* Bill average in Bologna, Ferrara, Forlì, Cesena, Modena, Ravenna and Rimini

As regards the applicability of VAT on the TIA, please note that article 14, paragraph 33 of Law Decree 78/2010 clarified the type of consideration of the integrated environmental tariff pursuant to article 238, of Italian Legislative Decree no. 152/2006, making the application of VAT to that tariff legitimate. A circular was issued by the Ministry of Economy and Finance's Department of Finance following this decree, which also recognised the type of consideration for the environmental hygiene tariff pursuant to article 49, of Italian Legislative Decree no. 22/1997, affirming that "value-added tax applies to the same, also for previous periods". In compliance with the decree and the Department's interpretation, Hera applies VAT to the environmental hygiene tariff.

The district heating bill

Euro	2008	2009	2010
Meter rental	24.99	24.99	25.82
Variable quota	898.70	898,39	886,98
VAT (10%/20%)	108.96	109,05	101,03
Total	1,032.65	1,032,43	1,013,82

Arithmetical average of the bills for a household resident in the municipalities of Bologna, Cesena, Ferrara, Imola and Modena, with average consumption equivalent to 1,200 m³ 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 calculation criterion for the prior year data has been aligned with the data for the year underway.

The method of calculation considers the average expense incurred in the various areas for a household with average consumption of 1,200 cubic metres of methane gas.

The expenses incurred by a household in 2010 for district heating is 1.8% lower than the previous year due to the reduction in the price of gas in 2010.

Beginning from July 2010, the VAT applied on the bill in the municipality of Modena for users connected to the new cogeneration station which serves the Giardino area increased from 10% to 20% due to the entry into operation of the new cogeneration plant.

Comparing the average expenses paid by a household for the district heating service with those which would be required for a methane gas plant, it is clear that district heating brings about significant savings. These savings amounted to an average of 12.5%, and are substantially the same in the various areas in which the Group tariff is fully applied. The exception was Ferrara, where savings were greater, as customers in this area can take advantage of a “tax incentive” due to the prevalent use of renewable energy.

This savings is mainly due to the fact that with district heating, the extra costs related to the management of the domestic boiler, which can be quantified as Euro 275 per year (the annual quota for the purchase of the boiler and the related ordinary and extraordinary maintenance costs), do not need to be incurred.

Social tariffs

Within the sectors in which Hera is operational, tariff setting is the responsibility of the controlling authorities, which, in certain cases, provide for special reductions for certain classes of customer.

For the supply of **electricity**, the “social bonus” is an instrument introduced by the government in 2008, and made operational by the AEEG, in partnership with the municipalities, for the purpose of supporting families undergoing financial difficulties and large families, guaranteeing savings on their yearly electricity expenses. The electricity bonus is also provided for persons with physical difficulties, meaning cases of serious illnesses which require the use of electronic medical devices which are crucial for keeping the patient alive.

For families undergoing financial difficulties and large families, the bonus provides savings of about 20% of the estimated annual expenditure (net of taxes) of a typical family. The amount is differentiated based on the number of members of the family. In 2010, the electricity bonus was provided for approximately 7,000 customers.

Also for **gas**, the “social bonus” provides a reduction in bills for low-income families and large families. The bonus was introduced by the government in 2009 and made operational by the AEEG, also in this case in partnership with the municipalities. The bonus exclusively applies to methane gas distributed through the network (and not to gas in cylinders or LPG) and to consumption in the user’s residence. The bonus can be requested by all domestic customers who use natural gas with a direct supply contract or through a condominium plant. The bonus is determined each year by the Authority in order to provide savings of about 15% of the estimated annual expenditure for the supply of natural gas (net of taxes). In 2010, the gas bonus was provided for around 22,000 customers.

For the **water service**, the tariffs set by the Water and Waste Regulatory Authorities of Modena (limited to municipalities where the per capita tariff is not applied), Pesaro-Urbino, Ravenna and Rimini 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 Area). The Water and Waste Regulatory Authorities of Ferrara, Modena, Rimini and Forlì-Cesena (limited to some municipalities) have also provided incentives

for disadvantaged families with ISEE income lower than the threshold set forth by the various municipalities.

In 2009, based on experiments run in 2008, the Bologna Water and Waste Management Authorities introduced a tariff for domestic uses which takes into account the number of members of the nuclear family (per capita tariff) to incentivise saving water and assist large families. In 2010, the per capita tariff was extended to another 15 municipalities in the province of Bologna and 6 municipalities in the province of Modena.

The per capita tariff rewards water saving

With the per capita tariff, the amount on the bill is calculated taking into account the number of family members: costs are favourable for low levels of consumption, while they are penalising for consumption exceeding the amount set for each person based on the water-saving goals of the Water Protection Plan of the Emilia – Romagna Regional Government (a base supply of 150 litres per day per inhabitant was set, equal to 55 cubic meters per year). The per capita supply, as well as the consumption brackets, vary based on the number of persons in the household, through the application of different multiplication coefficients depending on the number of family members. This assumption is based on the existence of economies of scale in household consumption as the number of members increases. The per capita tariff is applied only to residential users and, in 2010, it was applied in 55 municipalities in the provinces of Bologna, Modena and Ravenna where 39% of the population served by Hera resides.

For **waste management services**, in the municipalities managed by Hera, specific agreements and dedicated projects were defined to attribute reductions/exemptions in the bills for users with financial difficulties or in conditions of serious social-assistance difficulty. These projects were managed in accordance with the area municipalities which, on the basis of the ISEE indicator, assess the income of the resident households and then establish which cases require assistance. In particular, the funds allocated may be directly recognised to households to pay bills received, or they can be sent to the Operator, which uses the money to cover uncollected amounts related to invoices sent to low-income families.

The district heating social bonus

Hera introduced a voluntary bonus to offset expenses for district heating services, to be attributed in the same manner that the compensation of gas service expense was attributed in accordance with AEEG resolution no. 88/09. The bonus has a variable value between Euro 77 and 143 per year based on the number of members of the family and the climate area. In 2010, 839 requests were submitted.

Hera allows customers faced with financial difficulties to pay their bills in instalments (in three monthly instalments for amounts of less than Euro 20,000; and a greater number of instalments for higher amounts). The interest rate applied to the instalment amount is the official reference rate of the European Central Bank (equal to 1% in 2010), increased by 3.5%, with the exception of amounts relating to the TIA tariff, for which the legal rate defined through Ministerial Decree is applied (1% in 2010). AEEG

indicates that the customer may request the instalment payment of adjustment bills that are particularly higher than estimate bills: in this case, the official European interest rate is applicable. During 2010, approximately 83,000 instalment payments were allowed, an increase of 2% over the previous year.

The supply contracts set forth that the supply may be suspended if bills are not paid. The procedure followed in these cases involves sending the first reminder after about 30 days from the bill's due date (only in the case of charges up to Euro 500) and subsequently a registered letter is sent (after an additional 20 days) indicating the risk of service suspension. If the bills remains unpaid, the supply is suspended on average after two and a half months from the bill's due date. During this period, the customer may always request to pay the bill in instalments. If the suspension involves condominium users, it is general practice to individually inform the tenants before the service is suspended. As regards water supplies, Hera limits or suspends service in compliance with the provisions of the integrated water service charter and regulations in force in the various ATOs.

Instalment bills without interest for the unemployed and temporarily unemployed

Hera has decided to assist those who are in difficulty due to the current economic crisis: 6 months of instalment payments without interest is granted for bills issued between 1 July 2010 and 30 June 2011 in favour of people using the temporary layoff fund, people on unemployment benefits or those who were unjustly dismissed.

Service quality

Electricity and gas

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 type of supply (low or medium voltage for electricity, the category of meter for gas), the delay in executing the supply and the times required for compensation. The automatic compensation varies from Euro 30 to Euro 120 based on the type of supply, and can increase based on the delay in the provision of service or the fulfilment times.

Among the specific quality standards for the distribution service, we note the time limits for executing works, activating supply, and the failure to comply with the punctuality bracket for appointments scheduled with customers. For sales, the standards monitored are compliance with the time limits for adjusting invoicing and complaint response time.

Water and waste management

When managing the integrated water service and urban waste management service, the operator commits to respecting specific minimum quality standards set forth by the service charter. The Service Charter is drawn up on the basis of a reference layout

prepared by the Water and Waste Management Authorities and attached to any conventions signed.

From 2011, the water service charters were applied in all Water and Waste Management Authorities, including Modena, although if not yet approved. The approved service charters were presented to the consumer associations and made available at branches and the website, following a notification regarding their approval provided in the bill.

The Waste Management Services Charter has only been approved by the Water and Waste Regulatory Authorities of Ferrara.

Since 2008 the monitoring of the quality standards for the approved charters has been in place, as well as the related automatic settlement of compensation to customers whose services were provided outside of the standard time limits (in line with the provisions of the AEEG), due to causes attributable to Hera, in addition to the payment of compensation upon requests from individual customers when automatic compensation is not foreseen. The specific quality standards providing automatic compensation include the timeframe for estimation regarding simple aqueduct works, activation of supply and reactivation in the event of late payment. The automatic compensation varies from Euro 26 to Euro 32 in the various areas, and can increase by up to three times due to delays in the fulfilment times and up to three times for delays in paying compensation.

District heating service

Since 2008, in a voluntary capacity since there is no external authority for regulating the service, Hera has been monitoring the quality of significant services and the payment of automatic compensation to customers if quality commitments were not respected. The system provides for variable automatic compensation from Euro 30 to Euro 120 based on the type of supply, due to failure to comply with standards, for causes attributable to Hera, such as estimation for the execution of simple works, the activation and reactivation of supply in the event of suspension due to late payment. The compensation may be increased by up to five times due to delays in payment times.

In 2010, Hera updated the district heating service charter to decrease the time required for estimates and execution of works and to include additional standards (complaint response time, bill adjustment times).

Compliance with specific quality standards

%	2008	2009	2010	Number of services provided (2010)
Gas	96.0%	97.3%	98.6%	216,099
Electricity	95.4%	96.8%	97.6%	44,014
Integrated Water Service	95.6%	98.1%	99.0%	97,503
District Heating	99.7%	99.3%	98.7%	700
Total average	95.8%	97.5%	98.6%	358,316

Data do not include Marche Multiservizi.

Respect for gas and electricity quality standards

%	2008	2009	2010	Number of services provided (2010)
Gas sales	99.7%	99.0%	94.9%	3,809
Gas distribution	95.9%	97.2%	98.6%	212,290
<i>Gas total</i>	<i>96.0%</i>	<i>97.3%</i>	<i>98.6%</i>	<i>216,099</i>
Electricity sales	99.5%	92.7%	90.0%	2,285
Electricity distribution	95.3%	97.0%	98.0%	41,729
<i>Electricity total</i>	<i>95.4%</i>	<i>96.8%</i>	<i>97.6%</i>	<i>44,014</i>
Electricity and gas total	95.9%	97.2%	98.4%	260,113

Data do not include Marche Multiservizi.

The table shows the percentage of compliance with standards calculated as the portion of services that conform to the standards (or those which do not conform due to causes not attributable to the company) out of the total services rendered. This is the percentage of services for which Hera responded in the times set forth by AEEG or service charters. The overall data show a further improvement: in 98.6% of cases, Hera provided the service requested by the customer within the timeframes established by the Italian Authority for Electricity and Natural Gas or by the Services Charters in force (95.8% in 2008).

Compliance with gas distribution quality standards

%	2009	2010	Number of services provided (2010)
Estimates for simple works	94.4%	93.2%	6,585
Execution of simple works	82.0%	90.4%	4,887
Estimates for complex works	97.5%	97.5%	285
Supply activation	99.3%	99.7%	49,848
Supply deactivation	96.1%	97.1%	28,776
Reactivation due to late payment	99.1%	98.8%	12,856
Punctuality bracket for postponed appointments	99.7%	99.8%	15,491
Punctuality bracket for agreed appointments	-	99.4%	92,831
Provision of technical data acquirable through reading requested by seller	-	73.3%	24
Provision of other technical data requested by the seller	-	83.3%	707
Total	97.2%	98.6%	212,290

Data do not include Marche Multiservizi.

Respect for electricity distribution quality standards

%	2009	2010	Number of services provided (2010)
Supply estimate	97.7%	96.4%	2,516
Execution of simple works	96.8%	96.4%	1,836
Supply activation and transfer	93.1%	97.2%	8,766
Supply termination	97.2%	98.2%	7,224
Verification of measurement groups	73.7%	86.8%	106
Test voltage	95.1%	100.0%	4
Reactivation of supply after suspension due to late payment	96.8%	97.5%	3,129
Punctuality bracket for agreed appointments	98.2%	98.9%	14,604
Punctuality bracket for postponed appointments	99.0%	99.1%	2,606
Restoration of supply following the failure of the measurement	98.0%	98.2%	938
Totale	97.0%	98.8%	41,729

Data do not include Marche Multiservizi.

Respect for gas and electricity sales standards

%	2009	2010	Number of services provided (2010)
Claims response	94.5%	93.7%	5,446
Bill corrections	99.8%	93.1%	540
Double-billing corrections	51.7%	60.2%	108
Total	98.2%	93.0%	6,094

Data do not include Marche Multiservizi.

AEEG resolution no. 164/2008 included among the specific standards to be followed by the seller, compliance with the correction times for double billing and response times to written complaints, with effect from 1 July 2009. This latter standard has been voluntarily considered by Hera for the integrated water service as well, together with the billing corrections.

Compliance with water service quality standards

%	2009	2010	Number of services provided (2010)
Estimate to execute simple works (aqueduct)	97.9%	97.3%	5,315
Estimate to execute simple works (sewage)	96.8%	96.9%	554
Estimate to execute complex works (aqueduct)	98.3%	99.2%	1,587
Estimate to execute complex works (sewage)	97.4%	99.6%	243
Water connection for operations related to simple works	94.1%	96.1%	3,928
Sewage connection for operations related to simple works	90.1%	91.2%	377
Service supply activation and transfer	99.7%	99.6%	23,855
Service supply termination	96.3%	97.4%	13,685
Reactivation of supply after suspension due to late payment	99.5%	99.5%	5,480
Punctuality bracket for appointments agreed with the user	-	99.8%	34,355
Punctuality bracket for appointments postponed with the user	99.8%	99.8%	5,637
Bill corrections	-	92.0%	87
Claims response	-	97.8%	2,400
Total	98.1%	99.0%	97,503

Data do not include Marche Multiservizi.

For the integrated water service, reference is made to the standards set forth in the Service Charters. Although respect for response times to written complaints is not set forth in the Charters, Hera considers it on a voluntary basis, also for the integrated water service, together with billing corrections.

Compliance with district heating quality standards

%	2009	2010	Number of services provided (2010)
Estimate to execute simple works	100.0%	100.0%	12
Execution of simple works	100.0%	100.0%	12
Supply activation	99.4%	99.0%	488
Deactivation of supply at customer request	98.2%	97.4%	78
Reactivation of supply after suspension due to late payment	98.8%	97.8%	89
Punctuality bracket for customised appointments	100.0%	100.0%	3
Verification of correctness in consumption measurements	100.0%	100.0%	18
Total	99.3%	98.7%	700

Data do not include Marche Multiservizi.

Quality of drinking water

In 2010 a total of 398,587 analyses were performed by Group laboratories on drinking water, which amounts to approximately 1,100 per day.

The controls on the quality of the water used in the production of water for drinking and human consumption are governed by Italian Legislative Decree no. 152/2006 and by Italian Legislative Decree 31/2001.

The controls are carried out by the water service manager and the AUSL (Local Health Authorities) at the sampling points for supply water, at the potability and accumulation plants and along the adduction and distribution networks.

Hera has developed a Group Control Plan which describes the sampling points and the control methods applied (analytic parameters and frequencies). The Control Plan has been developed along common guidelines for all Territorial Operating Structures, in terms of the chemical, physical and bacteriological characteristics of the water, for the purpose of full compliance with the mandatory legal requirements in order to guarantee the supply of a product with excellent qualities.

How much does water cost?

Consuming tap water instead of mineral water provides environmental benefits, but also economic savings: 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 mineral waters, yearly expenditure for mineral water totals approx. Euro 250. By contrast, yearly expenditure for the same quantity of mains water comes to only Euro 1.54. Italy is the first in Europe (and third in the world), with 194 litres of water per capita consumed in 2008 (source: Beverfood 2009-2010).

The “carocibo” (cost of food) indicator, created by the Faculty of Agriculture of the University of Bologna, Last Minute Market and Econometrica, shows that the expense for mineral water is 10% of the total expense for food (Euro 4.3 per week of the total of Euro 45).

Water quality also means controlling the effectiveness of the treatment process. For example, chlorides and trihalomethanes are searched for, which result, respectively, from the use of chlorine dioxide and sodium hypochlorite as disinfectants. The concentration of chloride and trihalomethanes in the distribution network is constantly kept under control within the legal limits.

As from 2008, the average data recorded for the pH, total hardness, dry solids at 180°, chloride, fluoride, sodium, nitrate ion, nitrite and ammonium are made public every six months via publication on the Group's website, listed by individual municipality. These parameters show the quality of the drinking water distributed and can be compared to the quality of the bottled water available for sale.

Since January 2009, all of the drinking water production plants in Romagna have been managed by Romagna Acque - Società delle Fonti, the company established for this purpose by local Romagna administrations. So, the water distributed in the areas of Forlì-Cesena, Ravenna and Rimini is purchased wholesale by that company, and Hera's

involvement in quality is limited to managing the supplementary disinfection stations along the distribution networks.

"Today we change the course of water"

Incentivising the use of water from the network, better known as Mayor's water, in the 225 municipalities in which it manages the integrated water service: this is the challenge launched by Hera, on the 2010 world water day. It was decided to sign this commitment in Ravenna, where a delegation of area Mayors signed the manifesto "Today we change the course of water", a document that committed them to incentivising the use of tap water at all public offices, accompanied by Hera's commitment to guarantee the quality of water provided. For the Group, the signature in Ravenna is a new starting point to make the around 3 million residents who live in the area served aware of the use of water.

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

	Mineral waters (min-max)	Legal limits Legisl.D. 31/2001.	Bologna TOS	Ferrara TOS	Forlì- Cesena TOS	Imola- Faenza TOS	Modena TOS	Ravenna TOS	Rimini TOS
pH	5.8-8.4	6.5-9.5	7.6	7.7	7.7	7.5	7.4	7.9	7.6
Hardness (°F)	3-93	50*	25	24	20	31	35	20	24
Fixed solids at 180° (mg/l)	22.3-1300	1,500	324	286	257	426	541	274	306
Sodium (mg/l)	0.9-74.4	200	18	15	16	29	51	18	20
Fluorides (mg/l)	0.07-1.1	1.5	< 0.10	0.10	< 0.10	0.14	< 0.10	< 0.10	< 0.10
Nitrates (mg/l)	1-19.55	50	5	4	8	11	20	4	6
Chlorides (mg/l)	0.3-78.7	250	27	19	26	39	80	28	28

* Recommended values

Comparison carried out with the data provided on the labels of 17 commercially available mineral waters, excluding the parameter "Hardness" for which the data published by the magazine Altroconsumo was used (no. 184, July-August 2005). The data regarding Hera water refer to the average values of 11,113 analyses carried out according to the frequency and withdrawal points on the distribution network set forth in the control and monitoring plan for the water system.

The assessments of the quality of drinking water distributed, as compared to the quality of mineral water, are carried out based on the analytic parameters which are commonly surveyed at the representative sampling points of the water networks: pH, hardness, dry solids at 180°, sodium, fluoride, nitrite and chlorides.

The parameters chosen to measure the quality of water distributed primarily refer to the importance of distributing drinking water that contains a suitable amount of mineral salts.

In good water: the report on drinking water quality

In 2009 Hera published "In buone acque" [*In Good Water*], the first report in Italy on the quality of drinking water. The report, also published in 2010 in compliance with the annual schedule, aims at communicating the quality of Hera's drinking water in order to consolidate the trust of the public, and motivate them to a more aware and sustainable use of this resource, and develop a transparent dialogue with stakeholders. The report

describes the roles and responsibilities of planners, controllers and controlled parties, water treatment, purification and distribution processes, the controls that Hera and public entities carry out and the relative results, and awareness initiatives enacted by Hera with the aim to modify the individual habits and behaviours of employees and residents. A study* carried out to quantify the ecological footprint of tap water, carried out in 2009, found that tap water has an environmental impact of 200-300 times less than mineral waters. The report contains an interview with Ms. Emilia Guberti, Director of the Food and Nutrition Hygiene Service of the Bologna Local Health Authority, in which the relationship between water consumption and health elements is detailed.

* Fabio Marchioni, "The sustainability of water for alimentary use: the environmental impact of Porretta Terme water", university thesis (academic year 2009/2010)

In terms of almost all parameters considered, also in 2010 it is confirmed that the average values for Hera water are comparable with those of commercial mineral waters. Considering several significant parameters in terms of assessing water quality (aluminium, cadmium, chlorites, Escherichia coli, iron, manganese, nitrates, lead and trihalomethanes-total), in 2010 a total of 43,114 analyses were performed. Of these, 99.7% gave a result in compliance with the legal limit, showing an improvement over 2009 (the percentage of non-compliant analysis is calculated through the percentage ratio between the number of compliant analyses, that is, analyses with all parameters in compliance with the limits set forth in Italian Legislative Decree 31/2001, and the total number of analyses). 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. The number of analytical calculations shows a decreasing trend due to the progressive streamlining of analytical profiles, frequencies and sampling points, especially in the Bologna area.

Water quality in Faenza

Public water quality was promoted by the Imola-Faenza TOS and Con.AMI on 25 November in Faenza, in a meeting where the project "The Mayor's Good water" was presented. Con.AMI offered dispensers for water drawn directly from the water network managed by Hera on free loan to 23 municipalities in the target area, to take advantage of in municipal board rooms and public areas. In this way, tap water can be tasted naturally, sparkling or chilled.

For hygienic, health and public safety reasons, the Municipality may issue an ordinance declaring the non-drinkability of the water during particular periods of time, when the service will be interrupted. During 2010, extensions were not granted to the limits set forth in Italian Legislative Decree 31/2001 and 10 ordinances referring to unsuitable drinking water were issued by mayors which, in any event, referred to small networks providing services to a very low number of users. The main causes were attributable to microbiological pollution caused by sudden worsening in the quality of supply sources or by the malfunctioning of disinfection plants. All cases were resolved within a very short time, without evidence of any hygiene-health consequences for users.

The Hera Group Laboratory System

Analysis is carried out through the Hera Group Laboratory System which consists of three major laboratories, located in Bologna, Forlì and Ravenna and seven logistics units for sampling that are located throughout the region and are in close contact with the plants. The Laboratory System has 5,000 square metres of structures, and carried out over 1 million 200 thousand assessments in 2010, around 3,000 daily assessments, with the assistance of 80 technicians. Its main operating units consist of a "multi-site" laboratory accredited by SINAL (Lab analysis quality certification) in compliance with the UNI EN ISO/IEC 17025:2005 standard. The Laboratory System Quality Management System is certified in compliance with the UNI EN ISO 9001:2008 standard.

The Bologna laboratory, dedicated to analysing drinking water, wastewater and microbiological waters is recognised by the Ministry of Education, Universities and Research as a research laboratory and is equipped with highly specialised tools able to find micro-pollutants such as endocrine interference agents: it is the first laboratory in Italy to have accredited those parameters.

The Forlì laboratory, dedicated to analysing solid wastes, sludge, atmospheric emissions and organic micro-pollutants, is one of the most advanced structures in Europe: it has highly automated and very sensitive and precise instruments, such as the mass spectrometer that uses a magnetic sector, an instrument with a very high resolution that is able to analyse organic micro-pollutants such as dioxins, furans and PCB.

As regards water analysis, the Group's Laboratory System has set up a specific sample transport service, which is ISO 9001 certified and operates 7 days a week, in order to transport samples located throughout the area to the Bologna laboratory. The means of transport are extremely suitable to storing the samples withdrawn (refrigeration and recording of transport temperatures), demonstrating the fact that the amount and quality of controls do not depend on the physical place where the analysis is carried out if the correct sampling operations and transport of the samples is guaranteed.

The results of the analyses are published by the operators of the purification plants on the same day as the sampling is carried out. The availability of the results from microbiological analyses is guaranteed in at least 24-48-72 hours. Tools are also available for analysing numerous parameters in real time, and emergency management services are set up, through which operators of purification plants can obtain support for analyses 24 hours a day.

In 2010 a total of 398,587 analyses were performed by Group laboratories on drinking water, which amounts to approximately 1,100 per day, of which 183,468 were in the distribution networks.

In Hera, we drink tap water

In April 2008, Hera launched the Hera₂O project, to promote the drinking of tap water by its employees. Drinking around 340,000 litres of tap water in 2010 thanks to the dispensers installed in canteens and offices, Hera employees avoided producing over 520,000 plastic bottles (assuming 0.50 litre bottles in the canteens and individual use and 1.50 litre bottles for offices and meeting rooms), with an energy savings of around

35 Toe, CO₂ emissions lower by 98 metric tonnes and around 300 fewer bins of waste to manage.

Taking into account the considerable concern over the presence of asbestos-cement pipes in Hera's water network, the company has decided to carry out constant checks on the state of the pipes through a plan of controls to test for asbestos fibres in the water. The use of asbestos, widespread in building as in other industrial sectors until the end of the 1980's, was definitively banned in 1992. While it is recognised that inhaling asbestos fibres causes serious respiratory illness, evidence has not been found about toxicity when ingested. In fact, the regulation in force about the quality of water intended for human consumption does not place limits on asbestos fibre levels: in particular, Italian Ministerial Decree of 14 May 1996, annex 3, cites a document from the World Health Organisation affirming that "... There is no serious evidence that the ingestion of asbestos is hazardous to health." The results of controls carried out in 2010 confirm the generalised absence of the asbestos fibre, except for the few points in which the number of fibres found was a few levels below the limit value indicated by the USEPA (United States Environmental Protection Agency), which is 7,000,000 fibres/litre. Furthermore, water's general characteristics are not aggressive towards the cement framework.

Service safety and continuity

Electricity service safety and continuity

In 2010 the electricity distribution grids managed by Hera S.p.A. served approximately 258,000 customers, in twenty-four municipalities of the Emilia-Romagna Regional Government, within the provinces of Bologna, Modena and Ravenna, distributing approximately 2,238 GWh of electricity. The total length of the electricity grids managed by Hera through the Territorial Operating Structures of Modena and Imola-Faenza amounts to 9,743 kilometres, 73.1% of which in low voltage, 26.6% in medium voltage, and 0.3% in high voltage. 33% of the lines are underground, and the rest are overground lines. Following works carried out in 2010, there has been an increase in the extension of the distribution network by around 1% compared to 2009; the increase occurred on the medium- and low-voltage lines, while the high-tension network remained the same. The losses recorded in the distribution grid stood at approximately 4.4% and no accidents involving citizens occurred in relation to the electricity grids managed by Hera. In 2010, there were 2,998 cases of service re-activation after it was cut off due to delays in payment.

Polychlorobiphenyl (PCB) is currently present in 57 of the approximately 2,530 power transformers on the grids managed by the Modena Territorial Operating Structure, a strong decrease from the 94 out of around 2,500 transformers existing at the end of 2009. The management and disposal of this equipment is performed by adopting the necessary precautions in compliance with the laws in force and company processes.

The integrated provisions of the Italian Authority for Electricity and Natural Gas (AEEG) regarding the quality of distribution, measurement and sales of electricity

services for the regulatory period 2008-2011, approved with resolution ARG/elt no. 333 of 2007 governs, among other things, the continuity of electricity distribution, identifying indicators for measuring outages, monitoring systems and standards of reference.

In the incentive regulation, the consolidated law includes the following indicators about outages which occur on the medium- and low-voltage lines and due to the operator's responsibility:

- overall annual duration of long outages without prior notice for low-voltage customers;
- overall annual duration of long and brief outages without prior notice for low-voltage customers.

For these indicators, objective and trend-based levels have been set for each local area served by Hera. During 2009, with the publication of resolution no. 76/2009, AEEG amended resolution ARG/elt no. 333/2007, including among the various requirements, the recalculation of the aforementioned target indicators for the year 2006, 2007 and 2008. Following the recalculation, in resolution no. 151/2009, AEEG also redefined the original and trend-based levels of this regulation period (2008-2011). The following table has been updated with the new values.

Furthermore, since 1 January 2009, Hera has moved from recording with estimates to recording with the list of customers actually involved in the outages, in compliance with paragraph 11.1, letter a) of the consolidated law. As a result of this choice, the LV network layout and the number of LV customers are periodically updated in compliance with paragraph 14.1 of the Consolidated Law.

Continuity of the electricity service

	2008	2009	2010
Average number of outages per customer in high concentration areas (trend-based level 2010 1.11)	0.85	0.87	1.10
Minutes of outage per customer in high concentration areas (trend-based level 2010 25.00)	11.21	10.20	15.66
Average number of outages per customer in medium concentration areas (trend-based level 2010 2.00)	2.80	1.82	1.93
Minutes of outage per customer in medium concentration areas (trend-based level 2010 40.00)	41.59	28.88	21.13
Average number of outages per customer in low concentration areas (trend-based level 2010 4.16)	5.44	5.72	4.75
Minutes of outage per customer in low concentration areas (trend-based level 2010 60.00)	59.83	61.29	42.62

The figures in the table refer to outages for low voltage service, without advance notice, of duration longer than 3 minutes (only as regards the no. of minutes of the outage), and due to causes under the responsibility of the operator. The 2008 values were recalculated in accordance with resolution ARG/elt no. 76/2009.

Despite the decreases which occurred in each area level, in 2010 Hera customers were involved in fewer outages than the trend-based level assigned for each area, except for the low-concentration customers in the province of Modena. Regarding the outage duration, Hera customers in the medium concentration areas saw a clear improvement in continuity on average, while there was a decrease in high-concentration areas, in any case ensuring a level higher than the one required by the Authority.

In order to always pursue better continuity levels, in 2010 the Hera Group completed the phase of centralising the remote control system. In the reference areas, the adaptation of control devices for remote control management and the powering of some electrical stations and disconnectors on medium voltage poles continued.

Future developments expected include an increase in secondary remote controlled stations and the transfer of medium voltage network operations from isolated neutral to compensated neutral (continuing to install Petersen coils). The planned initiatives will allow for a reduction in the duration of outages and the electrical requirements on the Group's plants. Furthermore, some loop network closures will be completed in order to increase the reverse current feeding of the plants, with a consequent decrease in outage times.

The number of requests for active connections to the Hera-managed distribution network has remarkably increased since 2007: there were 83 requests in 2007, 296 in 2008, 386 in 2009, and 1,335 requests in 2010. The total power input required for the connection of production plants in 2010 was 157,745 kW. This led to notable impacts at the organisational level, on information systems and on the network, also following the numerous amendments to reference regulations.

Replacement of electricity metres

The remote-control electricity metre is an innovative device which, thanks to remote management, allows for many activities to be performed remotely, including the reading of real consumption, activation and disconnection of users, increase or decrease in power and the management of late payers.

The remote-control electricity metre provides a simpler and more transparent relationship between the customer and Hera, and, in addition, Hera does not require the presence of the customer in order to perform the remote activities.

In 2010 Hera installed about 61,000 electronic metres. At the end of 2010 there were approximately 233,000 electronic metres present in the electricity distribution grids managed by Hera (87% of the total and close to the 90% established for 2010 by AEEG resolution no. 292/2006).

Gas distribution service safety and continuity

Hera manages the gas distribution service with the unswerving objective of ensuring high safety and service continuity levels.

In addition to the usual activities of recognition and technological upgrading of the networks and plants, in adherence to applicable provisions issued by the Italian Authority for Electricity and Natural Gas, the following activities took place in 2010:

- the quantity of planned research on gas leaks was maintained at percentages quite higher than the AEEG requirements;
- a detailed study was conducted to further optimise planned research of gas leaks after the important experiences gained in the last few years: in 2011 the results of this study will be applied with the aim to further improve the effectiveness of the planned research of gas leaks, with evident benefits for safety and service continuity;
- the single remote control unit for fluids in Forlì has extended its operations and now covers the entire Hera area, both for emergency call centre services and for the remote control of gas, water and district heating plants and networks.

In 2009, compliance with strict requirements has allowed Hera to voluntarily participate in the incentive mechanism for Safety Improvements in the distribution service, mandatory since 2010, which rewards the best performances insofar as the reduction of the number of leaks notified by third parties and the number of gas odourisation level measurements made during the year.

The system assesses three elements:

- compliance with service obligations, absence of gas accidents due to the operator's responsibility, full compliance on topics linked to AEEG controls or inspections;
- number of measurements of the gas odourisation level compared to the regulatory minimum;
- number of conventional leaks reported by third parties (biannual moving average) compared to the objective set forth by AEEG for the same time period.

The incentive accrued for Hera's 2009 performances as per AEEG resolution arg/gas no. 215/2010, was around Euro 113 thousand for the six provinces managed (in two provinces, the balance of incentives and penalties was negative). Specifically, an incentive was obtained for the gas odourisation element (Euro 273 thousand) and a penalty of Euro 160 thousand was received for leaks (due to not reaching the objective target defined by AEEG in two provinces).

Gas emergency services

	2008	2009	2010
Average call response time (min.)	31.9	37.1	33.3
Calls with arrival time at the call location within 60 minutes (%) (service obligation 90%, general level 95%)	96.5%	96.8%	97.8%

Data do not include Marche Multiservizi.

In 2010, there was an overall improvement in safety and continuity indicators compared to 2009. In 2010, for 97.8% of the calls received, Hera intervened within 60 minutes, compared to the 90% minimum service obligation required by AEEG and a general level of 95%.

Inspections and leaks in the gas network

	2008	2009	2010
Percentage of total high and medium pressure network inspected (min. standard 30%; benchmark level 90%)	71.8%	78.8%	83.7%
Percentage of total low pressure network inspected (min. standard 20%; benchmark level 70%)	63.7%	70.1%	70.7%
Number of leaks on distribution network located upon inspection per kilometre of network	0.071	0.076	0.055
Number of leaks on distribution network located upon notification by third parties, per kilometre of network (min. standard 0.8; benchmark level 0.1)	0.082	0.078	0.071

Data do not include Marche Multiservizi.

The amount of the network inspected increased in 2010, and is much higher than the minimum standard required: 83.7% for the high and medium pressure network, and 70.7% for the low pressure network, against minimum standards defined by the AEEG of 30% for high and medium pressure and 20% for low pressure, respectively. Beginning from 2011, after the technical and statistical analysis of activities carried out

and network characteristics (which included drawing up leak probability maps), the criteria for planning inspections were changed, which led to differently distributing activities to search for leaks, with the objective of maximising results without further increasing the overall percentages of network inspected compared to the 2009-2010 data.

In 2010, there were 71 leaks on the distribution network located upon notification by third parties, per thousand kilometres of network, compared to 78 recorded in 2009.

Beach facilities in the network

Cervia, Milano Marittima, Pinarella and Tagliata were the forerunners in a project which has no equal in Italy today: connecting the over 200 coastal beach facilities to gas, water and fibre optic networks. The Hera Group carried out this initiative, with the Municipality of Cervia and the Bagnini Cervia Cooperative, for a total investment of Euro 1,670,000. There are numerous advantages for the beach facilities: higher quality of bar and refreshment services, improvement in overall safety thanks to the elimination of gas cylinders, and broadband Internet connections.

The technical call centre

The technical call centre's activities are focused on receiving and diagnosing telephone calls entering on the Hera Group's toll-free emergency service numbers. Each call received may be an actual report of irregularity in the service provided, but historical trends show that only around 50% of reports must be controlled in the field and, in turn, only part of these enter into the categories considered as part of the emergency service under the responsibility of service operators.

The Hera Group's technical call centre centralisation initiative was also an occasion to reduce the reference toll-free emergency numbers to two: one exclusively dedicated to the gas service and the other for the remaining services: drinking water, sewage/purification services and district heating. Not only is the simplification of the emergency toll-free numbers consistent with the provisions of resolution ARG/gas no. 120/2008, but it also permitted the launch of a process of incoming call flow variation, causing significant improvement in operator performance in response to gas service calls, which, among the services managed, is without a doubt the most critical in terms of continuity and safety. At the beginning of 2011, control and adjustment activities are underway on the room's layout, based on the presence of operators in service.

Technical call centre performance

	Gas	Other Services	Total
Calls received by the technical call centre (no.)	92,084	118,185	210,269
Calls received by the technical call centre with operator response (%)	98.5%	98.7%	98.6%
Average waiting time for calls with operator response (seconds)	8.4	9.0	8.7

Data do not include Marche Multiservizi.

As set forth by the most recent instructions from sector public authorities, a call to the Hera Group's emergency toll-free numbers begins with an automatic responder which, in many cases, allows the caller to identify the solution to the problem without speaking with an operator. In 2010, around 210 thousand calls reached Hera's Forlì technical call

centre with a request to speak with an operator, in relation to which the waiting time was less than nine seconds. The diagnosis made by the operator led to the classification of less than 50% of these calls as emergency requests, so around 102 thousand.

The Hera Group's remote centre for fluid networks

The centralised remote centre for fluid plants and networks, inaugurated in May 2008, which operates in the areas of the Bologna, Forlì-Cesena, Modena, Ravenna, and Rimini provinces, is in charge of supervising and assisting all Hera plants as it operates in synergy with the territories. The project, for which a plan for transferral of staff and operations is currently underway, will be completed in April 2011, extending operations to the Territorial Operating Structure of Ferrara. It will then ensure monitoring of approximately 100,000 points in the local areas and the presence of a technical call centre for taking emergency calls: a total of 60 people are involved, both operators and technicians, 24/7, 365 days a year.

Costs and investments for the safety of the gas service

Euro per km of network	2008	2009	2010
Costs	461	614	512
Investments	1,286	1,110	1,151

Data do not include Marche Multiservizi.

Investments for safety in the gas distribution service are especially used for extraordinary maintenance of plants and networks: in 2010, Hera invested over Euro 15.5 million for that purpose (+5%), equal to Euro 1,151 per kilometre of network managed. Actions regarding accident prevention (search for leaks, periodic assessment of the efficiency of plants and networks, cathodic protection), for ordinary maintenance and emergency intervention in case of notifications of gas leaks led to costs which reached Euro 6.8 million (-15% compared to 2009) in 2010, equal to Euro 512 per kilometre of network. The decrease mainly regards the Bologna territory where inspections on the gas network detected fewer leaks in 2010 than in the previous year.

Safety downstream of the meter

AEEG resolution no. 40/2004 sets out procedures for inspections of the safety of gas plants which fuel boilers for heating, water heaters, stove tops and other devices. The figures for 2009-2010 thermal year confirm the significant results achieved by Hera: 12,488 new user plants were activated following inspections with positive results, after the verification of the existence, completeness and correctness of all documentation required by law. It should be noted that the decrease in the number of inspections with positive results performed as compared to the previous thermal year is due to fewer requests received for initial activation of the gas supply, most likely also due to the unfavourable economic trend.

On activating gas supply, Hera carries out another check which is fundamental for safety: inspection of the effective hold of the post-metre system. Before activating the gas supply (opening the metre) the operators verify the effective integrity of the end customer's gas system and the supply is activated only in the absence of leaks.

Also in case of a fault downstream of the metre, when the Hera emergency services locate a gas leak in the plant of an end customer, it immediately suspends supply in order to eliminate the dangerous situation. The supply is then reactivated only upon receipt of a declaration which certifies the intervention of a qualified installer and lack of leaks.

Finally, it must be remembered that in accordance with AEEG resolution ARG/gas no. 79/10, since October 2010, the new insurance for accidents caused by gas leaks has been in place. In this way, domestic consumers can benefit from new services that may be requested following accidents or damages caused by the use of gas supplied through a distribution network. The policy, the information documents and all of the information are available on the Italian Gas Committee website (www.cig.it).

Continuity of the integrated water services

The index for control activities on the water network is expressed as a percentage of the network subject to loss detection.

The length of network subject to search for losses increased additionally in 2010, specifically as regards the Bologna area. On the whole, almost 5,000 kilometres of network were inspected, corresponding to 18.5% of the total water network.

The increase in breakages in 2009 was attributable to the exceptionally low temperatures recorded (breakage due to freezing), which hit the various areas with differing intensity.

Continuity of the integrated water services

	2008	2009	2010
Percentage of network subject to active search for losses	15.9%	16.8%	18.5%
Number of breaks in water system pipes and tanks per km of network	1.18	1.34	1.37

Data do not include Marche Multiservizi.

No-dig: a cutting-edge technique

The new sewage plant for Portoverrara (Ferrara) was built using technology which decreases intervention times and environmental impact. The "no-dig" technique allows for placing tubing under the roadway with a dedicated drilling machine, avoiding interrupting road conditions, the use of heavy vehicles at the work site and roadway instability due to digging. This all translates into fewer difficulties for residents and less pollution for everyone.

Information security

Also in 2010, as defined in the information security system management model, the interventions shared in the Hera Group Information Security Management Committee have been completed.

The risk status of the information was assessed and the estimated audits were carried out to check the actual situation in the field.

Among the significant projects are the definition and adoption of a new risk analysis model for information security according to the most recent international standards, the implementation of an even more effective separation between the different IT networks,

the control of classified information treatment methods, and the planning of physical security countermeasures for central and area-based data centres.

Customer relations

In 2010, the Hera Group continued the policy of building up the channels through which customers can contact the company so as to render contact simpler and quicker.

Hera has 5 differentiated contact channels: the call centre for residential customers, the call centre for business customers, branches, the internet and mail. The call centre is the preferred means of contact for Hera customers, followed by the branch channel, which in 2010 increased by around 11% (from 408 thousand to 452 thousand), as a testimony to the favour that it enjoys: a contact method in which Hera has always invested, confirming its added value for the Group compared to its competitors. The web channel is growing, to the detriment of paper mail. 58% of service requests submitted by customers were received through the call centre, 29% through the branches, and 6.5% via mail and via the website.

Hera confirms its widespread presence in the country: the company has 84 branches located throughout the areas served, including 11 with more than 5 windows and 21 with a number of windows varying from two to four. The remaining branches have only one window and are located in the smaller municipalities. There are 9 branches with a standardised schedule, open 33 hours per week from Monday (8:00 AM - 3:00 PM) to Friday (8:00 AM - 1:00 PM). In 2010, Hera had 42 branches located on third party premises.

As regards the website, the HER@ ON-LINE Branch had around 98,243 customers registered in 2010 against around 70,000 in 2009.

In 2010, the electronic sending of bills was promoted, mainly with the use of direct emailing. This activity was greatly appreciated by customers, and many enrolled in the service: almost 12,000 customers activated the electronic sending of the bill, and the service is now used by 1.5% Hera customers (23,528 customers).

In a parallel fashion, the customers registered in the HER@ ON-LINE branch increased, and the service is being used more and more actively. It increased from an average 25,000 utilisations per month in 2008, to 46,000 in 2009 and up to 55,000 utilisations per month in 2010, in line with more propensity towards online management and purchasing in general.

The average time to close cases opened through the HER@ ON-LINE Branch fell in the second half of 2010 to just under 2 days, making the web service even more appealing. The figure was confirmed in the customer satisfaction survey, where the service obtained high approval levels.

In 2011, the option to receive the bill electronically will be proposed when the free-market contract is signed, to give the possibility to even more customers to know about it and therefore be able to activate the service.

The values reached in 2009 regarding residential customer call centre service accessibility and quality were confirmed in 2010. For the business customer call centre, values are increasing (they almost reached 2008 values) despite the fact that contact

doubled due to the transfer of customers with VAT numbers from the residential to the business call centre.

Call centre quality

	2008	2009	2010
Average waiting times at the call centre for residential customers (sec.)	66.1	33.2	33.8
Calls with satisfactory outcomes for residential customers (%)	93.2%	94.2%	93.8%
Number of call centre contacts for residential customers (thous.)	2,489	2,428	2,495
Average waiting times at the call centre for business customers (sec.)	42.4	25.2	22.1
Calls with satisfactory outcomes for business customers (%)	95.5%	92.6%	94.9%
Number of call centre contacts for business customers (thous.)	116	152	282

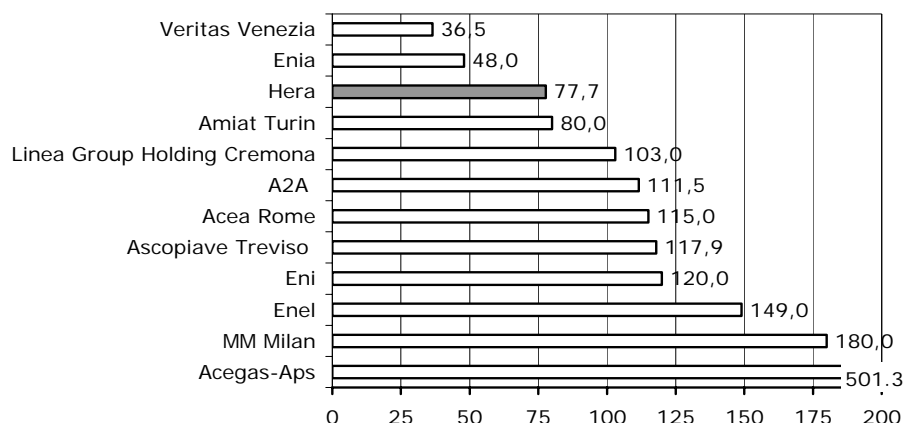
The average waiting time based on a telephone call by a customer that wishes to speak to an operator is the time between the moment the request is made for conversation with an operator and the beginning of the conversation. It does not take into account the initial information provided by the answerphone. Data do not include Marche Multiservizi.

In resolution no. 168/2008, the Italian Authority for Electricity and Natural Gas defines telephone waiting time as the time from the start of the call being answered, even if through the use of an automatic answering machine, to the start of the conversation with the operator or the conclusion of the call if the caller hangs up before speaking with the operator. Calculating the waiting time according to the method established by the AEEG, in 2010 the Hera call centre had a performance of 80 seconds for residential customers and 57 seconds for business customers: both values are notably lower than the objective of 240 seconds dictated by AEEG.

Call centre waiting times in the main Italian utility companies

Hera is in the third place among the 12 companies considered in the comparative analysis carried out among the main Italian utility companies as regards call centre response times for residential customers.

Call centre waiting times (seconds) (2009)



The improvement in information systems, with continuous training for all front-end personnel, allowed Hera to reach a high customer satisfaction level thanks to the capacity to resolve problems and the clarity of responses provided. In 2011, the transfer of customers with VAT numbers from the residential call centre to the business call centre should be completed. The technical and position-related training for front-end operators will be intensified in order to improve problem resolution.

The Hera call centre organisation involves a breakdown into five hubs: three in Bologna and the remaining ones in Ferrara and Rimini. At the end of 2010, there were 76 Hera employees who worked in one of the three hubs in Bologna and in the hubs in Ferrara and Rimini.

Rise in the total score for Hera's call centres

The AEEG survey on call centres for the first half year of 2010, out of a total of 30 companies selling electricity and gas with more than 50,000 customers, reported an increase in the total score for Hera Comm (the Group's sales company): from 83.8 points in 2009 to 91.3 in 2010. Hera Comm is in the fourth place after Linea Più, Eni and Enel Energia.

The parameters surveyed were access to the service (availability of lines, periods of accessibility, calls free of charge), quality (waiting times, percentage of calls answered, possibility of being recontacted) and, specifically, the degree of customer satisfaction. Hera Comm's performance has been confirmed as better than national standards as regards the easiness in accessing the service, waiting times and call management. Hera Comm is also better than the sector average in terms of ability to resolve problems and requests and to provide consistent responses if there is more than one call.

In relation to branches, in 2010 the customer volume was around 11% above that figure in 2009, in quantitative terms, 43,600 customers more. Despite this, the average waiting time has additionally decreased to 14.5 minutes. In particular, the variance among branches has decreased, therefore making the service level in the area more standardised. This is also seen from the percentage of customers with waiting times of >40 minutes, which additionally decreased to only 8 percentage points.

Waiting times at branches

(min.)	2008	2009	2010
Bologna TOS area	16.5	13.2	11.3
Ferrara TOS area	20.4	13.8	14.7
Forli-Cesena TOS area	18.1	10.3	10.0
Imola-Faenza TOS area	17.1	13.2	11.8
Modena TOS area	31.5	21.0	20.2
Ravenna TOS area	14.2	13.2	14.4
Rimini TOS area	11.5	8.5	8.7
Weighted average	19.3	14.6	14.5

Data do not include Marche Multiservizi.

In 2011, volumes are expected to remain at 2010 values (+11% compared to 2009), therefore consolidating the "step". Due to this situation, the objective is to improve quality levels, falling both below 14 average minutes of waiting time and below 8% outside the standard. Another 2011 objective is to continue the process of standardisation between all branches.

In June 2010, the new SPRINT (Forecast Time Standardisation System) prototype was activated in Bologna. Positive findings have led to the development of the engineered system and then to its activation at the top branches beginning from January 2011. It is an innovative software, developed based on Hera specifications, which carries out a three-part task:

- processes daily volume forecasts for the individual branches;
- optimises resources available on the basis of volumes, balancing the efficient use of resources with the achievement of quality objectives;
- offers branch coordinators a tool to support real-time decision-making, allowing for the adaption of the branch structure based on circumstantial reality.

It is a particularly innovative tool that will allow for stabilising waiting times together with better operative scheduling and therefore an optimum use of available resources.

New branches in Ferrara and Modena

In 2010, Hera has focused its attention on customer contact in the territories by inaugurating the new layout of the Ferrara and Modena branches, as expected. The renovation of the top branches is now complete, and the branches are fully logistically, operationally and visibly standardised.

The branch restyling, overseen by the architect Michele De Lucchi, was aimed at improving the services provided to customers through three founding principles: focus on the person, technological innovation, and the seriousness and attractiveness of the environment. The branch prototype was tested through focus groups with Hera customers and employees to check the spaces and their functionality. In the Hera branch, an operator assists customers when they arrive. The waiting area is equipped with an IT workstation connected to the Group website and a touchscreen stand. The operators' workstations are designed according to the principles of hospitality, accessibility and simplicity. Specific attention was also dedicated to favouring access to the branches for persons with disabilities.

The process of modernising smaller branches has begun with Lugo and will continue in 2011.

The Consolidated Regulations on the Quality of Electricity and Natural Gas Sales Service (TIQV) in force from 1 July 2009, integrated all the amendments introduced by AEEG resolution no. 164/2008 and revolutionised the way complaints are handled, by adding to them the requests for information and bill correction and providing rules, management procedures and deadlines to be complied with. The new definition of complaint set forth extends the concept to cases which were previously handled in a different way, and therefore, increases the number of complaints. It also introduces the obligation to respond to requests for invoice adjustments, while previously adjustments were not required to be accompanied by a written reply to the customer.

From the viewpoint of a multiutility, the Hera Group decided to extend the rules issued by the AEEG (which has jurisdiction only over the gas and electricity services) to the integrated water service and the waste management service as well, with the intention of establishing standard conduct in relations with end customers.

In 2010, the first two official statements to AEEG (in February and September) and the corresponding publications to the equivalent Authorities for the other services were made successfully. Furthermore, AEEG made a successful inspection in July 2010,

essentially approving the procedures underway and complimenting the management architecture implemented by Hera Comm.

In 2010, there was an increase in the number of complaints, concentrated in the gas and water (around +50%) and electricity (+22%) services. Despite this increase, and given the obligation set forth by AEEG to scrupulously account for claims management, Hera responded to written complaints within the standard 40 calendar days in 86.1% of the cases, with points at 97% for waste services. The increase in volumes also had repercussions on the average response times.

In the second half of 2010, two important organisational initiatives were implemented in Modena and Bologna (they account for approximately 40% of complaints), which notably improved the percentage of responses within the standard, even if not enough to reach the established objective for 2010. The December 2010 values, which benefit from the cited initiatives, mark a response time of 22 days and 95.5% compliance with the standard.

The most recurring types of claims are focused on the bill: 32% regard disputes about payments on account, consumption or amounts; 12.6% are problems with collection or payment, especially requests for instalment payment or extension of payment; 8% of problems are about activations and terminations and 5% of cases regard reminders of payments received.

Complaints received

	2008	2009 (1st half)	2009 (2nd half)	2010
Average complaint response time (days)	19.0	23.9	24.0	33.2
Percentage of complaints that were dealt with within the standard timeframe (%)	82.0%	76.7%	95.7%	86.1%
Number of complaints received (n)	4,136	2,559	5,126	11,381

Data do not include Marche Multiservizi. Complaint response times for 2008 and the first half of 2009 are indicated in business days; for the second half of 2009 and 2010 in calendar days, with a benchmark of 20 days in 2008 and the first half of 2009 and 40 days in the second half of 2009 and 2010.

After the important results achieved with the two significant “Lean Organisation” initiatives carried out in 2010 in the Modena and Bologna units (strong decrease in inventories and response times within 10 days), it was decided to extend the operation to the entire territory in 2011.

An additional innovation introduced in the last few months of 2010 will also enter into full operation in 2011: a "guided" system to fill out responses based on standard templates (the product of a study of existing historical data). This procedure will allow for greater standardisation in the content of responses and a lower possibility for errors in filling out essential text data. This process will make the response phase even faster, and involve around 50% of cases. Finally, further software developments are being worked on which will make operations even faster.

After the exceptional increase in volumes registered in 2010, substantial stability is expected for 2011. For 2011, the objective is an average response time of 20 days, with 94% of responses within 40 days.

Mediation

In February 2010, the twelve-month testing period of joint mediation for gas and electricity services was completed, in application of the protocol signed in 2007

between Hera S.p.A., Confservizi and 12 consumer associations which aims to establish an instrument for the resolution of disputes with residential customers of the gas and electricity services before they result in lawsuits.

In 2010, a total of 93 requests for mediation were received: 33 regarding the gas service, 13 regarding the electricity service, 3 for both and 43 which could not be accepted for various reasons (non-domestic customer, other services, etc.).

Requests for mediation primarily regard problems relating to objections to consumption totals and to presumed invoicing errors or delays.

In terms of outcomes in 2010, 12 cases were concluded through settlement, 3 with a waiver of the request, as the problem was solved in the meantime, and 12 with failure to reach a settlement. The remaining 23 cases are still being negotiated. Regarding the 43 requests which could not be accepted, please note that:

- for 13 requests, the deadline for replying to the complaint had not yet passed, or a complaint had not been submitted;
- 13 cases regarded services to which the mediation procedure does not apply (i.e. water service, district heating);
- 14 cases regarded non-domestic customers, or customers which were not entitled to submit such request;
- 3 were lacking other requirements, such as the mere request for payment by instalments.

Disputes with customers

At the close of 2010 there were 113 pending disputes with customers (of which 50 initiated in 2010) mainly regarding the application of the tariff regime for the services provided or the recovery of payments. Of these 113 disputes, 60 regarded the energy service, 34 the water service, 14 the waste management services and 5 were not included in these categories.

Confidentiality

In the current social context, there are always more requests for privacy protection from residents. The correct management of personal information is, among other items, a basic element in the construction of a trusting relationship with stakeholders (customers, shareholders, employees, suppliers and public institutions).

For these reasons, in 2010 the Hera Group implemented a new "network" privacy organisational structure in order to spread awareness on this topic, prevent risks and promote responsibility, understood as competence and awareness of privacy during all processing transactions. With the logic of continuous improvement, which the Group also intends to pursue in 2011, in 2010 a Group privacy guideline was issued, which is broken down into the principles dictated in the "Personal Data Protection Policy" approved in 2009. Other than appointing data processing managers, it was able to redefine the privacy governance and monitoring system. In order to define a single privacy management system for the Group and re-engineer processes, a process was launched to integrate the "who does what" into company processes and guarantee the correct assessment and implementation of privacy in processes. In a parallel manner, a new delegation system was set up and letters of appointment were distributed to employees and associates.

As regards the governance of outsourced activities, the procedures were redefined and privacy responsibilities were formalised for all subsidiaries. Furthermore, a new process of assigning privacy responsibilities to suppliers and the public administration was defined, activating a research phase to prepare models to be adopted for precise compliance with agreements.

With the aim of extending awareness and abilities, also in order to prevent illegal behaviours, the Group initiated actions in more than one area. The corporate intranet privacy section was revised and enhanced with useful tools for "data processing managers". These include the publication of a system to respond to the most frequent questions, which is periodically updated, and the distribution of information and awareness both in the House Organ and on the Group's institutional website. The commitment to spreading more awareness to personnel about correct and safe data processing has continued, also thanks to the training path which uses a new version of the "Mentore" e-learning: as at 31 December 2010, with the first testing phase, 162 people were trained with the aim of training all personnel by the end of 2011. When new privacy responsibilities were assigned, traditional classroom courses were provided for all Group management.

Documents regarding corporate security policies are currently being revised to introduce further elements which allow for refocusing the topic of individual personal information protection, categorising it as one of the company's assets to be protected.

In order to carry out the first registration of all corporate databases during the corporate reorganisation, a tool was created that supports company macro processes and processes beginning from the new mapping, using the corresponding Famula on Line application map. The first bottom-up registration phase, which has already finished, produced positive results. In 2011, multiple benefits are expected from this registration: a control of organisational consistency, a revision and streamlining of processes, the mapping and more precise governance of outsourced activities, an increase in awareness and enforcing a sense of responsibility related to data management.

The Privacy Authority continued its function of spreading awareness by carrying out a significant number of controls which also involved companies in our sector. During the last two years, there were more than 60 inspections carried out in multiutilities. The Hera Group was inspected by the Authority in February 2010. The company responded to all of the queries posed: the reports showed that there is a fast reaction in terms of counter-actions.

In the area of contacts linked to access rights pursuant to art. 7 of the Privacy Code, in 2010 the request reporting perimeter was completed, which now includes the main access channels (branches, call centres, web and correspondence). Over 370,000 access requests were registered, with average response times within around 1 day, while the maximum response time set forth by law is 15 days.

Customer satisfaction survey

In November 2010, the Group checked its residential customers' satisfaction for the seventh consecutive year. This year, it included reporting on free-market customer satisfaction for the first time.

The results from 2010 confirm that Hera is going in the right direction to achieve the 2011 objective (Customer Satisfaction Index (CSI) of 70): the score of 69 was confirmed for the population not yet part of the free market (on a scale from 0 to 100). The CSI of 71 for free-market residential customers is a further confirmation of the path undertaken: the development of commercial activities, operator training and strong attention placed on maintaining behavioural standards in line with the company Code of Ethics and the code of commercial conduct governing the sale of electricity and natural gas to end customers (AEEG) implemented as improvement actions in 2010.

Assessment of overall satisfaction of residential customers

CSI (from 0 to 100)	2005	2006	2007	2008	2009	2010
Overall satisfaction index of the services (Services CSI)	70	71	71	72	72	74
Overall satisfaction index (CSI)	67	67	65	67	69	69
Global satisfaction	70	70	68	70	73	71
Satisfaction with respect to expectations	66	66	63	66	68	68
Satisfaction with respect to the ideal	65	65	62	64	67	66

The Service CSI, which summarises customer satisfaction for the sole aspects of service effectively provided (electricity, gas, water and waste management), remarkably increased by 2 points since 2009, to 74 points. Gas increased by 2 points (77), electricity by 3 (74) and water by a good 4 (75), while waste management lost 1 point, coming to the satisfactory level reached in 2008 (69).

The effectiveness of improvement actions initiated is seen especially in the branch service satisfaction indicator, which increased by 6 points, reaching the level of 71. The call centre has remained at the threshold of high satisfaction, with 69, the same excellent result as in 2009. The site has a very high score (72) as does the HER@ ON-LINE Branch, which after having achieved almost 100,000 customers registered, was able to maintain the highest score among the contact channels (76). Finally, bills, image and communication earned the scores of 64, 65 and 70, respectively, coming to a level higher than 2008 and increasing, although decreasing with respect to 2009.

In 2010, improvement actions implemented regarded three areas:

- bill, consumption estimates and readings, combining items on the bill in compliance with the requirements of AEEG and more precision in consumption estimates;
- contact channels;
- communications in the territory.

In particular, the actions undertaken in the households channel provided great results (+6 points for the branch): the main activities include an intense and continuous training programme and the optimisation of branch and call centre workload management. Specifically for the contact channels, the all-around service improved additionally, with continuous training and management innovation (SPRINT project) to improve customer service. The results obtained are confirmed in the AEEG call centre surveys, which placed Hera fourth among the 30 main Italian energy companies, as well as in customer satisfaction results, where the branch service, as already noted, improved notably by 6 points over the previous year, reaching well above the delight threshold. The Group's service and quality standards in the energy market are also confirmed by customers lost

to the free market (that is, who transferred to another vendor in previous years), who decided to become Hera customers once again in 2010.

Activities to improve contact channels and strengthen customer communications about our services will continue.

The methodology of the customer satisfaction survey

For the sixth consecutive year, in November the Customer Satisfaction survey was carried out, which assesses the quality of services offered and our customers' satisfaction with Hera as a whole, therefore regarding services provided, bills and payment methods, Hera contact channels and more intangible elements such as communications and image. Around 3,000 telephone interviews were conducted, aimed at understanding what customers think about the company, how it works and if the efforts are going in the right direction.

The survey is based on a research methodology that has been fine-tuned, thanks also to studies carried out at the University of Michigan, that involve theorising and calculating the causal relation between elements of perceived quality and the satisfaction of customers.

The survey was conducted by telephone via CATI (Computer Aided Telephone Interviews), a computerised system that allows for random selection of the individuals to interview, while ensuring that they are representative of the population to be described. Monitoring was carried out by interviewing the main Hera contact within the nuclear family. The questionnaire is organized in such a way as to keep the average duration of the interview under 18 minutes including for those customers that use several services and is designed to ascertain the extent to which the improvement actions taken by Hera are appreciated by customers, generating an actual greater level of satisfaction.

The assessment of results is expressed on a numeric scale, on which thresholds corresponding to different satisfaction levels are identified: below 50 points, marks are considered insufficient, up to 60 is the "minimum" satisfaction area, between 60 and 70 shows a good satisfaction level and above 70 is "high satisfaction".

For business customers, in 2010 the global index representing the entire segment, from the small VAT number owner to the large company, is confirmed at 65. It is a reassuring result which shows stability compared to 2009 and consolidates the growing trend of the last 4 years. Also all of its components (global satisfaction, compared to expectations and compared to the ideal) are in line with last year.

Similarly to what was verified for residential customers, the summary indicator of services has improved, achieving the average level of 72 points, while bills, communications and image fell from 2009, but are in line with or above the levels of 2008.

Finally, positive word of mouth communication and the propensity to remain customers remained stable in line with satisfaction, and are indicators which, when positive and increasing, contribute to making the customer base more solid.

During the year, various operator training initiatives were undertaken on post-sales activities and to strengthen the call centre and back office.

Assessment of business customer satisfaction

CSI (from 0 to 100)	2007	2008	2009	2010
Overall satisfaction index of the services (Services CSI)	69	70	69	72
Overall satisfaction index (CSI)	62	62	65	65
Global satisfaction	64	65	68	69
Satisfaction with respect to expectations	61	61	64	63
Satisfaction with respect to the ideal	59	59	62	61

In 2011, training actions will continue on the customer contact channels, as well as permanent monitoring of customer management processes, to guarantee even better service.

In 2010, the monitoring undertaken in 2009 continued regarding the satisfaction of customers who called the call centre or went to the branches. The results obtained were periodically analysed and shared to understand how to improve the quality of services offered and simplify the more detailed processes. The reasons which cause customers to contact Hera for the same need were analysed: in this way the Group was able to identify the areas with the most problematic situations and then improve the problem resolution capacity and overall service quality. The survey is found to be an excellent operating tool, and the Group confirmed that it will also be carried out in 2011.

Other surveys regarding the Group's work and technical interventions are being developed to allow for also improving this important relationship aspect and further reducing the distance between customers and the company.

In October 2010, the survey on the satisfaction of residential customers with the district heating service was carried out for the third consecutive year. 404 telephone interviews were collected to measure the quality level perceived by customers for components which influence service satisfaction.

The district heating service satisfaction is in line with the satisfaction of customers who use other Hera services: the satisfaction level has increased by a good 3 points, reaching the level of 75 and consolidating above the "customer delight" threshold (70). The reliability and advantages of district heating show a notable increase, surpassing even 80 points. The quality of the service, or the temperature of water and environments, is also at an excellent level (75).

Assessment of the satisfaction of district heating customers

CSI (from 0 to 100)	2008	2009	2010
Overall satisfaction index of the district heating service (district heating CSI)	73	72	75
Overall satisfaction index (CSI)	67	69	68
Global satisfaction	70	71	71
Satisfaction with respect to expectations	66	68	67
Satisfaction with respect to the ideal	65	68	65

Improvement initiatives were defined as a result of the 2010 survey. A first action involves reporting the satisfaction level for technical interventions that Hera carries out (opening, closing and connection estimates). A second action planned for 2011 involves preparing informational forms which facilitate the identification of expense elements

and the cost-effectiveness of district heating and an analysis of difficulties related to understanding the bill.

The customer satisfaction survey for the public lighting service managed by the company Hera Luce is an important tool used to verify the consistency of the service provided with the expectations of residents. Previously carried out in 2006 and 2008, it was repeated in 2010. The analysis was separated by area and the questions posed allowed for comparing results since they were completely standardised. The particular economic and financial moment, which limited financial resources intended to consolidate the service, influenced customer satisfaction, which in any case is at very satisfying levels. Hera Luce tries new technologies (particularly LED lights for road lighting) in order to improve the overall reliability of the service in a sustainable economic framework.

Assessment of the satisfaction of public lighting customers

CSI (from 0 to 100)	2010
Overall satisfaction index of the service (CSI)	69
Global satisfaction	71
Satisfaction with respect to expectations	69
Satisfaction with respect to the ideal	67

Other dialogue and consultation initiatives

In relation to the listening and dialogue initiatives with local consumers' associations, in 2010 a new relationship model was defined, which created a direct channel in each area (single contact person, telephone number and dedicated email address) and organised periodic group meetings to control results, and analysis and updating seminars. The implementation, which involves meetings to present the model to local consumer associations, was launched in February 2011, and it should be completed by April. In 2010, the TOSs in Ferrara, Forlì-Cesena and Modena held four seminars for consumers' associations to assist in understanding the bill.

In 2011, bill reading guides will be implemented: these will regard all Group services, and will be intended for all customers with the objective of facilitating the understanding and readability of Hera bills. And, also in order to improve communication on this front, a link will be activated on the Group's site dedicated to communications with consumers' associations. The link is a channel to inform and continuously train consumers' associations on new items regarding Hera bills and customers. The link will provide a guide for reading the bill, which is much more technical and detailed than the paper version.

The daily report to target territory trade associations continued, aimed at improving services provided and promoting sales agreements in order to promote competitiveness and transparency.

Hera maintains daily contacts with the trade associations in its local areas of operation so as to improve the services provided and promotes competitive gas and energy offers through commercial agreements that are, above all, extremely transparent. The trade associations are a vehicle through which it is possible to develop seminars and specific

projects relating to the services provided by Hera. The numerous interventions in the territory have involved:

- training of the association personnel;
- technical seminars for associated companies;
- conferences on optimising energy consumption at work and making it more efficient;
- “summary information” on the main organs of communication: press conferences, reviews, news, specials, etc.;
- national events developed in Hera’s territory of reference.

The approach that Hera takes is to satisfy the requests for intervention insofar as communication, dialogue and the resolution of problems: in 2010, 60 trade associations were involved.

Shareholders

Hera's shareholder structure is particular among Italian utility companies, as it does not have one shareholder with absolute control while its shareholder base consists of almost 22,000 private Italian and foreign investors (natural and legal persons active in non-financial businesses) and 187 public shareholders (mainly Municipalities within the local area of reference) and, lastly, 369 professional investors (consisting of legal persons operating financial businesses, such as insurance companies, banks, trusts, banking foundations, mutual funds, pension funds and hedge funds).

Objectives and performance

What we said we would do...	What we have done...
<ul style="list-style-type: none"> • Continue to improve on-line financial communications. • Further improve instruments for dialogue with non-professional private investors, also in light of the new EU and national regulations on the issue of shareholders' rights. • Maintain contacts with ethical investors and participate in the assessment for the inclusion of Hera in the Dow Jones Sustainability Index. • Increase the number of financial analysts that follow Hera's stock to promote Hera as an investment choice. 	<ul style="list-style-type: none"> • Hera confirmed its role as an excellent communicator in the financial field, recognised by its reaching second place in the Halvarsson&Halvarsson standings (see page 137) • The Investor Relations Department provides private investors with specific on line presentations, a weekly chat and the recordings of the management's periodic meetings with financial analysts (see page 138) • In 2010 too, participation in the annual Oddo Environment Forum in Paris enabled to meet over 30 ethical investors. Hera's stock currently lacks the capitalisation and liquidity needed to be included among the securities analysed by Dow Jones Sustainability Index. (see page 138) • Coverage of the stock was expanded and it comprises 15 domestic and international research departments (see page 137)
We shall...	
<ul style="list-style-type: none"> • Further increase the number of financial analysts that follow Hera's stock to promote Hera as an investment choice. • Further improve the instruments for dialogue with non-professional private investors. 	

Breakdown

The presence of a widespread shareholder base and the lack of single shareholders with absolute control are the distinctive points that characterise Hera's shareholder structure, and contribute significantly to limit the risk of governance problems that affect almost all companies in this sector in Italy. These particular characteristics reflect the history of the Hera Group, formed in November 2002 as a result of the merger and integration of 11 multiutilities in the Emilia- Romagna Regional Government.

Following listing on the Milan Stock Exchange in the All share segment of the Mercato Telematico Azionario (the electronic equity market) in June 2003, Hera has continued its development through additional mergers and integrations with other multi-utilities in the surrounding areas, enlarging the geographic perimeter of activities and including more public institutions in the shareholder structure through the issue of new shares (from 155 in 2002 to 187 in 2010).

Hera's share capital grew from 789 million ordinary shares in 2002 to 1,115 million with the latest share capital increase resolved on 21 October 2009.

Hera's shareholder structure consists of public entities, and private and professional investors.

Local Authorities represent the most sizable category among Hera's investors, with 61.8% of the share capital, and they mainly comprise Municipalities of the Emilia-Romagna provinces in which the Group operates. Almost all local authorities holding shares in Hera have concluded the so-called "Shareholders' Agreement" which binds them to maintain equity investments representing 51% of the share capital, as stipulated in the company's Articles of Association. The so-called "floating" share therefore comprises 49% of the share capital, and 78% of it is held by private and professional investors.

Through the years, private and professional shareholders ("non public") have remained highly diversified also in geographic terms: on the dividend coupon date in June 2010, 25.2% of Hera's shares were held by Italian and foreign professional investors such as insurance companies, banking institutions, banking foundations, pension funds, mainly Anglo-American mutual funds, whilst 13.0% of them were held by mainly Italian private investors.

Since its listing, Hera has had thousands of residents of the areas served by the Group, who are therefore, also customers of Hera, among its shareholders.

On the dividend registration date in 2010, Hera held 5.9 million treasury shares in portfolio, totalling 0.5% of the share capital. Since 2006, Hera has had a treasury share buy-back plan providing for a maximum limit of 15 million shares for a total amount of Euro 60 million. The purpose of the plan is to finance a potential opportunity for integration of small companies and to normalise any anomalous price fluctuations compared to those of the main domestic comparables. The Shareholders' Meeting of 20 April 2010 renewed the treasury share buy-back plan for an additional 18 month period, for a total amount of Euro 60 million.

Shareholders

(No.)	2008	2009	2010
Municipalities and other public Entities	189	186	187
Professional investors	427	465	369
Private investors	21,148	21,916	21,546
Total	21,764	22,567	22,102

Data refer to dividend registration date. Data source: Hera processing of data from Servizio Titoli S.p.A.

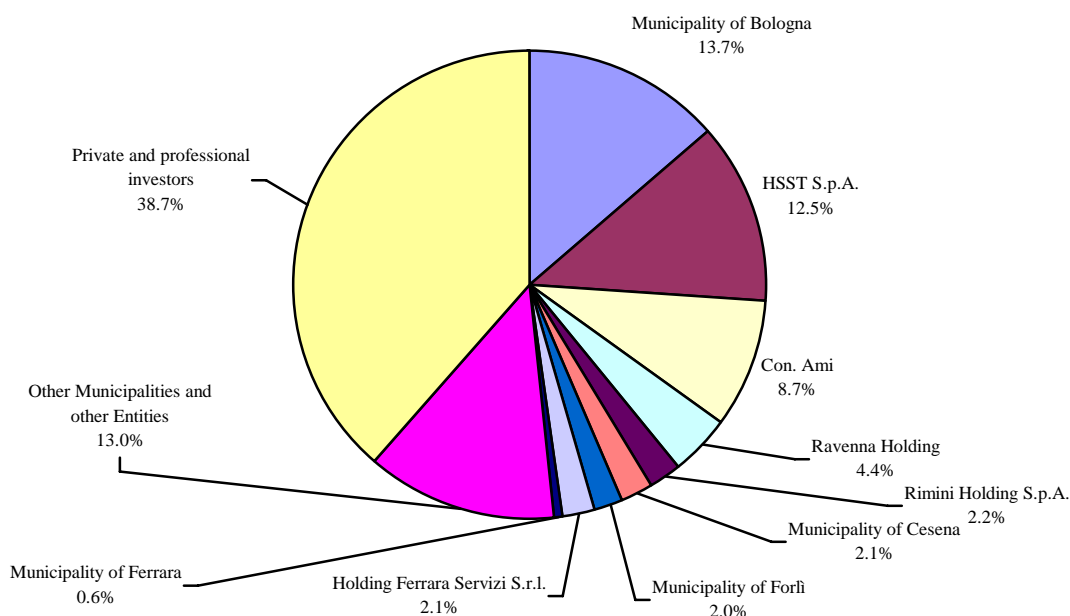
Shares held (breakdown)

%	2008	2009	2010
Municipalities and other public Entities	58.8%	58.8%	61.3%
Professional investors	30.6%	30.6%	25.2%
Private investors	10.5%	10.5%	13.0%
Treasury shares	0.1%	0.1%	0.5%
Total	100%	100%	100%
Total shares (million)	1,032.7	1,032.7	1,115.0

Data refer to dividend registration date. Data source: Hera processing of data from Servizio Titoli S.p.A.

The decrease in the share held by professional investors coincides with the negative situation of most companies in the energy industry as a result of the macroeconomic recession. At the same time, the share held by private investors increased in 2010, when, in spite of the macroeconomic recession, the Group confirmed its policy of paying dividends, stable or increasing, which it has pursued since its inception. This dividend policy was deemed sustainable by financial analysis for future years as well, both in light of the interim results published in 2010 and of the Business Plan published in late October 2010.

Shareholder breakdown as at 31 December 2010



HSST S.p.A. (*Holding Strategie e Sviluppo dei Territori modenesi*), is comprised of: Comunità montana del Frignano, Unione terre dei Castelli, Municipality of Castelfranco Emilia, Fiorano modenese, Formigine, Frassinoro, Guiglia, Lama Mocogno, Maranello, Marano sul Panaro, Modena, Montefiorino, Palagano, Pavullo nel Frignano, Polinago, Riolunato, San Cesario sul Panaro, Sassuolo, Serramazzoni, Sestola, Zocca and Acquedotto Dragone Impianti.

CON.AMI is a consortium comprised of the Municipalities of Conselice, Massa Lombarda, Sant'Agata sul Santerno, Medicina, Castel Guelfo di Bologna, Castel San Pietro Terme, Dozza, Imola, Mordano, Solorolo, Bagnara di Romagna, Castel Bolognese, Faenza, Riolo Terme, Brisighella, Casalfiumanese,

Borgo Tossignano, Fontanelice, Castel del Rio, Fiorenzuola, Marradi, Palazzuolo sul Senio, Casola Valsenio.

Ravenna Holding is wholly owned by the Municipality of Ravenna.

Holding Ferrara Servizi S.r.l. is wholly owned by the Municipality of Ferrara.

Rimini Holding S.p.A. is wholly owned by the Municipality of Rimini.

Public shareholders progressively increased their share until they reached 61.8% of the total by effect of the Group's constant expansion, which in recent years integrated additional municipal companies. The characteristic of Hera's public shareholders consists of the broad and progressive diversification of the shares owned by about 187 different municipalities, the largest of which, the Municipality of Bologna, holds 13.7% of the shares.

The changes in the shares of individual public shareholders have been small in the past three years and they are mainly caused by the fact that the Municipalities that owned the merged companies have become shareholders. The public shareholder component is an element of stability in the shareholder structure.

In 2010, some Municipalities have incorporated financial holding companies to which they transferred the shares held in Hera, without, therefore, substantially altering the shareholder structure.

No. of local resident shareholders (as of date of dividend registration)

(No.)	2008	2009	2010
Bologna TOS area	4,142	4,086	3,992
Ferrara TOS area	359	369	351
Forli-Cesena TOS area	1,480	1,485	1,447
Imola-Faenza TOS area	1,426	1,438	1,456
Modena TOS area	1,059	1,104	1,141
Ravenna TOS area	1,169	1,163	1,114
Rimini TOS area	589	590	572
Total of shareholders resident in areas served	10,224	10,235	10,073
Total private shareholders	21,148	21,916	21,546
% of private shareholders resident in areas served	48.3%	46.7%	46.8%

Data refer to dividend registration date. Data source: Hera processing of data from Servizio Titoli S.p.A.

Its characteristic as a company that is closely linked to its local area is particular evident in the analysis of Hera's shareholder structure, which shows a significant historical presence of private "non professional" resident investors. Over 10 thousand private investors, i.e. 47% of this category (which includes citizens and private companies that are not professionally dedicated to management of savings) resides in the areas served by Hera. Over half the shares owned by private investors (59.2%) is held by residents who together with the area's public shareholders hold the vast majority of the shares (in total, 69.3% of Hera shares).

In the past three years, the number of non professional resident and non resident investors in the local areas has stably remained above 21 thousand persons.

In 2010, communications to private investors was aimed at full disclosure with the quarterly publication of a newsletter on the website www.gruppohera.it which illustrated the financial results, the various significant initiatives carried out by the Group and an analysis both of the performance of the shares on the stock market and of the opinions expressed by independent financial analysts. Additionally, direct relations

were maintained with the investors who contacted the company through the different instruments made available on the website.

In 2011, the intention is to provide private investors with a new instrument to gain better knowledge of the company in a simple manner.

Corporate Governance and safeguards for shareholders

Since the inception, Hera has adopted a traditional Corporate Governance system based on a Board of Directors, in order to guarantee protection and return on capital for shareholders and fulfilment of stakeholder interests in line with the company mission.

Hera's activities are managed in compliance with the Group's mission and Code of Ethics, as well as according to the provisions of the Code of Conduct promoted by Borsa Italiana S.p.A.

For years, Hera has been committed to guaranteeing full transparency to shareholders and all other stakeholders by providing clear, complete and timely information about the decisions taken, the strategies adopted and the results achieved, so that investors may make investment decisions based on effective knowledge of the company, its future prospects, business performance and the forecasted levels of profitability with respect to the quantities of capital invested.

The Investor Relations Department and External Relations Department report directly to the executive Chairman of the Board of Directors, while the Corporate Social Responsibility Department reports directly to the Chief Executive Officer; the direct relationship between these Departments and the top management attests the importance assigned by the Group to control and dissemination of information to stakeholders.

Price sensitive information is communicated in accordance with the procedures established by Consob resolutions and Internal Dealing regulations, and the principles of transparency, clarity, completeness and timeliness which are the foundation of the Group's communications policy.

The yearly publication of the calendar of corporate events for the year allows the company to announce in advance the most important dates for company life: All important communications such as approval and publication of financial statements, quarterly and interim reports, business plans and significant operations are published in real time, in Italian and English, on the Group's internet site, in the Investor Relations section.

Hera Shareholders' Meetings are generally well attended by shareholders; at the last meeting held 30 April 2010, for the approval of the 2009 financial statements, shareholders representing 66.1% of the capital were present, while at the latest meeting held on 27 January 2011, shareholders representing over 73% of the share capital were present.

Diversification and fragmentation of the shareholder structure, transparent, clear governance supported by the Code of Ethics and the Code of Conduct and, lastly, advanced, timely, symmetrical financial communication are the distinctive foundations of Hera governance.

Distribution of dividends

In its mission, Hera has stated its intention to guarantee continuous creation of value for its shareholders, offering suitable return on capital invested.

As a result of the pursuit of growth strategies along all lines of development since the Group's inception, and the numerous activities to enhance operating, Hera has achieved positive economic-financial results which continue to increase, allowing the Group to distribute dividends to shareholders, demonstrating the profitability and security of their investments.

2010 was an unusual year due to the challenging macroeconomic environment which, since late 2008, has impacted financial markets even in the most advanced countries: despite the effects of the crisis in terms of a decrease in demand, Hera was able to continue the growth strategies set forth in its Business Plan, to reach the set targets and keep the growth promises made in previous years.

Additionally, in 2010 the Group substantially completed the projects for the development of the main plants, which required considerable financial effort. The financial returns deriving from the start-up of the new plants, together with the good performance of the activities even during the recession and a normalisation of growth investments supported the positive economic and financial results achieved during the year. The results achieved enabled to propose a higher dividend of 9 Euro cents per share (compared to 8 Euro cents the previous year, i.e. +12.5%) and further growth in future, to reach 11 Euro cents in 2014 as specified in the new business plan published on 19 October 2010.

Distribution of dividends

	2008	2009	2010
Earnings per share (Euro cents)	9.2	8.7	10.5
Dividend per share (Euro cents)	8.0	8.0	9.0
Price/earnings	16.2	18.6	14.9

The price/earnings ratio expresses the relation between the share price as at 31 December divided by Group earnings per share. 2009 does not consider the effects of the tax moratorium.

The net profit shows significant progress even when compared with the 2009 net profit without the extraordinary effect of the tax moratorium (about Euro 27 million paid in 2009). This result was accompanied by a reduction in debt exposure and a strengthened balance sheet, further enhancing the Group's financial soundness also with respect to its closest competitors.

The Hera Group has reached a significant operating, competitive and dimensional structure based on modern, efficient plants able to support the further commercial expansion envisioned in the corporate plans. During the year, new plant start-up activities continued, along with work to boost the efficiency of operating units, and, in addition to the usual maintenance investments, plant development investments were made for amounts significantly lower than the previous year (about Euro 340 million versus over Euro 420 million in investments made in 2009).

Therefore, the financial results will be more than able to support future investments and the excess cash generated will be almost entirely distributed as dividends to shareholders as set out in the Business Plan.

Stock exchange share performance

The worldwide recession that started in 2008 and continued through most of 2009 had severe repercussions on global financial markets during 2010 as well, causing high uncertainty among operators. The situation was further exacerbated by economic analysts' concern about the sovereign debt of some European countries which, in the first half of 2010, reached levels seen as excessive. The joint action of EU institutions, together with rigorous financial policies implemented by the European countries involved, restored confidence in the system and, in the second half of the year, the markets first stabilised and then resumed a slightly positive trend.

In this context, the Italian local utility sector followed the negative market trend. However, in late 2010, its performance was slightly better than the Italian stock market index. The FTSE Italia All Share index, which includes all shares listed on the Milan stock exchange, closed 2010 with a performance of -11.5% from the beginning of the year, whereas the index of Italian local utilities closed the same period at -10.5%. Hera was the second best Italian local utility: the last quoted Stock market price for the year was 1.558, with a performance of -3.9% since the start of 2010. In the standings of the stock market performance of major Italian local utilities, Hera was only bested by the Roman company Acea, which benefited from the effects of extraordinary transactions (agreement reached with the French company GdF Suez for the dissolution of the two companies' joint venture).

The average liquidity level recorded by Hera stock exhibited a lower number of exchanges in 2010 than in 2009. The average value of the daily transactions involving the Hera share in 2010 remained substantially in line compared to that of 2009, from Euro 2.6 million to Euro 2.3 million.

Official share price and average traded quantities in 2010

	QI	QII	QIII	QIV
Official price at close of period (Euro)	1.737	1.350	1.395	1.558
Average volume traded (thous.)	1,157	2,826	904	1,138

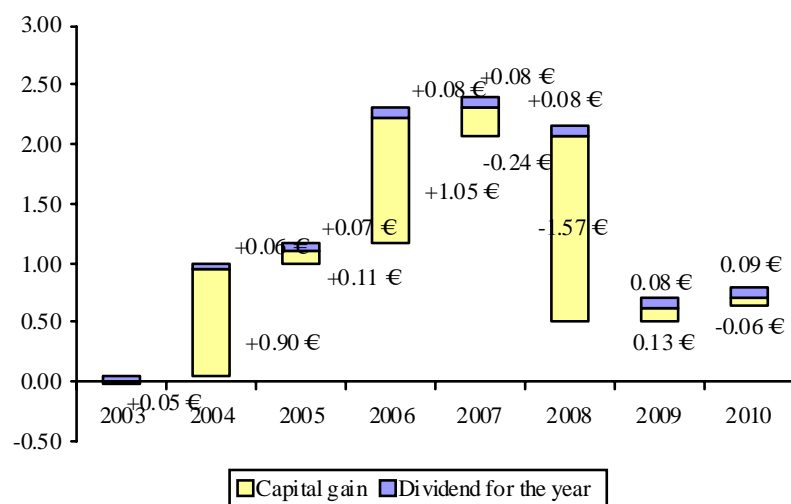
The Hera stock's better performance than its competitors can plausibly be explained by the good financial results reported quarter after quarter and by the positive reactions to the five-year Business Plan presented in late October. Positive growth outlook, coupled with financial soundness and promises of increasing dividends, contributed to attract professional investors with investment policies centred on stocks supported by sound fundamentals. A further contribution to performance also came from meetings with institutional investors, which enabled to quantify the good quarterly results and the distinctive characteristics of Hera with respect to the rest of the utilities sector. Many financial intermediaries placed Hera among the best investment opportunities in the European utility sector.

In addition to the usual presentations of its financial results, in 2010 Hera's top management completed two important international Road Shows which allowed to meet major international investment funds and to discuss in depth Hera's performance and strategy. The first road show started immediately after the presentation of the 2009 annual results, whilst the second road show started from London immediately after the

presentation of the new 2010-2014 Business Plan. There were over 461 meetings and contacts during the year.

For 2011, too, international road shows will be organised: as usual, they will enable the top management to illustrate in detail Hera's financial results and strategy. During 2011, moreover, new instruments will be implemented to reply ever more effectively to requests for information from the financial community and, in particular, from private non professional shareholders.

Yield of the share compared to the price



The changes are calculated with reference to the price of the share at listing.

The graph illustrates the returns to a shareholder who owned Hera shares from the year they were listed (2003) to 31 December 2010, including the proposed dividend for 2010 (which will be distributed in 2011). Despite the effects of the economic and financial recession of recent years, the overall return for shareholders remains positive, with an accumulated value of over 72%.

Stock exchange indices

The Hera share is included in many ethical indices, as evidence of the company's sustainable profile: it has been included in the "Kempen SNS Smaller Europe SRI Index" for years; in 2008 it was included in the "ECPI Ethical Index Euro" and in 2009 it was included in the "ECPI Ethical Index EMU" which consists of 150 listed companies in the European Economic and Monetary Union market which are considered ethical investments under the "ECPI SRI" methodology. This methodology was developed by ECPI, a company that has been researching social, environmental and governance aspects of European companies, assigning ethical ratings and developing, calculating and publishing sustainability indices of the companies since 1997.

Share coverage

Investor Relations promotes awareness of Hera with Italian and foreign financial analysts to increase interest in the company and the number of opinions and independent professional assessments on Hera's results. The dissemination of this

information enables investors to make well informed decision on the use of their resources.

Hera has widespread coverage, consisting of 15 independent firms, half of which are international: Axia, Alpha Value, Banca Akros, Banca IMI, Banca Leonardo, Centrobanca, Cheuvreux, Deutsche Bank, Equita, Intermonte, Kepler, Mediobanca, Merrill Lynch, Sant'ander and Unicredit. In particular, Unicredit resumed covering Hera stock in January 2011 and together with the analysis of Banca IMI, Banca Leonardo, Kepler and Deutsche Bank, it includes Hera stock among the best investment opportunities for 2011.

At the end of 2010, Hera received positive ratings from analysts, with 14 Buy/Outperform and only 1 Hold. The average target price over 12-18 months expressed by the valuations of the analysts is Euro 1.97 per share, which implies a potential increase of over 26% in the value of the Hera share, compared to the market price at year-end, i.e. Euro 1.558.

Relations with investors and financial analysts

Since it is impossible to access all information necessary to assess an investment opportunity with full knowledge, the relationship between company and investors must necessarily be based on esteem and confidence in the management of the company. The Hera Group considers shareholders' trust and confidence to be very important, because a fair evaluation by the market promotes growth development and value creation through the Group's growth through external acquisitions.

For this reason, the Investor Relations Department was established and specifically tasked with providing information and assistance to shareholders and financial market operators, assistance which has become crucial in a year of crisis such as the current one, which featured extremely volatile financial markets.

Hera's 2nd Place in the Webranking Standings by Halvarsson&Halvarsson

With its 86.75 points, Hera was behind Eni (87.75) by a mere point in the Webranking standings prepared annually by the prestigious consulting firm Hallvarsson & Halvarsson in collaboration with *Corriere della Sera*. Behind Hera were such Italian stock market giants as Telecom Italia (86 points), Pirelli & C. (83.75 points), Piaggio (81 points) and Unicredit Group (80.25 points). The other Italian utilities were far behind.

The Webranking analysis, which this year reached the ninth Italian edition, assesses the quality of on-line communication of the 100 Italian companies with the highest market capitalisation listed on the Milan Stock Market and, in this field, it is the most thorough research in Europe. The subject of the analysis are the financial and institutional information and functionalities published in the English-language version of the sites.

Hera's primary communication tool has always been its institutional Website, easily accessed by all stakeholders (private and professional shareholders, bondholders and financial analysts) interested in Hera's data. The Investor Relations section (www.gruppohera.it/gruppo/investor_relations) is continuously updated in real time and

contains detailed information and analyses on the main issues of interest to shareholders (financial statements, plans and strategies as well as financial analysts' opinions).

Web-based communications pursued the objective of increasing the usability of information also by private shareholders, introducing new tools such as the accessible version of the financial statement, including the half-yearly report, an interactive description of the company's governance, a simple analysis of the historical trend in the share price and the opinions of independent financial analysts. To provide stakeholders with an additional information support, a weekly chat line was opened which enables the company to interact with users in real time and, from 2011 onwards, an agile document describing the Group and the annual results will be made available.

In addition to organising specific meetings upon request of individual investors, Hera proactively promotes meetings each year between the Group's top management and Italian and international financial market operators. In 2010 Hera counted 461 contacts with investors, in line with the data of 2009. These contacts comprised direct meetings, company and plant visits, conference calls, and videoconferences (webcasting) which involved Italian and foreign investors (mainly British, French, American, Swiss, German, Austrian and Scandinavians); the intense relations also maintained in 2010 enabled to enliven an on-going exchange of information with shareholders and to respond to the growing sense of uncertainty perceived by stakeholders in the recessive environment.

As has become tradition, Hera participated in the Oddo Environment Forum which takes place each year in Paris, meeting with over 30 SRI investors in order to present the Group's sustainable policies.

Financial Institutions

The Group continues with its policy of providing financial institutions with fully transparent and correct information as part of its communication activities, with a balanced distribution of debt.

Major loans (breakdown) as at 31 December

%	2008	2009	2010
European Investment Bank	34.1%	37.7%	42.8%
Banca Intesa	12.9%	21.5%	17.0%
Unicredit	9.2%	9.3%	8.6%
Dexia Crediop	7.4%	6.7%	5.9%
Banca delle Marche	3.3%	3.5%	4.1%
Cassa depositi e prestiti	4.5%	4.3%	4.1%
Banca Popolare di Milano	3.3%	3.2%	3.4%
BNL	2.4%	2.4%	2.3%
Other institutions	22.7%	11.5%	11.8%
Total	100.0%	100.0%	100.0%

The goal of the Group's financial management is to maintain an adequate current and prospective balance between capital investments and expenditures on one hand and sources of funds on the other, both in terms of repayment plan and of types of rates.

Net financial indebtedness

(in millions of €)	2009	2010
Cash on hand	350.3	538.2
Other current loans	20.7	44.3
Current financial indebtedness	-119.1	-150.7
<i>Net current financial indebtedness</i>	<i>251.9</i>	<i>431.8</i>
Non-current loans	10.1	10.3
Non-current financial indebtedness	-2,153.8	-2,302.3
<i>Net non-current financial indebtedness</i>	<i>-2,143.7</i>	<i>-2,292.0</i>
Total net financial indebtedness	-1,891.8	-1,860.2

The net financial position went from Euro 1,891.8 million as at 31 December 2009 to Euro 1,860.2 million as at 31 December 2010, with an improvement of Euro 31.6 million. The result is due to a management that generated a positive cash flow before dividends, and to the sale of 25% of Herambiente S.p.A. (about Euro 125 million), which more than offset the outlay due to dividend distribution (Euro 96.8 million). In 2010, investments amounting to about Euro 340 million were made. As at 31 December 2010, the Group has about Euro 538 million in cash, Euro 430 million in unused committed credit lines, as well as ample space on uncommitted credit lines (over Euro 1,300 million), amply sufficient to cover all financial commitments for the next two years.

The policies and principles for the management and control of the Group's Financial Management are set out below.

Debt quality

The Group aims to assure such a level of cash as to enable to fulfil its own contractual obligations both under normal business conditions and in a recession, by maintaining available credit lines, cash and promptly starting negotiations on loans reaching maturity, optimising the cost of funding in relation to current and prospective market conditions.

We note the balanced asset structure of the Group, which offsets the high level of fixed assets with a financial position mainly comprising medium/long-term debt (95%).

Credit lines and the related financial assets are not concentrated in any specific financial institution but are evenly distributed among the principal Italian and international banks with a use largely inferior to total availability;

With regard to medium-long term debt, of note is the placement, on 11 November 2010, of “€140,000,000, 1.75 percent, Equity-Linked Bonds due 2013” loan with maturity on 1 October 2013, listed on the Euro MTF market of the Luxembourg Exchange on 21 January 2011. The bond became convertible into Hera common stock on 27 January 2011 as a result of the Shareholders’ Meeting’s approval of the share capital increase with the exclusion of the option right. Price per share (including par value and premium) is Euro 1.834 barring any adjustments to the conversion price, as prescribed by the Bonds Regulations. The transaction led to a strengthened financial structure both in the immediate future and medium-term, to allow the Group to exploit future market and business opportunities which may arise in the near future.

As at 31 December 2010, the Group’s structure is such that the long-term debt portion is around 95% of total financial payables. Average maturing is about 10 years, of which 75% comprises debts with maturity beyond five years.

There are no financial covenants, apart from the limit on corporate rating, even by a single Rating Agency, below Investment Grade (BBB-).

Cost of Debt

The Group is exposed to interest rate fluctuations (Euribor) with respect to the measure of financial expenses related to indebtedness. The portion of debt exposed to rate fluctuation risk is about 30%. The residual debt has fixed rate.

The Group’s hedging policy does not provide for the use of instruments with speculative aims and its goal is the optimal allocation between fixed and floating rate within the scope of a conservative strategy with respect to rate oscillation risks. Interest rate risk management essentially aims to stabilise financial flows in order to assure the margins and the certainty of the cash flows from ordinary operations.

During in 2010, even in the presence of a structure that is strongly characterised by long term debt (about 95%), the Group was able to maintain its cost at an overall average level around 4.2%. The portion of value added allocated to financial institutions in 2010 came to Euro 102.7 million.

Credit ratings

The significant development plan implemented by Hera over the past years has involved the cautious use of financial indebtedness, which allowed the Group to maintain a sound financial statement structure.

The Group’s financials are assessed by the two leading international specialised ratings agencies: in July 2010 Moody’s modified its long-term debt rating for Hera, reducing it from A2 to A3 with stable outlook, while in June 2010 Standard & Poor’s modified its

credit rating for Hera's long term debt, assigning the rating BBB+ (from A-) and confirming the rating A-2 to short-term debt with stable outlook.

As at 31 December 2010, 70% of the Group's financial exposure was at fixed rate, with long-term average maturity (95%) and with amply adequate cash and credit lines to meet financial commitments for the next 2 years. The financial structure is not burdened by Covenants.

The results achieved in 2010 met the target of achieving the necessary requirements to improve the Group's rating in upcoming years. Hera's financial leverage, measured by the D/E and D/EBITDA ratios, is among the most conservative in the industry in Italy.

Suppliers

Hera does not consider the suppliers exclusively as value chain actors: but rather as strategic partners for corporate growth.

Currently, Hera's suppliers are 7,700 and are mainly located in the region served (62%), highlighting the Group's positive impact on the local economy. In 2010, the value of supplies requested from social cooperatives came to Euro 26 million: 474 persons facing hardships were included among suppliers.

Objectives and performance

What we said we would do...	What we have done...
<ul style="list-style-type: none"> Involve professional associations with the goal of further increasing suppliers' use of the e-procurement platform. Further extend application of the tender award criteria according to the most economically advantageous bid. Increase the percentage of tenders awarded according to this criteria (% value higher than 2009) fully applying the new operating instruction "Identifying Sustainability Criteria by Goods/Services Purchasing Sub-Category". Fully apply the memorandum of understanding between Hera S.p.A. and the Social Cooperatives Representatives signed in June 2009. Revise the Group tender contract management manual, with particular regard to aspects concerning workers' safety and control of the performance of suppliers. Constantly monitoring work accidents at major suppliers. 	<ul style="list-style-type: none"> A meeting was held with professional associations to illustrate the features and potential of the e-procurement platform. In 2010, 39% of purchases were made through the platform (it was 12% in 2009). (see page 152) The value of the tenders awarded by the Procurement and Tender Contract Management Division according to the most economically advantageous bid went from 36% to 55%. All public tenders conducted in 2010 were carried out with this criterion. (see page 149) We continued to hold periodic meetings aimed at monitoring employment of disadvantaged personnel by type B supplier social cooperatives. The meetings also pertained to the ways to promote employment projects (see page 153) The contract management manual was revised. Workplace safety and supplier performance control aspects were updated. (see page 152) Monitoring was started for 33% of suppliers (28% in 2009). (see page 151)
We shall...	
<ul style="list-style-type: none"> Extend the application of the procurement guidelines approved in February 2011 to all subsidiaries. The new procurement guidelines contain tender awarding criteria consistent with Article 49 of the Code of Ethics. Further increase the value of the tenders awarded according to the most economically advantageous bid. Further increase suppliers' use of the e-procurement platform, by continuing supplier involvement and training activities; provide access to the e-procurement platform for more than 90% of suppliers. Guarantee assistance to suppliers on the use of the e-procurement platform, maintaining the service standards reached in 2010. Continue on the path to involve social cooperation representatives, aimed at defining shared ways to promote employment projects. Constantly monitoring work accidents at major suppliers. 	

Breakdown

The Group's suppliers are 7,749 companies providing goods, services, professional services and work. Most suppliers are included in the pool of suppliers in several goods/services categories.

All data provided in this chapter, unless otherwise indicated, refer to all Group companies with which the Purchasing and Tender Contracts Department manages supplier relations via the SAP MM and SRM IT system: Hera S.p.A., Herambiente, Hera Comm, Fea, Uniflotte, Famula on Line and Hera Luce. The presence of a single list of qualified suppliers for the entire Group entail, for suppliers, expanding their possible business for all goods/services categories associated to them.

Pool of suppliers

Number	2008	2009	2010
Goods	5,617	5,477	4,503
Services	6,024	5,920	5,101
Job orders	899	894	807
Total	9,511	9,307	7,749
of which suppliers who received at least one order during the year	5,806	5,369	3,902

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.

In 2010, a rationalisation of the suppliers in the Hera Group supplier pool was conducted, on the basis of the check of their qualification status and on their actual utilisation in the past three years; as a result, the number of suppliers in the pool was reduced from 9,307 to 7,749 (-17%). Of these 7,749 suppliers, almost 4,000 had at least one active contract in 2010. Many suppliers received orders pertaining to several categories of goods/services in 2010.

The reduction in the number of active suppliers (who received one order during the year) in 2010 compared with 2009 is mainly due to a strong rationalisation action on purchases: the use of master orders and qualification systems significantly reduced the number of orders issued in 2010 compared with 2009 and increased their average value.

In 2010, consistently with the provisions of the Protocol signed in June 2009 with associations representing social cooperatives, we continued to hold periodic meetings to monitor the employment of disadvantaged personnel by type B social cooperatives in the management of the work contracts awarded by Hera Group companies.

Monitoring is carried out according to an operating instruction defined in 2009 with social cooperation representatives, which covers all Group contracts in which social cooperation personnel operate. Quarterly verifications are made of the total number of persons facing hardship employed, the type of hardships faced by individual workers used in the supply and their qualifications within each single contract. Thus, it is possible to verify compliance of the employment project presented by the supplier during the tender, with the consequent assessment of the same.

Supplies from social cooperatives

	2009	2010
Social cooperatives (number)	36	34
Value of supplied goods/serv. (in thousands of €)	23,590	25,989
Persons facing hardship hired (number)	468	474

Among the persons facing hardship hired, workers employed for less than one year were also counted. Data relating to Hera S.p.A., Uniflotte and Herambiente.

In 2010, the value of the supplies regarding types of work or services requested from social cooperatives was nearly Euro 26 million, up 10% from 2009. Of this amount, about Euro 24.2 million was assigned for the execution of waste management services, equal to 21.4% of the total awards made by the Group for these services.

Supplies to social cooperatives involved a total of 34 cooperatives or consortia of social cooperatives and resulted in the employment of 476 persons facing hardship. The highest number of persons facing hardship employed was recorded by the Territorial Operating Structure of Modena (141 people), the TOS of Forlì-Cesena (102 people) and the TOS of Rimini (95 people).

Raw material supplies

The natural gas sold by the Hera Group in 2010 in the areas in which it operates was mainly purchased from Eni Gas & Power (about 51%). Approximately 24% was purchased from Edison, 3% from EGL, about 2% from other minor national operators and 20% via Hera Trading (which, in turn, mainly purchased gas from VNG, Eni, Edison and Econgas).

With regard to the electricity market, 25% of sales to end customers were covered by the production from high-efficiency thermoelectricity power stations of companies in which Hera holds investments (Tirreno Power, Calenia Energia and SET); 51% was covered by bilateral purchases from other operators. The remaining 24% was sourced on the electricity market. The methods for trading electricity, both via sourcing on 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.

With regard to generation from thermoelectric power stations in which Hera holds investments and imports, green certificates for 48 GWh were acquired, so as to comply with the obligations set out in the Bersani Decree.

During 2010, about 66% of water resource needs (water introduced onto the civil and industrial aqueduct networks) were covered by our own production (collection from springs, rivers and lakes, capping water tables). The remaining 34% was covered through third party purchases. The major supplier of wholesale water is Romagna Acque - Società delle Fonti S.p.A., which, since 1 January 2009, has managed all the main water production plants in the Romagna area.

Operations within local communities

Once again in 2010 we note the positive impact of the Hera Group procurement processes on the areas in which the group is operational, and on local communities. An

indication of this positive impact is that about 62% of Hera suppliers were made up of businesses with commercial headquarters in the area covered by Hera. The slight - 2% reduction relative to 2009 is due to the rationalisation of the suppliers' pool, with particular reference to the Modena area.

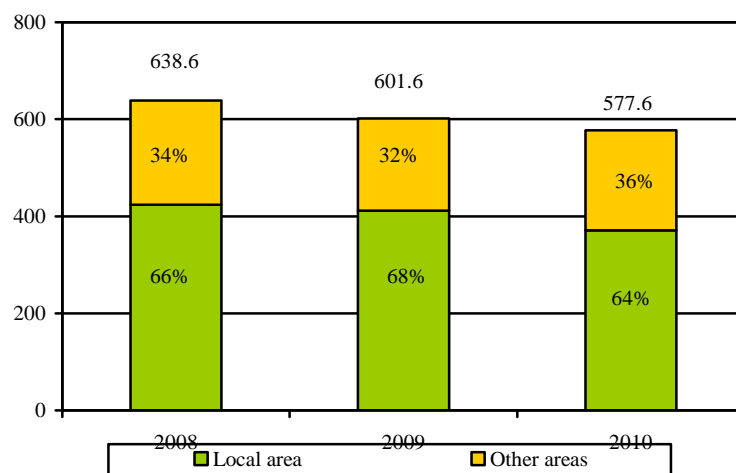
In 2010, the Hera Group issued job orders worth Euro 370 million equating to 64.2% of the total, to businesses based in the same area as that covered by Hera.

Suppliers (breakdown by geographic area)

(No.)	2008	2009	2010	% on 2010
Bologna TOS area	1,377	1,333	1,131	14.6%
Ferrara TOS area	442	436	353	4.6%
Forli-Cesena TOS area	762	771	671	8.7%
Imola-Faenza TOS area	527	528	486	6.3%
Modena TOS area	1,691	1,613	1,075	13.9%
Ravenna TOS area	652	616	543	7.0%
Rimini TOS area	705	705	557	7.2%
Total area	6,156	6,002	4,816	62.1%
Other provinces of Emilia-Romagna	357	353	263	3.4%
Other Italian regions (Regioni)	2,900	2,850	2,567	33.1%
Other European Union nations	71	60	63	0.8%
Other	27	42	40	0.5%
Total	9,511	9,307	7,749	100.0%

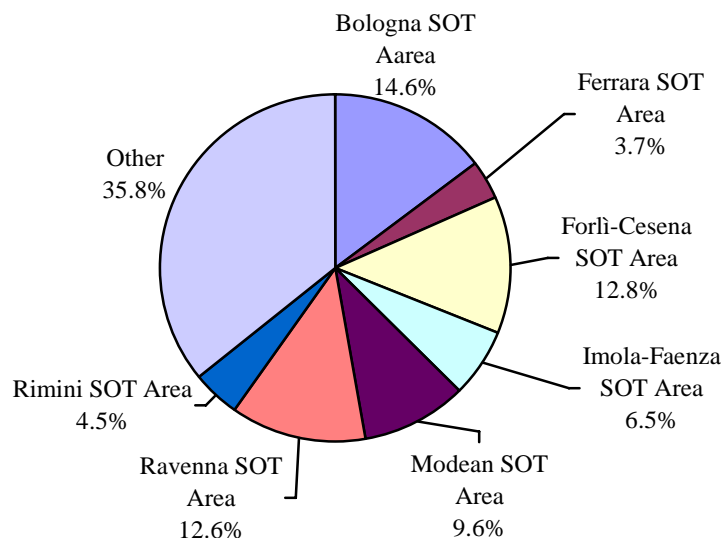
The countries outside the European Union where purchases were made are Switzerland, the Republic of San Marino, Norway and the United States.

Value of supplies (breakdown by geographic area) – millions of euro



The reduction in percentage value of the supplies in the local area, from 68% to 64% in 2010, is partly due to the December 2009 acquisition by Aimeri (a Milan-based company) of the waste management division of Manutencoop (a Bologna-based supplier of Hera in waste management services).

Value of supplies: breakdown by geographic area (2010)



Qualification and selection of suppliers

Supplier qualification and assessment is handled at the Group level and is based on verification of technical, economic, and organisational quality requirements, compliance with environmental and safety regulations, as well as acceptance of the rules set forth in the Group's Code of Ethics. The Supplier Qualification and Assessment Department of the Procurement and Tender Contract Management Division manages the supplier qualification and assessment process for the whole Group, manages the database of qualified suppliers and prepares reports for their assessment.

Controls are conducted by the company contacts in charge of purchasing for supplies of goods upon delivery of said goods. For services and job orders, controls take place during performance of the tasks assigned, using standard or specific checklists, normalised and kept up-to-date at the Group level, and quarterly reporting. The number of checks on services and works is defined taking into account the importance of the contractual amount, the term of the order and the contract, and the impact on quality, safety and the environment. In the event that goods or services delivered are found to be non-compliant, the company contact must record and manage the event to guarantee its traceability and its impact on the periodic supplier assessment. In 2010, internal audits continued, to check the new procedure adopted.

In 2010, inspections were conducted at the facilities of suppliers of strategic goods, in some cases noting partially non-compliant behaviours which were promptly highlighted and corrected in a short time, with subsequent verification of the effectiveness of corrective actions. With regard to Hera S.p.A. suppliers, 741 cases of non-compliance were detected in 2010, of which 529 were closed by 31 December 2010.

Qualified suppliers (breakdown by type of certification)

Number	2008	2009	2010
Quality certification (ISO 9001)	1,770	2,035	2,176
Certification of qualification for the execution of public works (SOA)	540	567	586
Environmental certification (ISO 14001-EMAS)	266	363	427
Occupational safety (OHSAS 18001)	42	72	101
Lab analysis quality certification (SINAL)	37	41	42
Measurement instrument calibration quality certification (SIT)	30	32	32
Social certification (SA 8000)	11	21	25

Data refer to the Group companies whose suppliers are handled via the SAP computer system: Hera S.p.A., Herambiente, Hera Comm, Fea, Uniflotte, Famula on Line and Hera Luce.

In 2010, the Hera Group increased the number of suppliers holding certifications: companies with environmental certification increased considerably (+18%) as well as those with safety certification (+40%), whilst suppliers with the SA 8000 social certification more than doubled relative to 2008. During 2010, 10 inspections were carried out at certified suppliers in order to assess the compliance of their supply production processes with ISO 9001, ISO 14001 and OHSAS 18001 standards.

Procurement from qualified suppliers (value breakdown by type of certification) - % of total supplies

%	2008	2009	2010
Quality certification (ISO 9001)	72.3%	76.9	78.3%
Certification of qualification for execution of public works (SOA)	39.5%	41.3%	38.5%
Environmental certification (ISO 14001-EMAS)	23.9%	33.5%	35.2%
Occupational safety (OHSAS 18001)	2.9%	5.8%	11.3%
Lab analysis quality certification (SINAL)	2.4%	2.8%	2.5%
Social certification (SA 8000)	1.4%	2.6%	2.5%
Measurement instrument calibration quality certification (SIT)	0.0%	0.1%	0.2%
<i>Total supplies</i>	<i>638,569</i>	<i>601,631</i>	<i>577,586</i>

Data refer to the Group companies whose suppliers are handled via the SAP computer system: Hera S.p.A., Herambiente, Hera Comm, Fea, Uniflotte, Famula on Line and Hera Luce.

In 2010 there was a further significant increase in the value of supplies ordered from certified suppliers. This was the result of direct action taken by the company via systematic inclusion of quality certification as an obligatory requirement in the public invitations for tenders or the supplier approval stage. The increase was also the result of a greater awareness in the business system that qualitative growth, on the whole, is a component of competitiveness. Of note is the 86% increase in purchases from suppliers holding the OHSAS 18001 certification.

Tenders for contracts awarded on the basis of the most economically advantageous bid approach

Consistent with the goal of progressively extending the application of the criteria of awarding tenders based on the most economically advantageous bid also for tenders awarded for amounts lower than the EU thresholds, in 2009 the Hera Group approved the operating instruction which identifies sustainability criteria for the various categories for purchasing goods, services and works.

This operating instruction provides elements for assessing social and environmental aspects, to be added to the economic aspects involved in choosing a supplier, where tender procedures allow for use of the method of the most economically advantageous bid.

In the specific areas identified in the Hera Group's Procurement Guidelines - "social commitment", "quality of services" and "economic value" – sustainability criteria have been identified which are the fruit of the experience acquired in managing calls for tender according to the method of the most economically advantageous bid, based on doctrine and also on regulations on the matter, in line with Hera Group objectives.

In the operating instruction "Identifying Sustainability Criteria by Goods/Services Purchasing Sub-Category" a minimum number of sustainability criteria for choosing suppliers were established, based on the amount and importance of the tender (if it is a tender with a significant impact on the environment, occupational safety, the quality of services provided to customers, the term or amount of the contract). Among the other criteria, it is worth noting: management of atmospheric emissions and sound, prevention, reuse and recyclability of waste, energy efficiency, reduction of the dangerousness of substances used, reduction of water consumption (for the environmental protection criterion), supplier's adoption of their own Code of Ethics, hiring of persons with disabilities and persons facing hardship, accident prevention (for the social commitment criterion), quality of materials, equipment and instruments, professional qualifications and skills, technical services and performance (for the service quality criterion).

The Procurement and Tender Management Departments are responsible for selecting the sustainability criteria. They chose the criteria to be used based on the type of tender, the importance of the sustainability criterion in relation to said tender, and assessments of previous tenders assigned and their results. For assistance in selecting the criteria and assessing bids in the tender phase, the Purchasing and Tender Management Departments can use the technical support of the Corporate Social Responsibility Division and the Quality, Safety and Environment Central Division.

We would like to point out that 55% of contracts managed by the Procurement and Tender Contracts Management Division (by public tender, as a result of qualification system or by negotiated procedures without public tender) to which the most economically advantages bid criterion is applicable took place according to the method of awarding the tender to the most economically advantageous bid, in place of the largest discount (it was 36% in 2009). If we also consider the purchases carried out by the Procurement and Tender Contracts departments of the SOT, this value is 44.6%.

"Green purchases" continue

Sustainable purchasing continues within the Hera Group. The tender for the purchase of photocopy paper, in which 12 out of 100 points were assigned to the so-called green requirements, specifically recycled paper (wholly or partly obtained from fibres deriving from post-consumption) and environmentally friendly paper (wholly or partly obtained from fibres originating from sustainably managed forests) and 5 points were assigned to the type of means used for delivery. One of the technical requirements of the tender for the service of sorting, delivering and distributing invoices to customers was the use of means with low environmental impact (3 points). In the tender for the

construction of new Hera offices in Castenaso (Bologna), 8 points were reserved for buildings' energy efficiency. In some tenders for waste management services (road cleaning and separate waste collection), from 8 to 23 points were reserved for the environmental impacts of the vehicles and equipment used.

In 2010, a total of 11 public invitations for tenders were announced, for a total starting price of Euro 43.5 million, all to be awarded based on the criteria of the most economically advantageous bid.

Additionally, 3 public tenders for qualification systems were held, which were not included in the total as the regulations do not require that the tender amount be specified, as this amount is defined in the subsequent negotiation procedures, along with the award method.

Public tenders for contracts adopting the economically most advantageous bid method

	2008	2009	2010
Value of the public invitations for tenders published (in millions of €)	184.6	47.4	43.5
% of total value of public invitations for tenders published	89%	100%	100%
No. of public invitations for tenders published	18	10	11

Data regarding the Procurement and Tender Contract Management Central Division

Among the tenders awarded in 2010, the ones described below are particularly significant for the importance assigned to sustainability criteria when assessing the bids: in the tender for the construction of a new Hera site in Castenaso (Bologna), for a starting price of Euro 18.4 million, of the 30 points reserved to the technical component of the bid, 11 points were assigned to construction site safety, 8 points to the sustainability of the initiative, 7 points to maintenance plans and 4 points to the reduction of execution times. For the sustainability of the initiative, the following were assessed:

- energy saving connected with the systems, both in terms of consumption and of working live, and with the energy performance of heat recovery equipment;
- energy efficiency of the buildings: insulation, energy performance of windows and doors, use of reflecting glass and of shields at glass panes;
- optimisation of electric consumption, with use of more efficient lamps and fixtures, of electronic flow regulators, of fine adjustments systems, of high efficiency motors, of high performance air treatment units and electrical pumps, of high efficiency evaporation towers.

The technical-economic proposal submitted by the company that won the tender will enable to saving about 40 toe/year with respect to the basic design.

In the tender for ready reaction and maintenance on the gas, water and sewage networks for the Modena area, for a starting price of Euro 6.8 million, of the 50 points reserved to the technical component, 36 points were assigned to company organisation (technical training and employee safety training, quality and quantity of machinery and equipment, logistical organisation), 10 to procedures to manage emergencies, the waste produced and environmental impacts and 4 to the improved proposal with respect to basic quality standards.

In the tender for waste collection (door to door or emptying containers) in the Bologna area, for a basic tender amount of Euro 4.7 million, of the 35 points reserved to the technical component of the bid, 18 points were assigned to the organisation of the service and 17 points to the dimensioning of the service (age, acoustic environmental impact and technical characteristics of the machinery used, traceability of the service provided).

In the tender for the separate collection of paper from roadside igloo bins in the Bologna area, for a basic tender amount of Euro 0.5 million, of the 30 points reserved to the technical component, 12 points were assigned to the type and planned maintenance of the machinery employed, to territorial structuring and to the organisation of the equipment service centres or storage sites, 10 to environmental sustainability aspects, with particular regard to the age of the machines and their environmental and acoustic impact, 6 to the qualification of the employed persons, 2 to the adoption of a code of ethics.

In the tender for the collection of cardboard packaging materials in the Bologna downtown area, for an amount of Euro 0.5 million, of the 30 points reserved to the technical component, 12 were assigned to the age of the machines and their environmental impact, 10 to web-based reporting on the activities, 8 to the organisation of the service.

In the tender for mechanical maintenance at the Herambiente industrial waste disposal plants, for a total amount of Euro 11 million, of the 40 points reserved to the technical component 24 were assigned to the assessment of personnel's technical and safety training, 12 to the quality management of maintenance processes, to environmental impacts, to the management of operators' health and safety, 4 to the assessment of the quantity and of the technological innovation or age of the machines and equipment.

Contract management

In 2010, the Tender Contracts Management Division was reorganised to achieve greater specialisation of the purchasing lines for internal customers, improve integration and collaboration with local purchasing departments, create a staff function that is specialised in the management of public tenders and in providing regulatory support to all purchasing departments.

In 2010, procurement protocol 231 was approved; it defines roles, responsibilities, behavioural principles and operating procedures which personnel involved in procurement activities must follow.

Additionally, the revision of the procurement guidelines was completed. The document, in line with the Group's Code of Ethics and with Italian Legislative Decree 231/2001, is the corporate reference for supplier selection activities, determining the principles inspiring the Group's procurement for the acquisition of goods, services and work, aimed both to activities carried out under free market conditions and subject to public works contracts.

The monitoring of work accidents at major suppliers

In order to assess the impact of outsourced activities in terms of accidents, in 2009 Hera began monitoring work accidents at major suppliers. This commitment is part of the

implementation of the Safety Management System, which also resulted in the definition of the procedure for "injury, near-accident and accident management" and the introduction of the "Annual Summary of Injuries or Accidents Occurred at Contracting Companies in Performing Work for Hera" form into technical specifications and/or tender contracts. This form was revised in 2010: moreover, a dedicated email box was opened and made available to suppliers. For 2011, the new form is expected to be extended all suppliers, in order to facilitated data treatment.

Suppliers' workplace injuries

	2009	2010
Value of total supplies (in millions of €)	418.2	577.6
Value ordered from suppliers under monitoring (in millions of €)	188.2	321.5
Value ordered from suppliers under monitoring (%)	45%	56%

In 2010, monitoring involved Hera S.p.A. suppliers providing waste management services, network emergency and maintenance services, sewage network clearing, as well as management of the global maintenance services. The top 134 suppliers (versus 38 in 2009) were identified based on the value of goods/services ordered during the year. The value of orders to these suppliers in 2010 was Euro 321.5 million, i.e. 56% of total orders.

At the date of approval of this report, forms were collected from 101 suppliers, equal to an amount of Euro 236.5 million ordered in 2010, or 41% of the total amount of the Hera Group's orders, i.e. Euro 577.6 million (28% in 2009).

Calculations based on the collected data identified a frequency index of 61.6 with a severity index of 3.3. This last figure is affected by a lethal injury; without this event, the severity index drops to 1.4.

e-procurement

In 2010, the e-procurement system was further consolidated, with the improvement of IT aspects, followed by new buyer training courses. A massive action was also carried out to involve and train suppliers: the percentage of suppliers able to develop negotiations and commercial agreements, also exclusively, through the electronic platform adopted by the Group, rose from 56% in 2009 to 89% in 2010.

This enabled to increase platform utilisation: about 39% of the volume purchased by the Group in 2010 was negotiated through this platform (the target was 30%) and for 2011, we expect to exceed 50%.

It has been verified that use of certified email has not yet become as widespread as would be necessary to cover Hera's vendor list. In any case, the upgrade to the e-procurement platform for public tenders enabled to overcome the need for digital signature, thus streamlining the management of qualification systems on the platform.

Tender contract management manual

In July 2010, the revision of Hera's tender contract management manual was approved. The regulatory references were updated as a result of the entry into force, in particular, of Italian Legislative Decree 81/2008 and of Italian Legislative Decree 106/2009, on workplace safety. The new rules significantly broaden the customer's liability in the management of contracts for the damages for which the contractor's employee is not

indemnified by INPS. They also restate the importance of the Consolidated Document for the assessment of the interferential risks in all contracts with overlapping stages of execution of different work activities which entail an increased risk of injury at construction sites.

The revision also clarified the contents of the requirements for control over contractor companies. For this purpose, requirements for the control and authorisation of subcontracts, also revising the enclosures to the Manual that contain the declarations to be made by the companies upon requesting a sub-contract, all in accordance with updates to regulations and procedures against organised crime.

Times of payment as per contract

Consistent with the financial stability objectives of the Hera Group as well as Group guidelines, the times of payment as per contract are set at least to 120 days, month-end invoice date. Certain types of supplies, such as fuel or postage charges, deviate from the aforesaid limit.

Supplier relations

The supplier portal is the main tool for communications between the Procurement and Tender Contract Divisions of the Hera Group and the market of suppliers, especially following the consolidation of the SAP SRM module, used to carry out electronic transactions, which was launched in 2008 and fully developed in 2009.

In 2010, telephone assistance to suppliers was consolidated: over 9,000 requests reached the Helpdesk and 99% of them were resolved within the times prescribed by company procedures.

On 15 February 2010, a meeting was held with Confartigianato (the Italian Craftsmen's Association) and local CNAs at the Hera auditorium in Cesena, to inform and educate attendees about the features and potential of the Hera Group's supplier portal.

In early 2010, meetings were held with representatives of the social cooperatives that operate on the areas served by the Hera Group, to share the 2009 results and collaboration opportunities for 2010. In early 2011, based on the analysis of the data collected, the work group confirmed the validity of the procedures defined for monitoring. The meetings held in 2011 also pertained to the ways to promote employment projects.

Litigation with suppliers

As at 31 December 2010, there were 33 pending disputes with suppliers (there were 58 as at 31 December 2009), of which 8 initiated in 2009, mainly concerning tender issues.

Public Administration

Breakdown

Hera is a service provider for 243 municipalities, most of which are Hera shareholders. Hera has close relations and collaboration with technicians and administrators of municipalities, provinces, regions as well as nationally, and their associations and local bodies.

The area covered by Hera is regulated by 8 Water and Waste Regulatory Authorities with regulatory mandates covering waste management and water services. The energy sector (gas and electricity) is regulated by the Italian Authority for Electricity and Natural Gas (AEEG), an independent regulatory and control authority for the sector established 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, Agencies, other companies). These activities are conducted via partnerships or quite simply through sponsorship.

“Waste-not” in Ravenna

Giving new life to objects we no longer use, instead of throwing them away. This is the purpose of the Ravenna Municipality and of Hera which, with the support of the Municipality’s “CittA@ttiva” social mediation Service, propose the “Waste-not” campaign to citizens and to some schools. The original nature of the initiative is highlighted by an elegant cabinet with essential, practical design, provided with see-through doors, where people can place objects they no longer need (toys, tools, etc.), but which can still be used. They will remain in plain sight to be picked up and used by others, in a sort of continuous exchange that returns them to life with a new owner. These special cabinets were positioned inside schools that volunteered for this trial.

Integrity in relationships with the Public Administration

Hera is committed to guaranteeing the highest levels of integrity and honesty in relationships with public administration. For this reason, the Group has adopted, and keeps updated, a model for organisation, management and control designed to identify specific risks associated with the crimes identified in Italian Legislative Decree 231/2001.

Currently the organisation model includes 23 protocols that strive to ensure transparency and a sense of ownership in internal and external relationships. For each “high risk” process, the protocols identify principles, roles, and responsibilities which should be followed in managing the activities and define the periodic information flows for control. Each protocol ensures the constant monitoring of high risk activities for the Supervisory Body. The protocols also encompass relationship management with the Authorities, public loans, donations and gifts and procurement. In 2010 the Board of Directors of Hera S.p.A. approved and distributed the “Procurement” Protocol through a

dedicated Internal Regulation. The same procedures were used to revise and distribute the “Sponsorship Management” and “Donations and Gifts Management” Protocols. The procedures adopted conform to the principles of the Code of Ethics with the aim of guiding Group management based on the values and principles defined in the Charter of Values.

Prefecture and Hera together to promote workplace safety

To promote workplace safety and continuous improvement of safety standards, on 1 June 2010, at the Prefecture of Forlì-Cesena, a memorandum of understanding was signed to restate the commitment and painstaking care in safeguarding workers in the workplaces operated by Hera. Prefecture, Hera, Herambiente, unions, AUSL, INPS, INAIL, ISPEL and Provincial Labour Office decided to create an effective, integrated network of actions, able to optimise individual efforts and produce a virtuous circle to safeguard workers.

Relationships with municipalities and other local authorities

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 in which Hera is operational.

Forms of structured dialogue with mayors are present: in 2010 the Bologna TOS met with the Committee of Municipalities in the Bologna Area four times, while the Forlì-Cesena TOS, in addition to the biannual meetings with the local Mayors' Committee, collaborated with the Cesena Municipality in “Cesena speaks with Hera”. This was a one-day event that took place in December 2010 and it entailed meetings between Hera leaders, the Cesena city government, unions, professional and consumers' associations and citizens. The meeting pertained to separate waste collection, energy offers and water; in a dedicated session, the Mayor of Cesena and the Chairman of Hera remained available to citizens to answer their questions directly. In Ferrara, a permanent technical roundtable was activated with District Presidents, which enabled to obtain indications and suggestions to improve services. The Imola-Faenza TOS met quarterly, together with the CON.AMI top management, with all the Mayors of the region. The Modena TOS met on a quarterly basis with the Mayors Panel, which includes the Mayors, or their delegates, from all local areas. The Ravenna TOS held periodic meetings with the municipalities and their decentralised offices in order to examine issues relating to the services managed in the area. The Local Shareholders' Committee in the Rimini area met 3 times in 2010. These meetings specifically examined the new waste collection method and the issue of rainwater.

At the Municipalities of Bellaria (Rimini) and Riccione (Rimini), in 2010 the work carried out, respectively, by the “Committee for Local Services Performed by Hera”, and by the “Technical Roundtable for Integrity and Safety” launched in 2009 to safeguard the efficiency and quality of the waste management services performed by Hera. In 2010 the Municipality of Cattolica (Rimini) launched a “Quality Committee for Local Services Performed by Hera”, which also includes the main trade associations.

Hera has published a newsletter, sent to the Mayors of municipality shareholders via email, containing local area news as well as news of the entire Group. In 2010, 7 issues were published.

Local institutions

Water and waste management policies involve the participation of numerous local actors, who are the protagonists of the various phases: regulation, planning, management and control.

Regulation

By defining guidelines and strategies, the Emilia-Romagna Regional Government exercises the legal function of regulation of water resources and management of waste in agreement with the lower-level local authorities: the Provinces, Municipalities and Water Basin Authorities.

For the Integrated Water Service, the Water Protection Plan is the main document which sets forth both the qualitative and quantitative objectives pursued:

- maintenance and re-balancing of the water balance between availability and withdrawals, in order to define usage compatible with water resources, for the purpose of protecting said resources;
- assessment of the characteristics of water bodies through monitoring and the consequent definition of actions for the purpose of achieving quality objectives.

Similarly, in the waste management sector, the regional guidelines should be represented by the Regional Waste Management Plan, as prescribed in Article 199 of Italian Legislative Decree 152/2006. This should set forth measures aimed at favouring the reduction of waste production and the recovery of waste and the regulation of waste management activities through the promotion of integrated waste management, providing incentives for the use of suitable, modern technologies in order to provide the utmost guarantees of significant environmental protection, safeguarding of the health of residents and self-sufficiency in terms of the capacity of waste recovery and disposal.

Planning

Regional strategies are set out and applied by the provinces, the municipalities and the Water and Waste Regulatory Authorities.

In particular, the main regional instrument for implementing the Regional Authorities' activities is the Water and Waste Regulatory Authority, identified according to the provisions of the specific regional regulations, pursuant to Italian Legislative Decree 152/2006.

Awaiting the promulgation of the Regional Waste Management Plan and the full enforcement of Italian Legislative Decree 152/2006, each Province draws up and implements a Provincial Waste Management Plan (PPGR), and authorises and controls the construction and operation of waste disposal and recovery plants. In the same way, the Municipalities contribute to governing the Waste Management Services through specific Regulations consistent with the Area Plans.

For the water sector, alongside the Water Protection Plan, the Area Plan is the planning instrument that each Water and Waste Regulatory Authority uses to define the actions necessary to meet the requirements of the local areas. Also in this case, the Municipalities contribute to governing the service through specific Regulations adopted in harmony with the Regulation resolved by the Water and Waste Regulatory Authority.

Management

The Water and Waste Regulatory Authorities are in charge of organising and regulating urban waste management services and integrated water services. Within the area managed by Hera, there are eight Water and Waste Regulatory Authorities: six in the Emilia-Romagna Regional Government, the Pesaro and Urbino Authorities and the Toscana Centro Water and Waste Regulatory Authority. The Water and Waste Regulatory Authorities are responsible for representing the collective demand for the services and governing the production and supply of said services to users.

The operators are the companies that materially provide the services to residents. The services are governed through service agreements, contractual documents which specify the standards and performance that must be guaranteed, the cost of the services, and the related financial plans, and penalties and sanctions in the event of breach of the provisions. Therefore, the operators and the Water and Waste Regulatory Authorities collaborate in their areas of operation in order to draw up the best services framework, with a view to optimising the system.

Generally, operators are also in charge of the administrative activities, such as stipulating, amending and terminating supply contracts for the integrated water services or part of the services, measuring and recording the products supplied and services provided, invoicing and collecting payments for tariffs.

The authorisation processes envisaged by national and regional regulations for various types of plants managed by Hera involve – in an integrated manner – the technicians from various local institutions in the Services Conference, a meeting point for the various skills required for a complete assessments of the different impacts on the environment of a new plant or the operation of an existing plant.

Control

Environmental management and control of water are exercised at local level, by numerous parties, each with specific duties.

For the purpose of protecting public health, the Regional Authorities are in charge of coordinating the activities of the Local Health Authorities, which mainly consists in issuing directives containing criteria for drawing up plans for control of water for human consumption.

The Local Health Authorities carry out controls on water based on plans which take into account the regional directives, fixing the points representing the quality of the aqueduct plants. They also carry out inspections of the plants to assess the structural and functional conditions and identify any criticalities.

In line with the duties assigned by the Water and Waste Regulatory Authorities, also Hera, in its role as an operator of Integrated Water Services, controls the quality of drinking water according to the provisions of current regulations and, specifically, according to Italian Legislative Decree 31/20012 which states that the Operator must guarantee that water is suitable for drinking up to the point of delivery to users (meters).

ARPA carries out controls on all waste management plants resulting from the Hera Group's operations, with specific reference to verifying the limits defined in the authorisations. It draws up reports on specific issues for the purpose of providing a basis for possible environmental reclamation and quality improvement policies. It also provides technical support for laboratory tests.

The Regional Authority for Water Service Supervision and Urban Waste Management assesses the quality of services and protects the interests of consumers, also through an Observatory, in order to constantly inform consumers and users.

During 2010 Hera received 34 warnings, compared to 39 in 2009, which were followed by the fulfilments required by the supervisory bodies.

All warnings pertain to environmental issues and none was impugned before the cognisant authorities.

Additionally, 55 administrative sanctions totalling Euro 120,263, mainly for environmental violations, were paid in 2010. There are also two sanctions (for a total amount of Euro 130,000) paid as a result of investigations by the AEEG and a sanction of Euro 190,000 ordered by the AGCM as a result of an investigation. In this regard, the details are provided in the following paragraph.

Clean energy from old landfills

On 19 July, in Bologna, the Emilia-Romagna Regional Government, ANCI Emilia-Romagna, Confservizi Emilia-Romagna and UPI Emilia-Romagna signed an agreement to promote the construction of photovoltaic plants in old landfills. The agreement moves in the direction of providing incentives for the generation of energy from renewable sources, in line with the goals of the regional energy Plan, but demonstrating care for soil utilisation. The land of old landfills is bound by an obligation to restore its environment, and hence it represents an opportunity to install photovoltaic panels without having to use more highly valued land. An additional advantage of this solution is that the areas in question are manned by specialised technical personnel. Hera manages 34 old landfills, where it will be possible to install these plants.

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 often take the form of agreements or memorandums of understanding, i.e. the form considered most suitable by the signatories to ensure the fulfilment of reciprocal commitments and subsequent application. The following are a few examples of the main elements of some agreements:

- Master agreement between Hera S.p.A. e Last Minute Market S.r.l. for the design and implementation of actions to reuse products and reduce waste (signed 28 May 2010), such as recovery of uneaten food at Hera's company canteens, design, development and promotion, in the area served by Hera, of initiatives for the reuse of food and other products available at home and non home users.
- Master agreement with Last Minute Market; six memorandums of understanding were signed for the "CiboAmico" project between Hera S.p.A., Concerta S.p.A. and the associations that benefit from the donation of uneaten foods from company canteens: Opera di Padre Marella (Bologna and Granarolo), Comunità Papa Giovanni XXIII (Imola e Rimini), Comunità Arcobaleno and Associazione Il Piccolo Principe (Granarolo).

- Memorandum of Understanding (signed 28 December 2010) between the Municipality of Rimini, Hera S.p.A., Romagna Acque S.r.l. and Adriatica Acque Società delle Fonti S.p.A. for the construction of a “Water Kiosk” (the same type of memorandum was also signed by the Municipality of Cesena on 26 October 2010). The memorandum pertains to the construction of a dispenser of flat or carbonated water, at ambient temperature or refrigerated, located in a space, e.g. a public park, to facilitate its use by the citizens.
- After a first experimental application period, the revision was started of the agreement between Municipality of Ferrara, Province of Ferrara, AFM Ferrara, Ferrara USL (Local Health Authority), University of Ferrara – Pharmacy Department, Ferrara Association of Pharmacy Owners, *Associazione Farmacia Senza Frontiere* (Pharmacy without Frontiers Association), Last Minute Market and Hera for the project called “*Ancora Utili*” (Still of Use), aimed at the recovery of medicinal drugs obtained through donations from private citizens, from clinics and public and private hospitals in order to satisfy in a focused manner the needs of non-profit organisations that operate with medical personnel in developing countries.

The R.A.E.E. (waste from electrical and electronic appliances) project in prisons is consolidating

After its extension to Forlì in 2009, in 2010 the “RAEE in Prison Project” for the pre-treatment of Waste from Electrical and Electronic Appliances, active also in Bologna and Ferrara, was consolidated. Launched between late 2007 and early 2008, it was devised, developed and coordinated by Hera and by Techne. Among other partners, it involves the Emilia-Romagna Regional Government, the Regional Prison Superintendent’s Office, Provinces and Municipalities of Forlì-Cesena, Bologna and Ferrara, the RAEE Ecolight and Ecodom consortia, professional training agencies, social cooperatives: it is the first national inter-prison project for prisoner work placement.

The prisoners are employed in laboratories (in the Bologna and Ferrara prisons, and extended to Forlì) suitably set up and equipped for the disassembly of RAEE from the Hera Group separate waste collection centres. Once treated, the various components of the waste are sent to specialised plants, in order to obtain recovery of over 85%.

The prisoners are employed on average from 15 to 30 hours per week, receive suitable remuneration and are permitted to participate in trade union negotiation. The quantity of electrical and electronic waste treated each year amounts to about 1,000 tonnes. According to estimates, the operation contributes to save 2 million kWh of electricity, to recycle over 660 t of iron, 10 t of copper, 5 t of aluminium, 25 t of plastic.

In these years and activity and in particular in 2010, significant training and occupational results have been achieved: 25 prisoners have been involved from the beginning of the “theoretical/practical training” and today 12 prisoners are employed in laboratories, remunerated for the RAEE disassembly and pre-treatment operations, a professional activity that has become productive, durable and stable and facilitated overcoming welfare-state driven logic.

Relations with authorities

The Italian regulatory authorities

The Italian regulatory authorities that mainly affect the Group's activities are the AEEG [Italian Authority for Electricity and Natural Gas] (insofar as monitoring and regulating quality levels, setting rates for grid activities and the regulated components of the sales activities, monitoring of economic, accounting and organizational aspects of the activities that concern the equal treatment of competitors and the transparency of the conditions for access to the networks) and the Italian Antitrust Authority [AGCM] (antitrust, authorizations for mergers and acquisitions, protection of consumers and monitoring of the correctness of commercial policies).

Relations with the AEEG are specifically structured, also in view of the obligations to consult with regulated operators, prescribed by the law that instituted it.

In 2010, in view of the relative maturation of the regulatory environment, which requires adjustments and partial revisions but is progressively less oriented to radical reforms, intensification continued in control and inspection activities and in the verification of the actual enforcement of the regulations.

In 2010, the Group was subjected to two distinct inspections carried out by the AEEG:

- conformity of replies to complaints (Hera Comm), which ended with the notification of some non conformities and charging of the related penalty (i.e. Euro 90,000, reduced to 25% due to the operator's acceptance of the observation without objection). It is not a sanction, but rather a penalty calculated automatically according to the number and type of non-conformities noted;
- conformity of the information transmitted for the purposes of recognising incentives for the safety of the gas distribution service (Hera S.p.A.), which ended with the request for additional documentation, sent to the Authority within the prescribed times, and consequent correction of the data transmitted previously.

The status of the investigations started by AEEG in 2009 is as follows:

- with respect to the obligation to replace cast iron tubes with hemp and lead joints (VIS 92/09 resolution): documentation and counterclaims were sent and the proceeding is still awaiting conclusion;
- with respect to the erroneous application of the gas volume correction coefficient (VIS 100/09): the proceeding ended on 26 July 2010 with a sanction of Euro 50,000;
- with respect to the non-conformity of electrical bills in terms of transparency (VIS 93/09 resolution), the proceeding ended on 11 October 2010 with a sanction of Euro 80,000 (the amount was mitigated, relative to sanctions to other operators for the same issue, by the commitments, made during the investigation, to upgrade the layout of the bills in a short time).

With regard to the investigation started by AGCM involving an alleged abuse of dominant position, the proceeding ended on 21 October 2010 with the approval of the commitments proposed by Hera and currently fulfilled.

The status of other ongoing investigations is as follows:

- AEEG, VIS 73/09 and 15/10 resolutions pertaining to selling Companies' making available data about electrical distribution customers "not treated on an hourly basis": after receiving the conclusions of the investigation, Hera

transmitted additional elements and arguments with respect to those collected in the previous inspection, which are at the attention of the Authority (the proceeding has not yet been closed);

- AEEG, VIS 45/10 resolution pertaining to notices to customers about the application of bi-hourly fees for the sale of electricity: Hera transmitted the information to the AEEG and changes are currently being made to comply with notice obligations (the proceeding is ongoing).
- AEEG, VIS 18/10 resolution pertaining to a preliminary investigation on the installation of turbine-driven gas meters: the requested information has been provided and a hearing was held at the Offices of the Authority;
- AGCM, PS/681 investigation on alleged unfair or deceiving commercial practices in the water services industry (late notice of fee changes; acceptance of an insurance fund for leaks by tacit consent): the investigation ended on 1 December 2010 with a sanction of Euro 190,000.

Ecologic Nurseries in Rimini

This is the title of an innovative project Hera carried out in Rimini in 2010 thanks to the collaboration of the “Eco-idea” office of the Province of Rimini, of Società Punto3 and of “Il Millepiedi” Cooperative. Five meetings were held in all, two for teachers and auxiliary personnel and three for parents, on home ecology, water and energy saving, separate waste collection and laboratories for the construction of toys from discarded materials. The target involved was that of nurseries, which sometimes are challenging to reach.

The Water and Waste Regulatory Authority (ATO)

One of the pivotal points of the evolutionary process that has involved the local public services system in recent years is the separation of the functions of regulation and inspection on one side (maintained by public administration) and management on the other side, opening the supply of services to public-private or completely private businesses. The other fundamental concept identified is that of “optimal regional environment”, meaning the size of the area necessary to guarantee management based on the principles of efficiency, effectiveness and economy, overcoming the current fragmentation.

The laws that introduced this concept for water services and urban waste management are Law 36/1994 (Galli Law) and Italian Legislative Decree 22/1997 (Ronchi Decree), respectively. The Emilia-Romagna Regional Government, in Regional Law 25/1999, identified the optimal regional environments in the province and provided for the establishment of ATOs for public services, with jurisdiction over integrated water services and management services for urban waste and related functions. ATOs took over the functions, previously carried out by Municipalities, of regulating and overseeing services, introducing a large area view to assure greater operating efficiency, effectiveness and economy.

In brief, the functions of the Water and Waste Regulatory Authorities include:

- specific planning activities for services and preparation and approval of investment programmes;

- this function is concerned with defining procedures for contracting services, defining relationships with operators, drafting regulations related to services, and setting rates;
- inspection of services performed by the operator;
- protecting users interests, guaranteeing continuity and quality of fundamental services, and avoiding the risk of critical or emergency situations.

In June 2008, the Emilia-Romagna Regional Government issued Law 10/2008 which contains measures on the reorganisation of local public services. This law provides for organisational restructuring of ATOs (which also assumed the title of *Autorità di Ambito*) and of their jurisdiction. Their role insofar as tariffs are concerned remains unchanged.

Subsequently, Law 191/2009 prescribed that current ATOs would be shut down by 2010 and their functions would be reassigned by regional law; as of the date of approval of these Financial Statements, a governmental order extended the existence of current ATOs at least until 31 March 2011.

Hera's participation in the development of public policies

In order to safeguard its interests and to promote discussion on the development of the market and regulated services, the Hera Group is involved with the appropriate institutional offices both by participating in developing the positions issued by the relevant associations (especially Federutility) by participating in delegations and roundtables organised by them, as well as, increasingly, individually, by direct involvement with the public administration and regulatory and law-making entities.

As regards innovation in the institutional framework of local public services, the Group has earned a leading role, especially in promoting principles such as the need to industrialise services, rationality in management and independence in economic regulation.

Examples of individual contribution provided during 2010 are Hera's direct participation in the consultation on the revision of criteria for the recognition of energy savings in final uses (energy efficiency), on the reformulation of the Code of Commercial Conduct for the sale of electricity and gas and on support to experimental technology for the increased use of electric cars. Participation in the consultations promoted by the AEEG with the concurrence of the association system prevailed on the occasion of the reform of the regulation of electrical service quality, of the identification of new economic mechanism to regulate gas balancing, with respect to the issue of operator protection in case of missed payments by end customers, with respect to the development of an "integrated information system", of the setting of communication standards in relations between sellers and distributors, of the progressive reform of the gas market and of the provision of incentives to improve network safety.

Hera was also actively involved in the design of the emission reduction strategy (essentially with respect to energy efficiency through measures pertaining to quality cogeneration and incentives for renewable energies) and it was a decisive player for the recognition of incentives to hybrid plants excluded from law-mandated benefits as a result of the legal uncertainty brought about by subsequent reforms to incentives for renewable energies.

Lastly, the complex process of the revision of electricity distribution rates started in 2010; in 2011, significant changes with economic impact are expected, with possible discontinuities with respect to the current model.

Research projects

The Hera Group's research activities in 2010 chiefly concerned the technological development of renewable sources, the development of environmental monitoring and control technologies, energy efficiency, optimisation of the network management. Particular focus was placed on applied research on systems for the production of energy from renewable resources through the finalisation of the design for the Laboratory for Energy, whose construction will start in 2011.

A series of activities aimed at leveraging intellectual property, now considered a veritable corporate assets in the economic and industrial world, were started. At the end of 2010, 15 patents for inventions and utility models were held, and 3 more were filed.

Leading research projects were:

- **Energy Laboratory.** During 2010, the final design of the Energy Laboratory was nearly completed. It is an experimental centre for research applied on technologies for the production of energy from renewable and alternative sources, whose construction will start in Forlì in 2011. The Laboratory will allow to assess different technologies, starting from those available on the market and those still in the prototype stage, thanks to an advanced measurement and data acquisition network. The experimental work will be managed in collaboration with the University of Bologna.
- **Emerging Pollutants.** The term “Emerging Pollutants” (EP) refers to various biologically active substances of anthropic origin such as personal care products, medicines, psychoactive substances associated with drug addiction and their metabolites. One particular category that runs across the above categories is endocrine disruptors. The presence of such substances in water is considered one of the most significant environmental issues of the past decade. In 2007, Hera began a research project designed to identify the primary emerging pollutants in water systems (with particular attention on drinking water), to improve analytical methods for quantitative determination, and evaluate the effectiveness of removal from the current treatment systems (water treatment and purification). Collaborations were started with the Italian Institute of Health, the Mario Negri Institute and the study group called “Endocrine disruptors and water intended for human consumption” (EDinwater) promoted by the Amga Foundation of Genoa. In 2010, the set of parameters to be monitored was defined and a control plan was implemented.
- **Environmental Catalysis.** The project, started in 2007 with the collaboration of the University of Bologna and with the participation of the Italian Institute of Health, involves investigating the possibility of using traditional catalytic converters, employed for the abatement of NO_x emissions, to abate dioxins as well. Testing of several commercial catalytic converters was carried out in 2007 with outstanding results, above all for those used in the Group's plants. In 2008, the prototype for a new filter was designed and sampling was planned for the detailed characterisation of the emissions through analyses carried out by Group laboratories in collaboration with the Italian Institute of Health. Sampling started in 2009 at the new waste-to-energy plant in Forlì. In parallel, a study was

conducted on a catalytic converter used by the Group, with interesting results. In 2010, the Italian Institute of Health continued its analysis of the collected data.

- **Automatic Leakage Detection.** The project consists of studying innovative systems for automatically locating water leaks, to be used with the remote reading system. A test site was set up in 2007, and tests in different environmental conditions were carried out. The initial results of the experiments were extremely interesting. In 2008, the survey techniques were refined through the creation of a device for the unattended acquisition of samples from the field, the development of an instrument for statistical analysis and the design of a device that simulates water leaks. The device was built in 2009 and installed with actual users together with the acquisition instruments developed the previous year. The significant mass of information allowed for improved characterisation of the physical phenomenon compared to the past. In 2010, a device that will enable easily to acquire data in different connections and under different operating conditions was designed and built.

- **Bio-Hydro.** This project aims to develop a cycle for the disposal of organic waste from the agricultural and livestock sector which consists of fermentation using hydrogen of at least one type of agricultural-livestock waste and the co-digestion using methane of the residue from this process with other agricultural and livestock waste and/or the organic portion of solid urban waste. The project is carried out in collaboration with Herambiente and the Faculty of Engineering of the University of Bologna while it is co-financed by the Ministry for Agriculture and Forest Policy. In 2010, initial work was carried out for the characterisation of agricultural-livestock waste and different waste matrices were acquired, to be used in the hydrogen-based bio-conversion process and anaerobic co-digestion of the effluent from hydrogen-based fermentation. In parallel, the University is carrying out bio-production tests and the design of prototype reactors.

- **Automatic Plant Management.** This project, developed in collaboration with ENEA, provides for the development of a system for the automatic management of the main operating parameters of the water service plants. The system must maintain the process conditions of a specific plant under conditions of maximum efficiency, and depending on the composition of the wastewater (wastewater treatment plants) or raw water (treatment plant). In 2008, the work started at the Calderara di Reno (Bologna) wastewater treatment plant which will be used as a testing site. In 2009, the instruments for analysis and control were installed at the site and the data was collected from the field. The data acquired during 2010 validate prior knowledge on continuous flow wastewater treatment systems, and identify the existence of new characteristic points in the signals related to the monitored quantities, with the possibility of identifying characteristic or anomalous operation in the plant. In general, the theoretical applicability of automatic control to full scale plants was demonstrated.

- **Water Cycle Plant Modelling.** The project, carried out in collaboration with ENEA, provides for the development of mathematical models for the simulation, both hydraulic and process, of treatment plants. The objective consists of acquiring the instruments and the know-how necessary to launch the coordination of the mathematical modelling of integrated water cycle plants. In 2009, the preliminary activities were carried out for the development of the sample site model and the selection of the calculation software from among the software

available on the market. In 2010, at the end of the evaluation work, the software licenses were acquired. In 2011, the modelling activity will start within the Group.

- **Energy recovery in water service plants.** In 2010, some assessments were carried out on the possibility and technologies to perform energy recovery work in water service plants. A first feasibility study was developed to perform energy recovery work within the Bologna purification plant through high performance volutes.

- **Characterisation and analysis of polyethylene pipes in operation.** Polyethylene water pipes are characterised by a failure rate that has traditionally been higher than that of pipes made of other materials. To study the causes of this situation in greater depth, a project was launched for a critical analysis of failures, with the goal of increasing know-how on such pipes, provide simple criteria to classify the different types of failures, of identifying the main causes and defining improvement plans. The project is developed in collaboration with LyondellBasell, one of the world's leading polyolefin manufacturers, and with the Plastic Material Testing Laboratory Foundation of the Chemistry, Materials and Chemical Engineering Department of the Milan Polytechnic. In 2010, samples were collected from segments of pipes where failures were noted, and the sampled specimens were visually analysed, the statistical analysis of the failures and laboratory tests were also started.

Hera invests in innovation and research

In 2010, the studies planned for the year were completed; they pertained to the agreement signed in September 2009 between Hera, the Modena and Reggio Emilia University and the Alma Mater Foundation in Bologna, which calls for funding of Euro 248 thousand in 4 years by the Group. Through awards, a doctorate scholarship and funding for new research, education is promoted for the attainment of high levels of technical-scientific knowledge and the development of applied research within the Department of Engineering of Modena. Improving the operation of electrical and thermal generation plants, fume purification systems in waste-to-energy plants, quality and safety of electricity distribution grids: these are the issues to be studied. For the improvement of plant operation, in 2010 an innovative plant layout was completed for an electric and thermal energy generation plant, combining a waste-to-energy plant with a natural gas fuelled thermoelectric plant. This plant layout will be developed in 2011. With regard to waste-to-energy plant fume purification systems, the best technology for mercury abatement were identified and the various technologies currently used for the removal of acid gases were compared: in 2011, on the basis of the studies already carried out, the technologies of interest for Hera will be identified for the purposes of subsequent activities. For the improvement of the quality and safety of electricity distribution grid, the effects of the connection of diffuse generation in the operation of distribution grids were analysed, completing the study specified by the agreement.

This agreement is added to those already implemented with DIEM (*Dipartimento di Ingegneria delle Costruzioni Meccaniche Nucleari Aeronautiche e di Metallurgia*; Department of Engineering for Mechanical, Nuclear, Aeronautical and Metallurgical Constructions) of the University of Bologna and with ENEA. The first one concerns the study, analysis and construction of systems, techniques and instrumentation aimed at improving energy efficiency, using renewable sources and limiting the environmental

impact. This agreement involves a financial commitment of Euro 75,000 for Hera. In 2010, DIEM collaborated in the final design of the Laboratory for Energy, which will be built in Forlì from 2011 onwards. The second one instead involves a commitment of Euro 160,000 and is aimed at the study, analysis and construction of systems, techniques and instrumentation aimed at optimising the processes for treating civilian and industrial wastewater and saving energy. The experiments carried out in 2010 yielded a deeper knowledge of continuous flow wastewater treatment systems, identifying new characteristic points in the signals of the measurements of the process control parameters.

Local Communities

Hera intends to take stock of the needs of the area in which it is operational. This commitment is expressed through listening to and involving the main consumer, trade and environmental associations in an intense activity of dialogue on environmental issues and numerous other initiatives involving the raising of awareness in schools.

In 2010, transparency in the management of the Group's plant was also achieved through visits to the waste-to-energy plants that can be booked online; this initiative is added to the three consultative committees (RAB) of citizens residing near Hera plants.

Objectives and performance

What we said we would do...	What we have done...
<ul style="list-style-type: none"> • Realize a new brief version of the Sustainability Report, thereby increasing its dissemination. • Design and formulate a report on the use of the waste collected separately. • Improve the section on the website which is dedicated to the Group's waste-to-energy plants. • Implement the tour of the Modena waste-to-energy plant. • Extend the CiboAmico (donation of unused food to associations within the local areas) initiative to all company canteens. 	<ul style="list-style-type: none"> • The abbreviated version of the Sustainability Report was completely revamped in its graphic format and disseminated in 130,000 copies (40,000 in 2009) also through a daily newspaper. • In October 2010, 40,000 copies of "<i>Sulle tracce dei rifiuti</i>" ("Tracking Waste"), a folder that reports how and to what extent waste collected separately is recovered, were published. (see page 240) • In September, a new section of the Website, entirely dedicated to the Group's waste-to-energy plants, was published. (see page 169) • The plant visit route was inaugurated in October. (see page 221) • CiboAmico was extended in 2010 to the canteens of Granarolo (Bologna), Imola and Rimini. Overall 9,000 meals were donated to 4 local non-profit organisations. (see page 231)
We shall...	
<ul style="list-style-type: none"> • Implement the regular production of reports on the use of the waste collected separately and disseminate them more widely. • Deliver the "<i>rifiutologo</i>" ("wasteologist"), i.e. an information guide on the separate collection of urban waste, and a folder on equipped drop-off points and the collection of oversize waste to all citizens. • Give continuity to environmental education activities in schools. • Improve the sections of the website dedicated to the quality of drinking water and separate waste collection. • Extend the CiboAmico (donation of unused food to charitable associations within the local areas) initiative to the Ferrara and Ravenna canteens. • Extend the "VolontariHera" initiative to promote company volunteers to all areas. • Start construction of a renewable energy laboratory in Forlì. 	

Breakdown

In Hera's service area, there are nearly 3.5 million inhabitants. The provinces in which the company is operational host approx. 14,000 non-profit organisations.

Every year, Hera works together with about 700 schools (involving over 40,000 students in environmental education activities). Hera develops projects with many associations.

Communication

Social and environmental communication

In line with the strong awareness on environmental issues that Hera Group has been developing for years, the communication strategy for 2010 focused on environmental aspects, energy and energy savings, in the conviction that a development model cannot afford not to be sustainable. As the de-regulated electricity market resulted in more investments in commercial communication and the enhancement services for interacting with customers (call centres, branches with a new layout, on-line services available from the website), the communication objectives connected to environmental sustainability were pursued just as forcefully, promoting the quality of the relations between Hera and its areas of operation.

In 2010, the Hera Group continued its efforts in the promotion of tap water, on one hand continuing to provide correct information on its quality, on the other hand studying innovative solutions to promote virtuous practices by citizens invited to use tap water to save money whilst protecting the environment where they live by reducing packaging materials and CO₂ emissions. On the worldwide water day, the Hera Group thus organised in Ravenna the signature of the Mayor's Water Manifesto, whereby the Mayors of the Towns served by Hera made the commitment, together with the company, to promote use of tap water in public offices and by citizens. Additionally, the Hera₂O project continued; thanks to it, in the Group's canteens and offices, tap water is now regularly drunk.

Commitment for sustainability was also translated in the Group's institutional communications through the most important campaigns of 2010. With the campaign entitled "*Tutti hanno bisogno di Hera*" ("Everyone Needs Hera"), for example, the company wanted to illustrate to its customers the true nature of a commitment to serve its local area, which spans four essential services (water, waste, light and gas) which revolve around citizens as different steps in an action to safeguard their health, well-being and future. The subsequent campaign, instead, was dedicated to promoting citizens' best practices on the separate collection of organic waste. Through the slogan "*È un peccato non fare la raccolta differenziata*" ("It's a sin not to go for separate waste collection"), connected with the apple of the original sin discarded at Adam and Eve's feet, the company wanted to communicate to its customers that the correct disposal of waste is the key to turn our world into a small paradise, something precious to protect and safeguard together. This evolved into the latest campaign, explicitly dedicated to the issue of sustainability, "*Facciamo meglio quel che è bene*" ("Let's get better at doing

what's good"): the slogan expresses a strong assumption of responsibility by the Group, aware that it is not enough to adopt virtuous behaviours, but that the true challenge is to do so in the best possible way. This campaign (devised by Annamaria Testa) won first prize as the best environmental communication campaign in the Corporate category, at the Bica (International Corporate Communication Exchange) held in Rome on 26 October 2010.

In 2010, an environmental education path was designed and laid out, leading to the discovery of the composting and renewable energy generation plant of Romagna Compost in Cesena, a company of the Hera Group. The path comprises a series of panels that explain in a simple, immediate way how to obtain renewable energy and compost from organic waste. In 2010, the Romagna Compost plant was ranked among the top 10 companies for the waste treatment industry by the Committee for the "Sustainable Development Award" at the Ecomondo Fair in Rimini. The plant will be available for visits by schools, groups and delegations, accompanied by experienced personnel who will explain its operation using the visual path and giving visitors a booklet that summarises the contents of the visit.

Taking part in exhibitions and trade fairs

In 2010, the Hera Group renewed its presence at "*Ravenna 2010. Rifiuti, acqua, energia. Economia ambientale*" ("Ravenna 2010. Waste, water, energy. Environmental economics"), both with its own exhibition stand and environmental sustainability laboratories arranged with school pupils, and through the preview presentation of the folder on waste traceability, produced to explain to citizens in a clear and simple manner, where separately collected waste ends up and how much of it is actually recovered. Participation in Ecomondo also continued; it is the international exhibition for the recovery of waste and energy and sustainable development. At Ecomondo, Herambiente proposed to the public's attention its narration of the excellences that characterise Hera's concrete commitment in favour of environmental sustainability. In these trade fairs, reports dedicated to separate waste collection (Tracking Waste) and to drinking water quality (*In buone acque*, In Good Water) continued to be made available to visitors.

Hera on the internet

Hera's commitment to ensure timely and updated information on line that is in line with the transparency expectations of the various interlocutors continues. The information style is customised according to the interests and particularities of the respective stakeholders: customers, shareholders, various communities in the local areas and students. The contents offered focus on institutional issues or service issues and are set forth in several areas throughout the site, to facilitate the various browsing requirements. Traffic on the Group's site grew slightly from 2009 (+3%).

In 2010, a new section was opened; it is entirely dedicated to the Group's waste-to-energy plants, to discover their operation. A new, more pleasant and functional graphic layout highlights all plant details with intensive use of images, videos, interviews to sector managers, animated presentations. Each of the six plants managed has its own section with the description of the plant, its location, photographs, videos and data on atmospheric emissions, automatically updated every thirty minutes. Moreover, guided visits to the plants can be reserved directly online. Another important innovation in the

site is the section “*Sulle tracce dei rifiuti*” (“Tracking Waste”) which shows how separately collected waste is recovered; the section stems from the 2010 publication of the folder, distributed in 40,000 copies. Visitor’s enjoyment was confirmed by the traffic recorded: the new pages received 5,000 visits during the first two months of publication (November-December 2010).

VedoHera continues to be successful: it is the online newsletter on sustainability which is published quarterly, launched in May 2008, which in 2010 was sent to 60,400 addresses and received nearly 18,000 visits and over 28,800 page views.

2010 was also the year when the section dedicated to schools was completely restyled: the section was made more pleasant and attractive from the graphic viewpoint, as well as more functional and able better to meet students’ and teachers’ needs. For the first time, schools were able to send all requests and to sign up for all teaching projects through the site: page views quadrupled, from 7,620 to 44,673.

The effectiveness of the Hera Group’s online communication was stressed in 2010 by three major achievements:

- first place in the 2010 Lundquist CSR Online Awards;
- second place, confirmed for the second year in a row, in the Halvarsson&Halvarsson Webranking standings;
- fourth place in the Italy 100 Lundquist Employer Branding Online Awards.

Brand new in 2010: installation of the application to surf through the Sustainability Report on iPad.

CSR Online Awards: Hera is Number One!

In October 2010, the 2010 CSR Online Awards, the first in-depth survey in Italy on the online communication of the Social Responsibility of Enterprises, presented its results. The survey, conducted by Lundquist, evaluated how Italy's top 50 listed companies use their institutional website to communicate their social responsibility. Hera was ranked number one, ahead of giants like Eni and Pirelli. Hera’s ability to use its site in an innovative, captivating way was particularly appreciated.

Monthly visitors of the website

Number	2008	2009	2010
Customers section	39,674	51,477	46,417
Suppliers section	2,871	3,512	5,027
Corporate Social Responsibility Section	1,694	1,826	2,854
Investor Relations Section	2,200	2,247	2,019
Other sections	24,628	34,986	54,148
Total	71,067	92,222	110,465

What is Hera’s reputation on the web?

Online word-of-mouth is constantly growing and evolving. On line applications that allow for an increased level of interaction between the site and the users are becoming available in many areas, in relation to the contents, procedures and objectives for use by the users. Hera’s analysis of the web is focused on blogs, forums, newsgroups and social networks, virtual places where it is easy to collect spontaneous views, as most of the content is placed there by users themselves.

In 2010, 3,424 posts that referred to Hera were analyzed, 1,130 more than in 2009. Presence in blogs grew by 64%. Less heavy, but still very significant, is presence in forums (14%), which declined from 2009. The analysis of social networks, such as Facebook and Youtube, was introduced in March 2010 and the posts analysed represent 15% of the total number.

The image profile of these presences is highly defined in the positive sense. In blogs and social networks, broadly positive are the references to sustainable initiatives, to support to local events, to good economic results and to statements about expansion strategies and growth targets. Hera emerges on the web as a company that is sensitive to social and environmental issues, concretely engaged on the territory and particularly attentive to its customers. References to incinerators appear negative, especially in relation to emissions and conflict of interest issues with respect to the implementation of separate waste collection; other negatives are certain specific issues on water quality and bills and, more in general, doubts on transparency and clarity in the relations between the multi-utility and the shareholder Municipalities.

Discussions in forums specifically pertain to financial matters: investors who post in Italian forums express positive opinions on the stock and their confidence appears to be strongly bolstered by the good performance of economic indicators and, more marginally, by rumours about possible alliances and joint ventures.

Recycling pays at the La Rotonda shopping centre in Modena

Recycling pays, first and foremost for the environment. With this slogan, Hera joined E.Leclerc-Conad and Tetra Pak Italia to promote the separate collection of polylaminate packaging. Near the hypermarkets cash registers, a special machine for the collection of Tetra Pak containers was installed. In return for used packages, the machine issues tickets that entitle to a discount on purchases. The initiative also involved the Municipality of Modena and numerous schools, which participated in environmental education events inside the shopping centre.

Environmental education

The Hera Group has promoted for several years, in the various provinces where it operates, numerous environmental education projects, in order to raise awareness in schools on issues related to services and to take part in the educational process, making available our business experience.

Over the years, collaboration with schools has created a rich store of experience and it enabled to reach significant goals in this direction. The “Tuttigiùperterra”[We All Fall Down] initiative has evolved from this experience of many years and involves combining within a single organisational context the environmental education developed locally with wider reaching projects supported by Hera. In this context, two projects were re-proposed in addition to the education provided at the local level: “*Un pozzo di scienza*” (the “Science Well”), which ran for the fourth year in a row and the “*Itinerario Invisibile*” (the “Invisibile Itinerary”) promoted for the third year.

Environmental education projects

Number	2008	2009	2010
Schools involved	699	694	688
Participating students	45,617	39,901	41,306
Teachers involved	2,899	1,803	1,782

Data relate to Hera S.p.A.

The 2010 results confirm the success of past editions. In particular, two trends clearly emerge: firstly, the constant growth in the total number of students involved: the drop between 2009 and 2008 is explained, in terms of numbers, by the fact that from 2009 onwards the “Science Well” was addressed solely to high schools, with a consequent reduction in the number of students involved.

In 2010, Hera promoted and organized the fourth edition of the “Science Well” in association with the Marino Golinelli Foundation of Bologna. This event was dedicated to the dissemination of a scientific culture and environmental education. For three days, boys and girls participated in educational workshops, meetings, and presentations on the environment, energy and water. Approximately 8,356 students and 236 teachers were involved in 45 meetings in 9 major cities of the Emilia Romagna Regional Government. This success was evident in the quality of the project and the level of the events that included scientific research entities and institutes, scientists and researchers, which explained and expanded on the subjects. The boys and girls had the chance to come closer to scientific knowledge and learn about Hera’s activities in an educational, entertaining way. The event was sponsored by the Emilia-Romagna Regional Government, the Regional Academic Office, the Provinces and the Municipalities served. This initiative is slotted to take place in 2011 as well.

Eco box for appropriate disposal of mobile phones

In association with Eco-Recuperi of Solarolo (Ravenna), in 2009 Hera Group launched the Eco-Box Phone project which involves the delivery to schools of a free of charge container in which students can place their out of use cell phones (as well as those of their friends and relatives) and the related accessories. Each time these boxes are emptied, schools receive prizes in the form of computer electronics for educational use. Phones that are still operational are put back on the market, while for those that are beyond recovery Eco-Recuperi arranges for recycling and recovery of their parts. Over 500 schools of all types participated in the project: from 2010 to March 2011, 1,800 cell phones were picked up.

In 2010, Hera repeated the “Invisible Itinerary,” a project targeted to junior high schools and high schools with tours of Hera's plants, in order to teach about the waste, energy and water cycles and Hera's role in managing these processes that are part of our daily lives. The project, which is an evolution of classic visits to plants, covers six of the seven areas where the company operates its plants, involving 61 schools, 3,275 students, 91 teachers. For 2011, the fourth edition of the “Invisible Itinerary” has been designed.

Additionally, the new educational project called “Open Mind” was readied: starting from the 2010-2011 school year, it will enrich the educational offering aimed at high schools. This is a cd-rom based multimedia education kit which aims to provide information about the environment and the saving of resources to high school students.

Starting from the 2010-2011 school year, the educational offering for schools in our area has been particularly rich. Educational programs, laboratories and initiatives will travel along a single path, following a common thread. The teaching activities developed so far in the local areas with the collaboration of cooperatives and associations with strong roots in the local areas have been revised and reorganised to leverage the different experiences accumulated locally in recent years and to share them, taking the best out of each. The new environmental education project will be characterised by the consistency of its names, formats, methodologies, contents and teaching materials, with an offer extended to all schools from kindergarten to high school, in all local areas. To communicate more effectively, transmitting a coordinated image of the Group.

“RAEEbilitando”: we rehabilitate, creating new professional skills

The goal of the “RAEEbilitando” project is to contribute to the education and training of persons facing hardship (affected by mental or physical disabilities) in view of their placement in society and in the workplace, whilst increasing material recovery from discarded electric and electronic equipment. It originated and developed from the collaboration between Hera and partners like the ReMedia Consortium, the non-profit organisation *Opera dell’Immacolata*, and with the support of the Co.Lo. Raee Consortium and of Tred Carpi S.r.l.

In October 2010, a first laboratory was completed in the spaces of the *Opera dell’Immacolata Onlus* in Bologna, which takes care of the disassembly of the non hazardous fraction contained in the RAEE resulting from the separate collection of urban solid waste of the equipped drop-off points operated by Hera in the Bologna area. Over 85%, by weight, of components, materials and other substances (metals, plastics, power supply etc.) is expected eventually to be recovered or reuse, thereby reducing environmental pollution. Between 6 and 8 differently-abled operators, with the assistance of an experienced educator from the technical-professional standpoint. During the initial phase, it is estimated that about 32 metric tonnes of may be treated waste every year to reach 100 metric tonnes (2,300 kilograms a week).

Media relations

Hera’s presence in the media is monitored through a quarterly analysis of the quantity and the contents about it in the national and local media. The articles are weighted according to several significance criteria such as the circulation of the print medium, the size of the article, the position on the page, the presence or absence of photographs and the positive, neutral or critical tone of the article. The analysis also contains in depth analyses that delve into the main issues covered and the main criticalities highlighted by the various stakeholders.

Hera news items (national press review)

%	2008	2009	2010
Favourable or highly favourable articles	87.7%	92.2%	92.8%
Neutral articles	11.7%	6.6%	4.8%
Critical or extremely critical articles	0.6%	1.2%	2.4%
Total articles (no.)	618	268	258

Data do not include Marche Multiservizi.

Hera news items (local press review)

%	2008	2009	2010
Favourable or highly favourable articles	64.9%	70.5%	69.7%
Neutral articles	21.7%	14.1%	17.6%
Critical or extremely critical articles	13.4%	15.4%	12.7%
Total articles (no.)	5,792	5,083	5,540

Data do not include Marche Multiservizi.

On the national media in 2010, the Hera Group once again achieved nearly absolute positive visibility; on local print media, it was mentioned in over 5,500 articles, about 10% more than the previous year. Hera's presence on daily papers and periodicals is the result of continuous relationship with journalists, conducted according to the principles of availability and transparency and based on the exchange of information through press releases and conferences, telephone contacts and press meetings. One of the aspects that has certainly contributed over the past few years to improving the attitude towards Hera is the knowledge that it is possible to discuss openly with the company and to receive quick responses that are in line with the time required by the media.

The dailies and periodicals with nationwide distribution particularly emphasised the economic results achieved, top management interviews, moves on the acquisitions front and the awards won by the company. On the other hand, the topics that most interested local printed media were the economic-financial data, the focus on sustainability, projects linked to environmental education or separate waste connection, tap water quality and the many initiatives to the advantage of customers (discounts on district heating, favourable conditions for the unemployed, contest with prizes for those who selected automatic payment of the bills from the bank).

In 2011, the quality and frequency of relations with newsrooms, TV stations and local information sites will be developed even further, as they are highly significant media in the area in which Hera operates through which to promote the company's image and the information on services to citizens so that our presence throughout the area is even more widespread. Moreover, we intend to emphasise, on Italian media, the many outstanding features in the technological, organisational and social fields that make Hera a pioneering model at the domestic and European level.

Sponsorships and donations

The relations with the local areas, the closeness to residents and the respect for the environment are the leading forces behind the sponsorships that Hera Group chooses to make.

Sponsorship

(thousands of €)	2008	2009	2010
Recreational activities	120	90	28
Culture	798	882	1.004
Sport	222	301	386
Social	192	184	23
Environmental	110	123	90
Other	134	287	16
Total	1,576	1,867	1,547
<i>of which to local communities</i>	<i>1,527</i>	<i>1,779</i>	<i>1,537</i>
<i>of which to areas not served by Hera</i>	<i>49</i>	<i>88</i>	<i>10</i>

Hera supported the Bologna Cinetheque by identifying and sponsoring the major dates in the programme for 2010 and thus becoming one of its main partners. Among the main events are the “The Cinema Rediscovered” and “Under the Stars of the Cinema.” To these should be added the exhibition “*Fellini. Dall’Italia alla Luna*” (“Fellini. From Italy to the Moon”), a major show of the Rimini-born artist's masterpieces, with an exhibition set up in the MAMbo, the Museum of Modern Art of Bologna.

Among the main sponsorships of 2010 is that to the Cirque du Soleil, the world’s largest acrobatic circus company, which brought to Italy the “*Saltimbanco*” (“Acrobat”) show, for which Hera supported the Pesaro and Bologna dates. The Group also renewed its association with the “BilBolBul” international cartoon festival of Bologna, sponsoring its fourth edition and continuing its partnership with the “Future Film Festival,” which is the main Italian event dedicated to animation and special effects in movies.

Moreover, in 2010 the Hera Group participated, for the first time, in the Bologna Jazz Festival, which brought some of the leading players in the international jazz scene to the stages and clubs of Bologna, Modena and Ferrara.

Hera was determined not to miss the major events of the Emilia-Romagna artistic season by sponsoring the exhibition “Flowers, nature and symbols from 600 to Van Gogh” at the San Domenico Museums in Forlì and the exhibition “Histrionica”, held in the San Nicolò complex in Ravenna, with masks and findings from the classic Greek and Roman theatre were on display. Particular care was dedicated to theatrical activities, supported by the Hera Group throughout the area where it performs its services.

Hera also sponsored the “Internazionale a Ferrara” festival featuring debates and discussion with journalists from around the world and the Modena-based musical show “*Suoniamo*” (“Let’s Play”), attended by major Italian and international performers. The Group's support to Rimini's “*Notte Rosa*” (Pink Night) was also confirmed.

From the viewpoint of sporting events, thanks to collaboration with GS Emilia, Hera continued to support the great classic competitions of Italian bicycling: the “Coppi-Bartali” race, the “Giro dell’Emilia” (Tour of Emilia) and the “Pantani Cup”.

In Modena, we play football to fight isolation

“*Un calcio all'isolamento*” (“Kick away isolation”) is a pilot project of a football school for deaf-dumb children, launched in Modena in 2010 by Athletic Città dei Ragazzi thanks to Hera's support. About twenty young people are involved in the activities, inspired by the principles contained in the "Charter of rights of children who play sports". In addition to the enrolled children, the events are attended, as spectators, by about twenty boys and girls schooled at Istituto Tommaso Pellegrini in Modena, which is specialised in teaching deaf children and children with language problems.

Donations

(thousands of €)	2008	2009	2010
Recreational activities	4	4	2
Culture	30	29	33
Sport	4	4	1
Social	70	144	106
Environmental	14	13	63
Other	7	17	10
Total	129	211	215
<i>of which to local communities</i>	<i>103</i>	<i>183</i>	<i>195</i>
<i>of which to areas not served by Hera</i>	<i>26</i>	<i>28</i>	<i>20</i>

In 2010, the Hera Group confirmed its support to the Associazione Amici di Luca and the “Casa dei Risvegli” (Awakening Centre) an innovative centre for rehabilitation and research that has been active in Bologna since 2004, and is dedicated to people that have recovered from comas and vegetative states. The company renewed its collaboration with the ANT Foundation (National Association for the Study and Therapy of solid Tumours) and to the Istituto Ramazzini Onlus of Bologna.

A fairy-tale paediatrician, thanks to Hera

Within the project “Operating Rooms Fit for Children”, on 1 December 2010, in a fairy-tale setting, the Paediatric Pre-anaesthesia and Paediatric Surgery Awakening halls of the Bufalini Hospital of Cesena, decorated by illustrator Sally Galotti thanks to Hera's contribution, were inaugurated. The pictorial humanisation project is a part of the broader plan to restructure the paediatric ward, with the completion of coloured murals, with coordinated furnishings and accessories. The inauguration was followed, in the afternoon, by the public workshop “*Un ospedale a colori*” (A Hospital in Colours), dedicated to the effects of clown therapy and of pictorial humanisation on hospitalised patients, with the presentation of the results of a research by the Psychology Department, carried out on basis of the experience accumulated in recent years.

In the Cesena area, Hera decided to sponsor the Romagna Solidale project, promoting a series of actions within the scope of international solidarity, health, the aged, the differently-abled, the young and families. In 2010, Hera also supported the initiatives of the Ageop (Association of Paediatric Haematology Oncology Parents) of Bologna and, in the Ravenna area, the “*Vacanze Disabili*” (“Holidays for the Differently-abled”) project. In the Modena area, the Hera Group supported two major initiatives, like the “Football School” project for deaf-dumb children, organised by Athletic Città dei Ragazzi, and a project to allow children with Down syndrome to start participating in

sports, promoted by Amendola Volley. Hera also supports the Association of Friends of the Seragnoli Hospice in Bentivoglio, near Bologna. Lastly, among the most important projects are the sponsorships for the project called “*Una goccia di solidarietà*” (“A drop of solidarity”) organised by Associazione Pace Adesso (Peace Now Association) for the construction of an aqueduct in the Congo, and participation in the fundraising drive organised every year by the AIL (Italian Association against Leukaemias) with its Easter eggs.

At the Cesena Fruit and Produce Market, Separate Waste Collection Exceeded 70%

Testing of the new separate collection services, which started in September 2010 with the memorandum of understanding between the Cesena wholesale market and Hera, has already yielded excellent results, growing from 40% to 70%. The project involves the collaboration of all market operators, who have been issued with dedicated containers for the collection of organic and multi-material waste (paper, wood and plastic); the market then checks, with its own personnel, the materials transferred at the specially equipped drop-off point inside the facility. The goal is to achieve 80/90% by 2011.

In 2010, Hera, in compliance with its own Code of Ethics, did not make contributions of any kind to any party or politician.

Environmental provisions and compensations relating to new Hera plants

The authorisations for Hera’s 5 main new plants (waste-to-energy plants in Ferrara, Forlì, Modena and Rimini and cogeneration plant in Imola) contained specific environmental provisions and/or compensations. All 34 provisions were completed or were being carried out as of the date of approval of this Report.

Expansion of the waste-to-energy plant in Ferrara

Memorandum of Understanding between the Province of Ferrara, Municipality of Ferrara, North-West District, Hera (then Agea) of 25 June 2003

Integrated Environmental Authorization of the Ferrara Province of 11 March 2008, Ref. 21823

<ul style="list-style-type: none"> • Commissioning of only two new lines and decommissioning of Line 1 • Monitoring of the environmental impact of the waste-to-energy plant through specific analyses of the air and ground and bio monitoring. In particular, heavy metals, dioxins and furans, IPA, PCB and fine dust will be searched for in the points that are most influenced by the emissions of the plant (defined through a model on the basis of the meteorological conditions of the site). • Continuous mercury monitoring system • Continuous emissions sampling system for analysis, over the long term (up to 30 days) of micro pollutants emitted (dioxins and furans) • Establishment of an RAB to facilitate communication between the company and the citizens residing in the area surrounding the plant. • Building a 6 hectare wooded area • Extension of district heating to the outlying areas of Cassana, Mezzana, Porotto and Arginone, with a discount of 25% on the connection price 	<ul style="list-style-type: none"> • Line 1 was decommissioned in January 2009 and only the 2 new lines are operational. • Three new measuring sets were installed; air quality monitoring was started in September 2010. Studies pertaining to soil analysis and mutagenesis were also started: investigations on humid depositions and biomonitoring were launched. The details of the activities were defined by Arpa, Ausl and the Ferrara Province in a specific Environmental and Health Monitoring Protocol, based on a technical procedure proposed by the CNR (National Research Council) of Rome, which handles the scientific coordination of the activities • Completed • Completed • Completed • Completed • Completed the 2 connections that were being activated at the end of 2009. In 2010, 4 more connections to private users were completed: since 2008, 20 connections were completed in all. In 2011, the completion of additional connections is expected, in view of the interest in the service expressed both by public and private operators
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Construction of the new waste-to-energy plant in Forlì

Assessment of the Environmental Impact of the Forlì-Cesena Province no. 323 of 2 September 2004

Authorisation by the Province of Forlì-Cesena no. 339 of 27 September 2005

Integrated Environmental Authorization of the Forlì-Cesena Province no. 237 of 29 April 2008 as amended

DGP screening procedure no. 326 of 21 July 2009

<ul style="list-style-type: none"> • Construction of an 8 hectare wooded area, possibly along the Ronco river • Gradual replacement over time of the type of fuel used for the waste collection vehicles in Forlì, with diesel or gas with a gasoil/biodiesel or methane mixture. • Realization of a noise-reducing barrier for a dwelling near the biological purification plant managed by the Forlì-Cesena TOS • Planning and implementation of a district heating network for the use of the thermal energy generated by the combustion of waste • Decommissioning of lines 1 and 2 and operation of line 3 only • Construction of a monitoring detection device for the quality of the air around the waste-to-energy plant in the area defined by ARPA. The device must be transferred to ARPA in the form of a free of charge loan for use agreement once it is tested. • Realization of two information points with the data of the atmospheric emissions, one at the URP of the Province of Forlì-Cesena and the other at the URP of the Municipality of Forlì • Installation of a waste conveyor belt from the pre-selection plant to the waste-to-energy plant • Construction of an auxiliary aspiration and treatment system for polluted air aspirated from the new waste pit 	<ul style="list-style-type: none"> • Completed all landscaping work for the 8 wooded hectares, one of which was completed in 2010 and destined to be used as a public park (compliance notice to the Province of Forlì-Cesena on 27 January 2011) • A fuel mixed with bio fuel is used on the entire Hera fleet, in compliance with the law that requires producers to use a minimum amount of bio fuel which for 2010 is 3.5% and will increase in subsequent years. There were 63 methane/electric vehicles used by the Forlì-Cesena TOS as at 31 December 2010 (61 methane, 2 electric) which correspond to 25.5% of the total (there were 57 in 2009, 53 in 2008) • The procedure of rectifying the administrative acts (VIA) was concluded with the confirmation that the construction of the sound absorbing barrier is not necessary. • The authorisation procedures (DGP 77/2010) were completed, as was the first phase of construction of the TLR network feeding plant. Heat exchange will be activated in 2011, depending on the start-up time of connected customers • Completed • Active since 2009, with continuously monitored parameters (meteorological data, PM₁₀ and PM_{2.5}, NO₂, CO and gaseous mercury) and with periodic sampling (heavy metals and micro pollutants on the PM₁₀, ammonia, HF and HCl as gaseous pollutants). In April 2009, a gratuitous loan for use agreement was signed with Arpa. Since July 2009, continuous monitoring data have been published on the Arpa website, which then annually prepares a report with the results of the monitoring work performed. Information on the first report pertain mainly to the efficiency of the instruments • Completed • In 2010, the authorisation procedures were completed (DGP 77/2010), the project was developed and procurement procedures are ongoing • In 2010, the authorisation procedures were completed (DGP 77/2010), the project was developed and the delivery of the system in place was contracted and the system is currently being manufactured
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Construction of new cogeneration plant in Imola Ministry for the Environment, Protection of Land and Sea, "Environmental Compatibility" Decree no. 142 of 15 February 2006 Agreement between the Municipality of Imola, Hera S.p.A. and Hera Imola-Faenza of 21 December 2006 Integrated Environmental Authorization of the Bologna Province of 11 April 2007, Gen. Ref. 124043	
<ul style="list-style-type: none"> • Introduction of TSP (Total Suspended Particles) and PM10 limits of 1 mg/Nmc, sole turbogas plant in Italy • Pre-operational environmental monitoring with two new detection devices meeting ARPA specifications • Acoustic monitoring: pre-operational, during construction and with the plant in operation • Planning and development of a sustainable mobility pilot system for the city of Imola • Building of a wooded area to function as a barrier between the plant and the Zolino neighbourhood • Creating a green area of one hectare in zones to be identified by the Municipality • Introduction of emission limits for nitrogen oxide and carbon monoxide of 15 mg/Nmc and 10 mg/Nmc, equal to 1/4 the legal limit • Introduction of summer and winter water consumption limits • Providing incentives for the development of district heating and cooling through discounts 	<ul style="list-style-type: none"> • Average value of emissions in 2010: TSP: 0.004 mg/Nmc; PM₁₀: 0.149 mg/Nmc • The two new measuring sets have been operational since May 2007; comparison of 2010 data does not show any effect of the operation of the plant on the measured data • Monitoring before commissioning and during construction was completed; in 2010, three monitoring cycles were conducted with the plant in operation; the measured noise parameters were within the legal limits, except the night-time differential limits for a receptor were exceeded once. As a result, sound-proofing work was performed on the plant, eliminating the problem. Subsequent monitoring showed that all parameters are below the limits • The 20 planned recharging stations were installed and the 20 planned electric vehicles were delivered • Completed • The area is currently being acquired by the Municipality; landscaping will now be carried out by Hera • The installed abatement systems guarantee emission levels below the limits. The 2010 average data are 7.688 mg/Nmc of nitrogen oxides and 2.177 mg/Nmc of carbon monoxide • Water consumption was far lower than prescribed: 286,830 mc vs. 350,000 authorised • Contracts for over 7,000 kW were activated in 2010, in view of discounts for over Euro 600,000
Expansion of the waste-to-energy plant in Rimini Assessment of the Environmental Impact of the Rimini Province no. 259 of 28 December 2006 Province of Rimini screening no. 200 of 23 October 2007 Rimini Province construction authorisation no. 105 of 13 May 2008 Integrated Environmental Authorisation of the Rimini Province no. 13 of 28 January 2009	
<ul style="list-style-type: none"> • Decommissioning of the older Lines 1 and 2 and operation of only Line 3 and the new Line 4 • Lines 3 and 4 with catalytic system for the reduction of nitric oxides, with a continuous monitoring system for mercury in emissions, continuous sampling systems for analysis over the long term (up to 30 days) of micro pollutants emitted (dioxides and furans). • Environmental monitoring of air, soil, and groundwater components and biomonitoring. • Planning and implementation of a district heating network for the use of the thermal energy generated by the combustion of waste • Establishment of an information point with the data on the emissions into the atmosphere at the Municipality of Coriano by 30 June 2009. 	<ul style="list-style-type: none"> • Lines 1 and 2 were decommissioned in July 2008. In June 2010, the new line 4 was started; in September 2010, line 3 was decommissioned • Line 4 is equipped with the systems prescribed in the design and in the authorisation • Active since 1997 through a research contract with University of Bologna, Industrial Chemistry Department. Arpa carried out monitoring before construction of the new line 4. The results of pre-commissioning and post-commissioning studies will enable to define a plan for permanently monitoring the area • The final design was submitted to the Rimini Province on 21 December 2009. In 2010, no new activities were carried out, since the development to be served by district heating has been stopped • Completed

Expansion of the waste-to-energy plant in Modena Assessment of the Environmental Impact of the Modena Province no. 429 of 26 October 2004 Integrated Environmental Authorization of the Modena Province no. 311 of 29 June 2009	
<ul style="list-style-type: none"> • Decommissioning of the older Lines 1 and 2 and operation of only Line 3 and the new Line 4 • Lines 3 and 4 with a catalytic system for the reduction of nitric oxide, continual monitoring system for mercury and PM10, continuous sampling system for analysis over the long term (up to 30 days) of the micro pollutants emitted (dioxins and furans). • Environmental monitoring • Planning and implementation of a district heating network for the use of the thermal energy generated by the combustion of waste 	<ul style="list-style-type: none"> • In 2010, the plan for the demolition of lines 1 and 2 was prepared; they have not been used since September 2009, and the work contract award procedures are ongoing; the plan to revamp line 3, no longer in use since September 2009 was developed and, in September 2010, authorisation procedures (screening) were started • Systems active on the new line 4 and scheduled for line 3. • Active since 2004. It prescribes analysis campaigns for TSP, PM₁₀, micro-polluting metals in air, soil testing and analysis of atmospheric depositions and biomonitoring. Every six months, summary and comment reports are prepared on the data obtained from the monitoring work performed. • Works are nearing completion at the former Cattle Market, an urban recovery area where remote heating will initially be powered with a methane-fuelled thermal plant, to be connected to the waste-to-energy plant at a later time: after completing the distribution network and activating the first connections. In November, the Giardino district (Quartiere Giardino) cogeneration plant was inaugurated; it is a prerequisite, with integration and back-up functions, for the construction of the integrated energy system that will power the main heat distribution network. In 2011, work is expected to continue at the former Cattle Market, along with the activation of new users along the network sections already laid, and the commissioning of the cogenerating plant at the III Peep

Associations and Hera membership

Hera is present at the highest levels of organisations that are representative of the system of local public services (it appoints the vice-chairmen of Federutility and Federambiente), participates actively in their development and supports their institutional communication through the systematic participation of its members in the different roundtables opened with regulators by the Associations.

The Group is also a member of AIRU (the Italian association for Municipal Heating), CIG (Italian Gas Committee), Impronta Etica (an ethics association), the World Energy Forum (Italian chapter). It contributes to research activities regarding the public services sector conducted by leading institutions, both as a customer for specific research, and participating in the scientific debate proposed by them with contributions published in the record (AREL) and direct participation in top level bodies (IEFE board). Hera is also a member of the ASPHI Foundation.

Hera in the Club of Modena Businesses for Social Responsibility

In 2010 Hera joined the Club of Modena Businesses for Social Responsibility, promoted by the Municipality of Modena in association with Confindustria giovani imprenditori, Confcooperative, Legacoop, Confesercenti, Confcommercio, Lapam Federimpresa and Cna. Large and small businesses throughout the entire province are

part of this club and they meet in seminars and work groups in order to carry out projects of a social and environmental nature. Hera has promoted Hera₂O within the club and hence within the aforesaid meetings, by proposing the installation of tap water dispensers in the offices of the member companies.

Dialogue with local communities

In article 58 of its Code of Ethics, “Hera commits to giving due regard to the suggestions deriving from the communities in which it operates and to this end sets up consultation, information and participatory initiatives. This is particularly true for communities located near the plans.”

The Group’s commitment is more significant in the territories in which it builds or expands waste treatment or electricity production plants. In 2010 the activity of the RABs of Ferrara, Imola and Raibano (Rimini) continued.

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.

A RAB facilitates communication, the exchange of information and interactions between a company and the citizens residing in the urban areas surrounding the plants belonging to the company, these being areas in which environmental impacts or risk situations can easily develop, with direct repercussions on the urban environment. This mechanism was tested for the first time in 1998 in the Netherlands on the outskirts of Rotterdam, hosting a petrochemical complex managed by Shell.

The RAB at Ferrara

The first RAB (Residential Advisory Board) which the Hera Group participated in started up in Ferrara in 2005, upon the upgrading of the waste-to-energy plant managed by Hera.

Currently, it comprises five members elected by citizens of the neighbourhoods in question, the President of the District where the plant is located and two Hera representatives.

The planned model has introduced many innovative elements in the relations between Hera and the local community insofar as the presence and environmental impact of the waste to energy plant. The distinctive features that the RAB of Ferrara 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.):
- significant activities of data collection and documentation: in the first four and a half years of its activity (from May 2005 to December 2010), the RAB met approximately 120 times, i.e. nearly twice a month on average;
- the organisation of public meetings, involving technicians and specialists who illustrate and discuss the issues identified. Specific attention was paid to health aspects linked to waste management and separate waste collection: on the latter

issue, the RAB was often the protagonist in meetings between the various districts surrounding the plant;

- control of compliance with commitments undertaken, such as local offsets, meaning the creation of a new roadway link, the diffusion of district heating (connected to the recovery of heat from waste-to-energy plants), and the realisation of a new wooded area in the area between the plant and the nearby inhabited area of Porotto: six hectares were planted with indigenous plants that belong to the local phytoclimatic context.

In 2010, periodic checks continued on the data pertaining to the operation and atmospheric emissions of the waste-to-energy plant according to the procedure defined by the RAB together with the Hera technical personnel responsible for the plant. A quarterly report of disposed waste (showing its types and origin) and of the measured atmospheric emissions (compared with the legal limits and A.I.A. limits). The two reports are first illustrated to the RAB, then made available on the RAB site, www.rab-fe.org, which provides additional documentation such as the RAB newsletter and updated information on planned initiatives.

In 2010, the RAB planned several meetings for in-depth discussions, among the most significant issues it tackled:

- target and initial results of the Monitor project (Monitoring Incinerators in the Emilia-Romagna area) with Arpa and the Emilia-Romagna Regional Government technical personnel;
- state of the art of environmental monitoring in the area around the waste-to-energy plant with the participation of technical personnel from Arpa, CNR, Ausl and Ferrara Province;
- separate waste collection in the Municipality of Ferrara: 2009 results and 2010 development projects;
- results of the modelling of the emissions of the waste-to-energy plant with the data of the first two years of operations illustrated by technical personnel from the Ferrara Province;
- construction of a new sewer for the elimination of untreated discharges in the Porotto residential area (where the RAB is located), illustrated by Hera technical personnel.

The activities of the RAB were widely publicised in issues 8 and 9 of the RAB periodical “*Vediamoci Chiaro*” (Let’s see clearly), 5,000 copies of which were distributed to the local community.

The RAB organised a public evening meeting on the district heating plant in Ferrara, together with Hera and the Ferrara Municipality. The citizens of the RAB attended the information meetings on separate waste collection organised by Hera and reported on the activities carried out.

As a result of this project that promoted the establishment and development of the Ferrara RAB, in 2006 the Hera Group was awarded the Sodalitas Social Award in the category “Internal Social Responsibility Processes.”

Transparency in Hera waste-to-energy plant emissions

On the Group’s website, since early 2008, the average values of the emissions from the Group’s waste-to-energy plants from the previous day and the “half-hourly averages” can be consulted (every half hour the on-line data are updated with the average value

recorded over the past 30 minutes). The data are automatically sent from the detection systems, operational on a 24/7 basis in all plants (the Group's waste-to-energy plants are located in the provinces of Bologna, Ferrara, Forlì-Cesena, Modena, Ravenna and Rimini).

As a further guarantee of transparency, Hera commits to:

- daily or weekly reporting of the half-hour and daily averages to the control agency (ARPA);
- yearly reporting on the plant's operations, by 30 April every year, to the competent authorities (Provinces) and control agency (ARPA);
- if the plant is EMAS certified, the control results are published upon formalisation of the "Environmental Declaration";
- for the Ferrara plant, make quarterly reports available to RAB;
- publishing annual data in comparison with legally established limits and Integrated Environmental Authorisation limits in the Group's Sustainability Report.

In order to facilitate access to the monitored data, touch screens displaying the atmospheric emissions were installed at the Municipality of Coriano (Rimini) and the branches at the Municipality of Forlì and the Province of Forlì-Cesena.

In 2010, a new web channel, entirely dedicated to waste-to-energy plants, was opened, to offer clearer, more easily viewed contents with videos, interactive graphic animations and a simpler, more captivating communication style. It was well received, as confirmed by the higher number of accesses progressively recorded: the number of visits increased by 112% (over 16,000 in 2010). Among the new services created, the calendar with the availability of all guided tours and the possibility to reserve them online directly from the Hera Group's site.

The RAB at Imola

Linked to the cogeneration plant constructed in Imola, the RAB is composed of 12 members: 3 representatives of Hera and 9 residents, 3 of which were appointed by two forums (district boards), one by a Residents Committee, and 6 elected on 12 April 2007 through public elections in which over 2,700 residents voted.

After sharing the main documents on the new plant, in order to better address the various issues and render the work of the organisation more effective, the RAB has established three internal working groups: technical issues, environmental and health issues, and communication issues. The work of these groups is ongoing, based on work plans shared with all the members of the RAB.

From its inception to the end of 2010, the RAB met publicly 41 times, once per month on average, while visiting the plant several times during the year for onsite inspections, in the construction and the operating phase of the plant. The minutes of the meetings and the onsite inspection reports are all available on the RAB website at www.rabimola.it. Furthermore, it organises and promotes an annual public meeting for all citizens in order to present its work.

The Imola RAB studies air quality

The Imola RAB promoted a study of air quality, to identify the weight of the different sources of atmospheric emissions and the impact on the health of the Imola population. The study, launched in late 2010, is a national pilot project. Funded by the Emilia-Romagna Regional Government and by the Municipality of Imola, it will be developed

by Arpa and the Local Health Authority (USL) to quantify the main air pollution factors (traffic, industry, heating) and then define an evaluation model based on the emission database, useful as a support for urban planning.

Arpa is developing the part of the project that pertains to air quality and to the different emissions, analysing traffic data, monitoring units' data, gas consumption and the environmental authorisations issued to the various industrial facilities operating in Imola. In early 2010, the survey of industrial emissions and of methane gas users was completed. The emission points relating to fuels other than methane (e.g. LPG or diesel) and the evaluation of which contribution to attribute to small craftsmen's facilities are currently ongoing. Traffic measurements were made in agreed areas and the flow data were requested from Autostrade S.p.A.

Lastly, the Ausl, with the collaboration of numerous family practitioners from Imola, is seeking correlations between pollution and pathologies among the population, examining a sample of about 15,000 Imola citizens, by handing out an observation sheet. This information acquisition work will continue for about a year.

The main objective of the Board is to supervise and verify the plant by analysing and listing all the specifications regarding the construction and operation of the plant, in order to assess Hera's full compliance. It is a point of reference for citizens for the transparency of information about the plant and its impact on the city.

The data monitored by the detection devices that analyse the air quality and are installed in areas around the plant are assessed on a monthly basis and are at the disposal of the citizens of the Municipality of Imola and the RAB websites.

After a thorough investigation on the costs of district heating services, focusing on connection contributions and on the different rate options, and monitoring first the construction site and then the plant, 2010 was characterised by the promotion of a project to study air quality and its impact on the health of Imola's population, which started at the end of the year: a project on which Hera, the Municipality, Arpa and the Local Health Authorities work together in order to quantify the role of the major elements causing pollution (traffic, industry, heating, etc.) and to define an updatable assessment model based on the emissions report, which can also be used to assist in urban planning.

In November 2010, the Municipality of Imola received the 2010 Pimby Award in the energy category for Hera's cogeneration plant. For years, the Pimby association has monitored investments and rewarded the local authorities who complete works on their territory, coupling compliance with the rules and citizens' consensus. Therefore, the awards go to those who work to overcome the nimby (not in my backyard) syndrome, i.e. the attitude of local authorities and citizen groups which, while they do recognise their validity in general terms, are unwilling to accept the presence of works that will change their areas.

The RAB at Raibano

The RAB at Raibano (Rimini) was established in July 2008 to facilitate the exchange of information between citizens residing in parts of the Municipalities of Coriano, Riccione and Misano Adriatico (all in the Rimini Province) and the Hera Group, in relation to the expansion of the local waste to energy plant. The Raibano Committee consists of six citizens appointed in public meetings that were held in parts of the area, three representatives of the municipalities in question, two representatives of

environmental associations, two company representatives (Hera and a trade association representing the companies of the industrial zone surrounding the plant), while two representatives of the Hera Group are permanent guests, one for the technical aspects that are inherent in the waste to energy plant and one in charge of the operational coordination of activities. The Raibano RAB has its headquarters in a special office provided by the municipality of Coriano, in which has been placed a large screen visible from the outside that displays, in real time, emissions information of the plant in operation.

In 2010, two meetings of the RAB were held with the presentation of some activities, such as a first summary of the results of the Monitor project carried out by the Emilia-Romagna Regional Government. With the participation of the members of the RAB, the construction work on the new plant was illustrated; then, a site tour was held by the Administrators of the Municipalities that are closest to the plant. Following the start-up of the new line in the plant, since a first phase in the work of the RAB is deemed to have been completed, participating municipal authorities indicated their intention to proceed with a different modulation of the roundtable, which, however, has not been identified yet.

2010 Paths: the Responsible Economic District

This is a project for widespread adoption of a responsible enterprise culture, promoted by the Chamber of Commerce of Rimini and by the “Figli del Mondo” (Children of the World) Association. The initiative was launched in 2008 with the purpose of identifying and sharing different players to contribute to the creation of a responsible economic district that bases its development on responsibility, putting together economic growth, social cohesion and environmental protection. Hera brought its experience and its contribution, describing the collaboration with social cooperatives, the “Children in Hera” days, initiatives like “Hera2O” and “CiboAmico”. The final event, during which the results obtained were shared with all involved companies, was held on 10 November 2010.

Pending legal proceedings

In addition to the lawsuits involving customers and suppliers which are discussed in the relative sections of this report, at the end of 2010 there were another 153 pending legal proceedings involving various issues concerning claims for compensation connected to the management of the services provided by Hera.

At the close of 2010, 127 criminal proceedings were pending; of these, 38 were carried initiated in 2010. Most of these proceedings regard non-compliance with environmental requirements or regulations, without significant damage to the environment. In 2010, 20 proceedings were closed, mostly with dismissal of the charges or not-guilty verdicts.

With regard to waste-to-energy plants, some litigation proceedings are reported.

With regard to the Ferrara plant, until the decision no. 7892/2010 was filed, 4 complaints were pending before the Regional Administrative Court of Emilia-Romagna. With the first three complaints, Hera S.p.A. had appealed against some deeds considered to infringe its rights; specifically:

- The Integrated Environmental Authorisation (A.I.A.) issued by the Province of Ferrara in 2008, which confirmed the limiting quantity of 130,000 total metric tonnes of waste which could be disposed of in the plant (whereas in the V.I.A., 142,000 metric tonnes had been allowed), also limiting the disposal of special waste to 30,000 metric tonnes (within the aforesaid total limit);
- The modification to the Provincial Waste Management Plan (P.P.G.R.) adopted in April 2009, which established that, in view of a greater demand for the disposal of urban waste, the waste-to-energy plant would assigned the top priority to the processing of urban waste, still within the limit of 130,000 metric tonnes, so the possibility of processing 30,000 metric tonnes of special waste now became merely residual and therefore of an incidental nature;
- A further A.I.A., issued in June 2009, as it completely implements the aforementioned contents of the modification to the Plan.

A fourth appeal made by the WWF and various environmental associations, aimed at completely repealing the A.I.A. issued by the Province of Ferrara in 2007 and then replaced by the A.I.A. of 2008, was rejected by the Emilia-Romagna Regional Administrative Court with its decision no. 21/2010, subsequently impugned by the WWF before the State Council. Hera S.p.A. regularly appeared in the aforesaid appeal. With its decision no. 7892/2010 filed on 20 September 2010, the Regional Administrative Court of Emilia-Romagna rejected to aforesaid first three complaints proposed by Hera S.p.A., which, deeming objectionable the decision made by the first Judge, appealed against it before the State Council, requesting that it be changed.

In regard to the Rimini plant, a lawsuit is pending with extraordinary appeal to the President of the Republic, made by WWF Italia against the province of Rimini and Hera S.p.A. for the cancellation, following suspension, of Provincial Council of Rimini resolution no. 13, of 28 January 2009, pertaining to the Integrated Environmental Authorization of the waste-to-energy plant of Coriano, Rimini.

With this appeal, the counterparty objects to the illegitimacy of the A.I.A. issued by the Province of Rimini because:

- the terms set by law for the duration of the proceeding were allegedly not complied with;
- the Province of Rimini allegedly allowed Hera S.p.A., without reason, not to treat healthcare waste in the new Line 4 and not to build the district heating line prescribed in the V.I.A.;
- the A.I.A., as issued by the Province of Rimini, allegedly failed to specify the limits to atmospheric emissions with reference to each incineration line and is also allegedly in contrast with law provisions on mandatory percentages of separate waste collection.

Hera S.p.A. submitted its own deductions in which it requests that the application for interim relief and the appeal be rejected due to the groundlessness and inadmissibility of the reasons set forth. To date, the ruling has not been issued.

With reference to the proceeding pending before the Criminal Court of Forlì that involved a Herambiente executive, together with other defendants, the following is specified.

This trial, which involved Herambiente as the owner and operator of the Forlì waste-to-energy plant, refers to alleged personal injuries from the atmospheric emissions of the waste-to-energy plant.

Environmental and medical associations and citizen committees stood as plaintiffs together with the family of a child who passed away during the proceedings, who was alleged to have contracted a disease on account of the plant emissions.

The appraisal submitted by the Court-appointed Expert Witness had concluded that no causal link was identifiable between the illness that affected the child and the environmental exposure to pollutants issued by the waste-to-energy plant. With the decision handed down on 24 November 2010, the Judge of the Court of Forlì ordered the dismissal, as requested by the Prosecutor, of the charges pertaining to negligence-related injuries.

Now the proceeding is still pending against some Herambiente executives with regard to “technical issues” pertaining to the incineration plant, i.e. aspects of potential pollution and suspected administrative violations. In the course of the proceeding, on 23 August 2010 the Judge for Preliminary Investigations rejected the Prosecutor’s request for preventive attachment. As a result of the subsequent appeal against said decision, on 13 December 2010 the Decision of the Court of Forlì – Review Section – which rejected the requests for preventive attachment of the plant. This decision, which examined the merit of the objections moved, declared them to be groundless and the need for prudential measures to be non-existent.

With regard to the explosion caused by a gas leak from an underground pipe laid in the roadway, which occurred on 23 December 2006, in San Benedetto del Querceto, a village in the Apennines near Bologna, which caused the collapse of a building and the death of five people, the preliminary investigation phase was concluded in August 2009, and the Prosecutor submitted the request to commit to trial 6 employees and 5 former employees of the Hera Group.

At the end of the preliminary hearing, in July 2010, two Hera employees were committed to trial. The next hearing is set for 30 March 2011 before the Single-Judge Court.

The environment and future generations

The area in which Hera is operational is not merely a geographic entity. Above all else, it is a primary source of social and environmental wealth, to be respected and protected for the future.

Accordingly, Hera is committed to responsibly managing natural resources, improving its results and adopting increasingly efficient technologies with low environmental impact.

Objectives and performance

What we said we would do...	What we have done...
<ul style="list-style-type: none"> • Reduce the use of landfills as a means of disposal for urban waste, while increasing separate waste collection and waste-to-energy treatment. The objective is to reduce the share of urban waste disposed of via landfills downstream of pre-treatment to 25% in 2010. • Further increase separate waste collection, reaching 48% in 2010. • Further increase the amount of energy generated from renewable and similar sources: +50% in 2010 compared with 2009. • Receive validation from the external certifying agency for the EMAS registration of 4 more plant engineering sites in 2010 (via Baiona (Ravenna) site comprising 4 disposal plants; Forlì waste-to-energy plant; Cà Baldacci (Rimini) composting plant and the Civitella (Forlì-Cesena) landfill). • Start the process for EMAS registration of the Imola cogeneration plant. • Extend district heating via the use of renewable and similar sources: increase the volume served by 8% in 2010, compared to 2009. • Continue the implementation of the water loss detection and reduction plan (real and procedural): achieve 24% by 2013. • Launch the “Biomass” project, aimed at recovering the organic component of waste both as an agricultural fertiliser as well as a raw material in energy production. • Promote initiatives for the reduction of waste. 	<ul style="list-style-type: none"> • In 2010, municipal waste treated via landfills without pre-treatment amounted to 25%, compared to 30.1% in 2009. (see page 235) • Separate waste collection reached 47.8% in 2010. The final figure for 2009 was 44.8% (see page 238) • The level of energy generated from renewable and similar sources increased by 20% compared to 2009 because of the lower-than-expected production levels recorded by some plants (see page 200) • In 2010, 4 plant engineering sites received positive verification by the external certifying agency for EMAS registration (see page 31) • The procedure was launched and the Environmental Certification was validated by the certifying agency with positive verification by ARPA. We are awaiting ratification by the Ministry (see page 226) • In 2010, the volume served increased 4% compared to 2009. (see page 205) • Losses from the water network in 2009 came to a final figure of 24.8%. In 2008 they came to 25% and in 2007, 25.3%. (see page 211) • In 2010 feasibility studies were carried out for the production of new digesters and for the use of existing waste to energy plants for the production of electricity and thermal energy from biomass. (see page 242)

	<ul style="list-style-type: none"> • Hera promoted or collaborated on approx. 20 initiatives to reduce waste, 3 of which were activated in 2010 (see page 234)
We shall...	
<ul style="list-style-type: none"> • Further reduce the use of landfills as a means of disposal for urban waste, while increasing separate waste collection and waste-to-energy treatment. The objective is to reduce the share of urban waste disposed of via landfills downstream of pre-treatment to 22% in 2011. • Further increase separate waste collection, reaching 50% in 2011. • Further increase the amount of energy generated from renewable and similar sources: +40% in 2011 compared with 2010. • Successfully pass the validation inspection by the external certifying agency for EMAS registration of 3 additional plant sites in 2011: Stradelli Guelfi (Bologna) transfer station, “Area 2” plant site (Modena), and the landfill for non-hazardous waste in Zocca (Modena). • Extend district heating via the full use of energy deriving from waste-to-energy as well as other renewable energies and similar: increase the volume served by 7% in 2011, compared to 2010. • Continue the process of upgrading and modernising the wastewater treatment plants: finish work at 7 wastewater treatment plants in 2011 with a potential 1,074,000 inhabitant equivalents, and continue work in 5 other wastewater treatment plants with a potential 541,000 inhabitant equivalents. • Make the investments foreseen for 2011 for the drainage of the sewage network without purified sewage into the wastewater treatment plants for a total of 10,000 inhabitants equivalents. • Continue the “Biomass” project: more specifically, complete the planning of 4 plants aimed at recovering the organic component of waste both as an agricultural fertiliser as well as a raw material in energy production. • Complete the energy class certification of all Group buildings. 	

Environmental aspects of the activities managed by Hera

The main environmental issues related to our operations are described in this section, along with the results achieved thanks to the development of the environmental management system.

For the energy services, the main environmental issues are:

- the efficiency of the gas, electricity and heat distribution networks;
- the production of electricity and thermal energy from renewable sources (photovoltaic energy, use of landfill biogas, wastewater treatment and digestion of organic waste), from similar sources (cogeneration plants and turboexpanders) and from waste-to-energy transformation.

For the water services, the main environmental issues are:

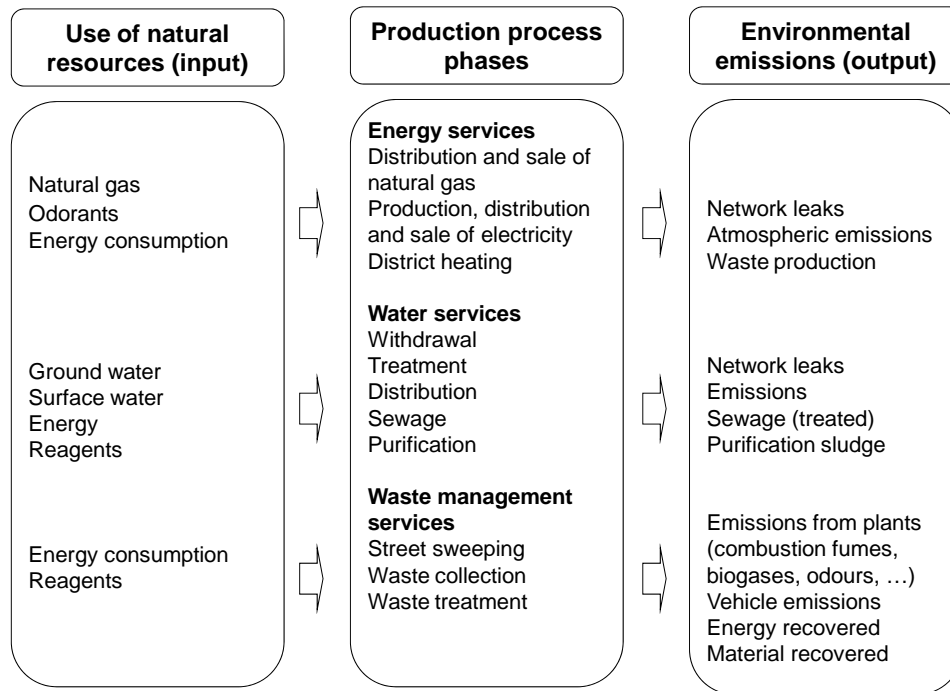
- limiting subsidence;
- the efficiency of the water network and of drinking water purification plants;
- the reintroduction of water into the environment following collection by sewage systems and required purification.

With regard to subsidence, Hera applies the water supply policy defined by local authorities, and works toward reducing groundwater collection by using plants fed by surface water as frequently as possible.

To limit the environmental impact of wastewater, the sewage network 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, which is then transferred to purification plants.

The main purification plants are equipped with odour treatment systems using bio filters. All plants are equipped with 24-hour staffing, supported by an extensive remote-control system, and inspections on a daily basis or 2-3 times per week, depending on the plant size. Wastewater is controlled before being reintroduced into the environment according to a plan specifying the number, frequency and type of analysis.

Main environmental issues



With regard to waste management services, the main issues concern:

- promoting and applying initiatives for waste prevention and the reuse of products;
- increasing separate waste collection and the consequent recovery of materials;
- reducing the waste sent to landfills, in accordance with European and Italian regulations;
- recovering energy from waste (via waste-to-energy transformation processes and biogas recovery).

The prevention of waste limits the waste of resources and reduces the quantity of waste to be managed. Increased separate waste collection enhances the efficiency of downstream waste treatment and the recovery of material and energy, as well as reducing landfill volumes.

The applicable environmental regulations, continuously evolving, require that all equipment containing substances damaging to the ozone layer or greenhouse gases undergoes review and frequent checks in order to detect any leaks. A specific instruction which the Hera Group has implemented identifies in detail the activities required and the frequency of checks which are mandatory in order to guarantee full compliance.

Energy production

In 2010, the Group continued to pursue its commitment to meeting its growth target in terms of the use of renewable and similar energy sources. More specifically, the cogeneration plant in Imola, the fourth waste-to-energy treatment line in Modena and the anaerobic digestion plant in Cesena enjoyed their first full years of operation. During the year the third waste-to-energy treatment line in Rimini, a cogeneration plant for district heating in the Giardini district of Modena, and five industrial cogeneration plants became operational.

The following table outlines the net electricity production of the Group's plants. Also considered are the production plants managed in service by Hera Group companies, even if they are not owned by Hera, as well as the plants managed by third parties and fuelled by biogas produced at the Group's landfills. The electricity net of additional production plant consumption may not match that introduced into the grid, as part of the energy produced may be used for other company production processes.

Net electricity produced

MWh	2008	2009	2010
Waste-to-energy plants (51% renewable)	162,751	196,928	212,040
Combustion of landfill biogas	18,359	27,422	39,290
Combustion of landfill biogas in third party plants	47,438	48,992	41,593
Combustion of digester biogas	1,438	1,867	7,141
Combustion of wastewater purification biogas	8596	6718	4230
Photovoltaic energy	339	473	1702
Hydroelectricity	74	271	361
<i>Total renewable sources</i>	<i>238,995</i>	<i>282,671</i>	<i>306,357</i>
Cogeneration	75,487	311,993	406,874
Cogeneration in service	35,673	42,084	55,996
Turboexpanders	11,555	10,281	5,971
<i>Total similar sources</i>	<i>122,715</i>	<i>364,358</i>	<i>468,841</i>
Combustion of methane in wastewater treatment plants	0	13	0
Waste-to-energy plants (49% non-renewable)	174,120	208,786	224,823
<i>Total traditional sources</i>	<i>174,120</i>	<i>208,799</i>	<i>224,823</i>
Total	535,830	855,828	1,000,021

The net electricity produced by the Group's plants has increased by 17% overall. The most significant increase regards the production of electricity from cogeneration, which has gone from 344 to 463 GWh thanks to the Imola cogeneration plant (opened in October 2009) and the cogeneration plants in service. The production of energy from renewable sources came to 306 GWh (+8%), corresponding to the consumption of over 113,000 families, and increased in the following areas:

- waste-to-energy: new Modena line in July 2009 and new Rimini line launched in October 2010 partially offset by fall in production at Ferrara plant primarily because of the greater recovery of heat for district heating.
- combustion of landfill and digester biogas: new anaerobic digestion plant in Cesena opened in December 2009;
- photovoltaic: new 2 MW plant at Bologna Freight Village operational as of June 2010.

There continue to be difficulties in producing biogas at the Bologna treatment plant - leading to a further drop in industrial capacity - and in some turboexpansion plants.

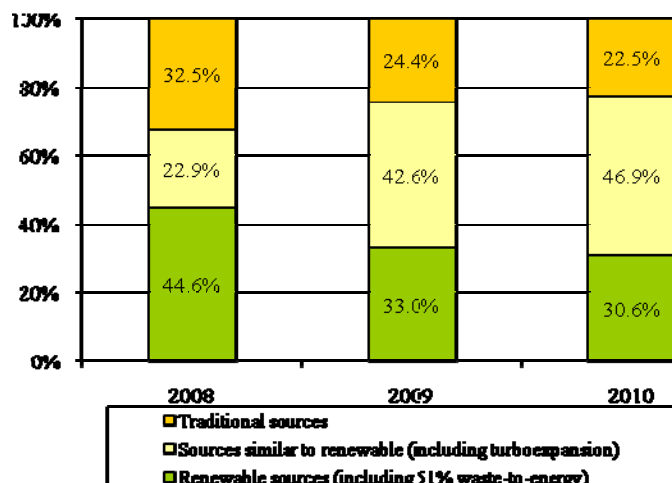
New life for the Casaglia decommissioned landfill

The Casaglia decommissioned landfill in Ferrara is to be given a new lease of life thanks to an agreement between Herambiente, Spal, the biggest football club in Ferrara since 1907, and its technical partners. Thanks to this agreement, which will make an area of around 30 hectares available to the football club, a photovoltaic park will be developed on the site of the old landfill: through the sale of the energy produced, Spal hopes to finance its business for the next 25 years. The park project involves the installation of 63,000 panels with an installed capacity of 14 megawatts.

The average efficiency of the electricity and thermal energy production plants (meaning the ratio of incoming energy and net outgoing energy of the plant) is 30% for the waste-to-energy plants that power district heating networks and 15-25% for new waste-to-energy plants, and between 60% and 84% for the cogeneration plants.

The electricity produced in 2010 by companies in which the Group holds investments pertaining to Hera, came to around 1,535 GWh (share acquired by Hera). The companies involved are SET, Tirreno Power and Calenia Energia, in which Hera has an equity investment. SET and Calenia Energia respectively run two power stations in Teverola (Caserta) and Sparanise (Caserta); these are two combined-cycle plants (CCGT) which guarantee higher performance and improved environmental compatibility with respect to the traditional oil or coal-fuelled power stations. In 2010 carbon dioxide emissions from the two plants came to 402 g/kWh (Teverola) and 381 g/kWh (Sparanise); nitric oxide emissions came to 70 g/MWh and 98 g/MWh. The Tirreno Power plant pool comprises combined-cycle plants (70%), coal-fuelled plants (19%), traditional power stations (9%) and hydroelectric plants (2%).

Net total electricity produced



Despite the overall increase in the amount of electricity produced from renewable sources, its weight on total production dropped from 33% to 31% as a result of the increase in production from similar sources. 78% of the electricity produced derives from renewable and similar sources. The remaining electricity produced has a high level

of environmental sustainability, as it is energy recovered from waste-to-energy transformation for the share exceeding 51%.

Incentives for the production of electricity from renewable sources through Green Certificates are awarded to plants fuelled by renewable sources, for which IAFR (plants fuelled by renewable energies) qualification is planned, and to high performance cogeneration plants which fuel the district heating networks. In both cases, the quantity of incentivised electricity is not exactly equal to the amount of electricity produced. In the first case, for plants brought onto stream after 2007, multiplication coefficients were introduced which take into account the technology of the IAFR plant. For example, if landfill biogas is used, the recognition awarded is calculated by multiplying the energy generated by 0.8. In the case of non-agricultural biomass with a short supply chain, meanwhile, the energy is multiplied by 1.3. For cogeneration plants, admitted only if they came on stream before 1 January 2010, only a portion, never greater than 1, of the electricity is incentivised, correlated to the thermal energy cogenerated and effectively used by the end consumer, calculated using a conversion algorithm.

In the case of waste-derived electricity, the energy recognised for the purpose of the incentives, and to which the above-mentioned multiplication coefficients are applied, is limited to the biodegradable portion, as it is considered biomass according to European and Italian regulations. In anticipation of the definition of the most precise methods for calculating the biodegradable part, current regulations indicate 51% as the part of waste to be considered in the case of waste-to-energy plants using urban waste downstream from separate waste collection. Therefore, 51% of both electricity and thermal energy produced from waste-to-energy transformation was considered in the calculation of the share of energy produced from renewable sources. This percentage was applied to all waste disposed in waste-to-energy plants (urban and special waste) and for all three years considered, in order to have consistent terms of comparison defined in accordance with the regulations in force. The one exception is Ravenna's waste-to-energy plant for special waste, whose production, with a coefficient of biodegradability of nearly zero for treated special waste because of their origins in industrial processes, is considered 100% non-renewable.

Net electricity produced in the Group's plants

MWh	2009	2010
Bologna waste-to-energy plant (Frullo Energia Ambiente)	147,724	145,922
Ferrara waste-to-energy plant	69,386	56,893
Forlì waste-to-energy plant	67,027	55,090
Modena waste-to-energy plant	47,773	95,467
Ravenna waste-to-energy plant	30,583	29,417
Ravenna F3 waste-to-energy plant	19,581	21,099
Rimini waste-to-energy plant	23,640	32,975
<i>Total waste-to-energy plants</i>	<i>405,714</i>	<i>436,863</i>
Alfonsine landfill (Ravenna)	36	35
Caruso Modena landfill	125	125
Galliera landfill (Bologna)	10,599	10,776
Nuova Geovis Sant'Agata Bolognese landfill (Bologna)	11,600	10,024
Marche Multiservizi landfills	5,062	18,330
Third party plants at Hera landfills	48,992	41,593
Digestion of livestock waste and wastewater, Spilamberto (Modena)	1,747	1,752
Anaerobic digestion of biomass, Romagna Compost Cesena	120	5,389

(Forlì-Cesena)		
Bologna wastewater treatment plant	3,820	1,486
Forlì wastewater treatment plant	384	975
Savignano sul Rubicone wastewater treatment plant (Forlì-Cesena)	935	774
Cesena wastewater treatment plant	1,579	995
<i>Total biogas from landfills, anaerobic digestion and wastewater treatment plants</i>	<i>84,999</i>	<i>92,254</i>
Bologna Freight Village photovoltaic plant (Hera Energie Rinnovabili)	245	226
Bologna Freight Village 2 photovoltaic plant (Hera Energie Rinnovabili)		594
Bologna Freight Village 3 photovoltaic plant (Hera Energie Rinnovabili)		623
Ravenna photovoltaic plant	130	122
Photovoltaic with peak capacity below 50 kW	98	137
<i>Total photovoltaic</i>	<i>473</i>	<i>1,702</i>
Para 1 hydroelectric plant (Hera Energie Rinnovabili)	271	361
<i>Total hydroelectric</i>	<i>271</i>	<i>361</i>
Montericco TG1 Imola cogeneration plant (Bologna)	10,455	0
Casalegno Imola cogeneration plant (Bologna)	239,751	338,284
Castelbolognese cogeneration plant (Ravenna)	651	896
Ecocity cogeneration plant, Casalecchio di Reno (Bologna)	9,022	10,711
Fossolo Bologna cogeneration plant	3,593	572
ACER Barca cogeneration plant (Bologna)	19,975	24,214
Bologna head office cogeneration plant	16,111	14,993
Monterenzio cogeneration plant (Bologna)	355	238
S. Biagio Casalecchio di Reno cogeneration plant (Bologna)	251	762
Ipermercato Fiera Forlì cogeneration plant (Forlì-Cesena)	893	661
Ippodromo Cesena cogeneration plant (Forlì-Cesena)	6,072	5,960
Aranova Ferrara cogeneration plant	2,787	748
Q.Giardino Modena cogeneration plant		8,234
Razzaboni Modena cogeneration plant	1,204	0
Molino Rosso Imola cogeneration plant (Bologna)	873	601
Cogeneration in service	42,084	55,996
<i>Total Cogeneration</i>	<i>354,077</i>	<i>462,870</i>
Bologna turboexpander	3,505	3,785
Ferrara turboexpander	1,893	0
Forlì turboexpander	2,838	2,186
Ravenna turboexpander	2,045	0
<i>Total turboexpanders</i>	<i>10,281</i>	<i>5,971</i>
Forlì wastewater treatment plant (Forlì-Cesena)	3	0
Savignano sul Rubicone wastewater treatment plant (Forlì-Cesena)	10	0
<i>Total methane gas in purification plants</i>	<i>13</i>	<i>0</i>
Total	855,828	1,000,021

Cities lit with “Verdennergia” Green Energy

At the end of 2010 three Municipalities chose “Verdennergia” electricity. Schools, cultural and institutional centres, sports venues: in total 342 supply points are powered by electricity from renewable sources sold by Hera Comm, reducing atmospheric emissions. The annual consumption of the three Municipalities, if based on the current mix of energy sources used in Italy, would produce 6,000 tonnes of CO₂: it would be necessary to plant 800,000 trees to offset such emissions.

Thermal energy produced

MWh	2008	2009	2010
Waste-to-energy plants (51% renewable)	28,226	35,927	45,265
Geothermics	66,544	74,369	66,203
<i>Total renewable sources</i>	<i>94,770</i>	<i>110,296</i>	<i>111,468</i>
Cogeneration	85,693	116,793	175,717
Cogeneration in service	20,168	25,006	33,484
<i>Total similar sources</i>	<i>105,861</i>	<i>141,799</i>	<i>209,201</i>
Thermoelectric power stations	278,576	283,340	251,420
Waste-to-energy plants (49% non-renewable)	27,120	34,519	43,490
<i>Total traditional sources</i>	<i>305,696</i>	<i>317,859</i>	<i>294,910</i>
Total	506,327	569,954	615,579

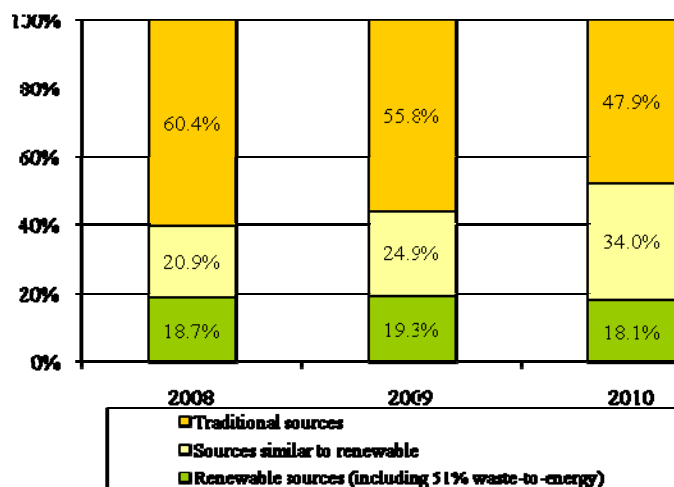
There was an 8% increase in the amount of thermal energy produced as a result of the development of district heating.

The heat produced from renewable sources remained largely unchanged compared with 2009; there was a 48% increase in similar sources, meanwhile, mainly due to the new Imola plant (first full year of the plant's activities) and the industrial cogeneration plants (5 new plants opened in 2010 and the improved functioning of existing plants). In 2010 there was also an increase in the production of thermal energy from the Ferrara waste-to-energy plant (from 27 to 53 GWh) and a fall in geothermal production due to the malfunctioning of the wells. The new cogeneration plants made it possible to reduce the use of thermoelectric power stations (-11% compared with 2009).

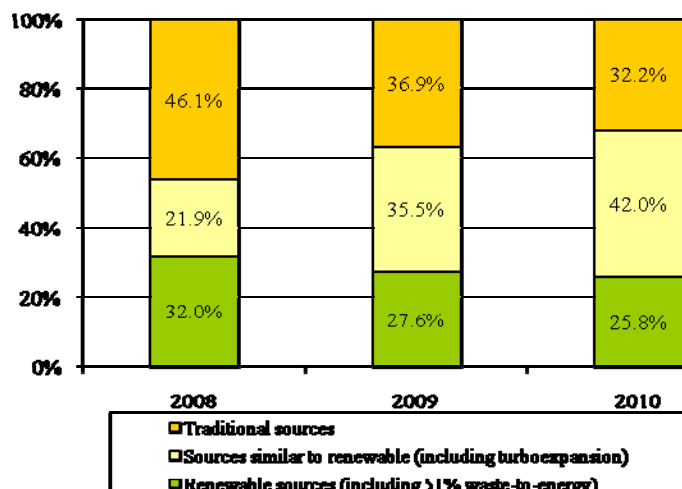
Thermal energy produced in the Group's plants

MWh	2009	2010
Bologna waste-to-energy plant (Frullo Energia Ambiente)	43,657	36,148
Ferrara waste-to-energy plant	26,789	52,607
<i>Total waste-to-energy plants</i>	<i>70,446</i>	<i>88,755</i>
Ferrara geothermics	74,369	66,203
<i>Total geothermics</i>	<i>74,369</i>	<i>66,203</i>
Montericco Imola cogeneration plant (Bologna)	14,426	-
Casalegno Imola cogeneration plant (Bologna)	37,099	106,990
Castelbolognese cogeneration plant (Ravenna)	855	1,190
Ecocity cogeneration plant, Casalecchio di Reno (Bologna)	7,944	10,653
Fossolo Bologna cogeneration plant	4,985	655
ACER Barca cogeneration plant (Bologna)	26,994	28,938
Bologna head office cogeneration plant	9,546	8,832
Monterenzio cogeneration plant (Bologna)	598	468
S. Biagio Casalecchio di Reno cogeneration plant (Bologna)	187	613
Ipermercato Fiera Forlì cogeneration plant (Forlì-Cesena)	1,113	932
Ippodromo Cesena cogeneration plant (Forlì-Cesena)	6,940	7,577
Aranova Ferrara cogeneration plant	3,762	1,094
Giardino Modena cogeneration plant	-	6,925
Razzaboni Modena cogeneration plant	1,411	0
Molino Rosso Imola cogeneration plant (Bologna)	933	850
Cogeneration in service	25,006	33,484
<i>Total cogeneration</i>	<i>141,799</i>	<i>209,201</i>
Thermoelectric powers stations Bologna	99,806	122,584
Thermoelectric power stations Ferrara	70,988	69,581
Thermoelectric power stations Forlì-Cesena	19,489	16,444
Thermoelectric power stations Imola-Faenza	46,523	6,761
Thermoelectric power stations Modena	37,554	31,491
Thermoelectric power stations Ravenna	8,980	4,559
<i>Total thermoelectric power stations</i>	<i>283,340</i>	<i>251,420</i>
Total	569,954	615,579

Total thermal energy produced

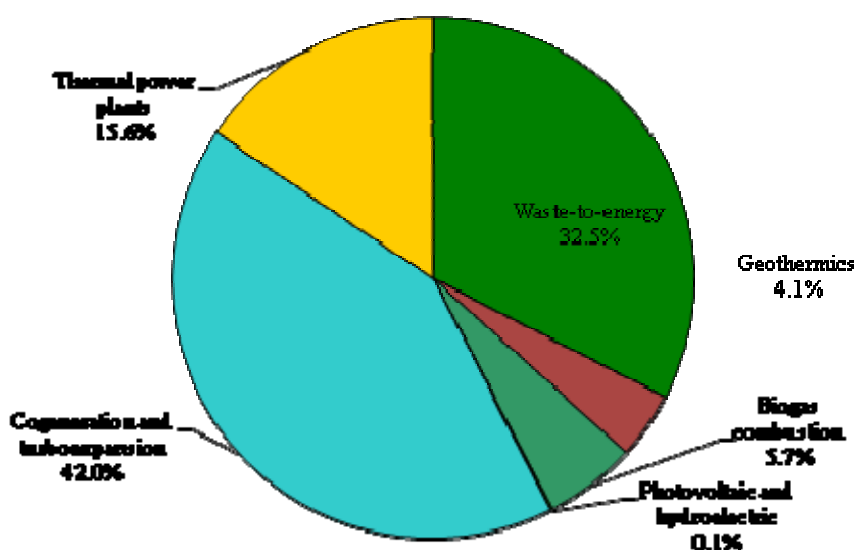


Total energy produced



The share of total energy produced from renewable and similar sources grew in the last year, from 63.1% to 67.8%. Excluding Marche Multiservizi, the share of total energy produced from renewable sources is 25% and the amount deriving from renewable and similar sources is 67.5%.

Total energy produced



Hera and renewable sources

The Group manages numerous plants and projects relating to energy production from renewable and similar sources. The Group's solar energy plants are the 2.2 MW plant at the Bentivoglio Freight Village (Bologna), the 100 kW plant located on the roof of the Ravenna TOS, and the 20 kW plant at the customer branch in Cesena. The Group manages the hot water collection plant for district heating in Ferrara (geothermics) and four turboexpanders, in Bologna, Ferrara, Forlì, and Ravenna, that produce electricity by exploiting gas pressure differentials. In the area of biogas and biomass, the following

plants are active: plants that exploit biogas at twelve landfills, plants that use anaerobic digestion to recover energy from purification sludge in Bologna, Cesena, Forlì and Savignano sul Rubicone (Forlì-Cesena), a plant producing biogas from livestock spoils in Spilamberto (Modena) and a plant producing biogas from the dry anaerobic digestion of organic waste in Cesena.

Among the plants generating energy from sources similar to renewable sources, we highlight the 80 MW cogeneration plant in Imola, and the other twelve smaller cogeneration plants, for an additional total installed capacity of approximately 27 MW. Lastly, the Group manages a 143 kW hydroelectric plant in Verghereto (Forlì-Cesena).



In December 2010 works were completed on the development of a 1 MW photovoltaic plant in Modena managed by Ghirlandina Solare S.r.l., 33% owned by Hera Energie Rinnovabili. Hera Energie Rinnovabili was established in March 2008 to oversee the Group's activities in developing renewable energy: it is 100% owned by Hera S.p.A..

Herambiente and leading Italian wine producer Caviro have signed a commercial agreement to transfer prunings from the area and other organic matter to Caviro's biomass plant in Faenza. The plant entered into operation in May 2010 and also contributes to utilising grape marc through the production of energy. It is managed by Enomondo, a recently founded company in which Herambiente holds a 50% stake. In 2010 the plant treated 26,000 metric tonnes of waste and produced 21,500 megawatt per hour of electricity and 26,100 megawatt per hour of thermal energy.

Cogeneration

The term cogeneration indicates the combined production of electricity and thermal energy starting from a single source, whether fossil fuel or renewable, implemented in a single integrated system. This takes place in special thermoelectric plants which recover the heat from the exhaust fumes produced by an engine fuelled by any type of fuel. Significant energy savings are therefore achieved (approximately 40%) compared with the separate generation of electricity and thermal energy. The most recent projects, and the new projects which cities are increasingly interested in, increasingly fine-tune plant and commercial analysis to optimise the identification of the area in which to locate the plant, and thus, the network for distributing heat to the enterprises and homes which will use it.

The Hera Group cogeneration plants, thanks to the connection with district heating networks, also contribute to improving the quality of air in the urban centres in which they are located: their construction resulted in the closing of numerous, obsolete boilers, and allowed the local authorities to develop new residential developments featuring a modern, efficient heating system and the supply of hot water to buildings. Through district heating, the production of heat is centralised in plants which are more efficient and better controlled than home boilers. Controls are continuous, both in terms of the combustion processes and atmospheric emissions.

The Group manages 13 cogeneration plants, for a total installed capacity of 111.1 MW.

Cogeneration plants managed

Plant	Location	Nominal installed electric power (MW)	Net electricity produced per plant in 2010 (MWh)	Thermal energy produced per plant in 2010 (MWh)
Casalegno	Imola (Bologna)	84.5	338,284	106,990
Cogen Barca	Bologna	6.4	24,214	28,938
Headquarters	Bologna	4.8	14,993	8,832
Ecocity	Casalecchio di Reno (Bologna)	4.0	10,711	10,653
Quartiere Giardino	Modena	3.6	8,234	6,925
Fossolo	Bologna	2.2	572	655
Ippodromo	Cesena	1.7	5,960	7,577
Aranova	Ferrara	1.1	748	1,094
5 other minor plants	Bologna and Forlì-Cesena	2.8	3,158	4,053
Total		111.1	406,874	175,717

New cogeneration power station in Modena for district heating

16 December 2010 saw the opening in Modena of the new cogeneration plant for the district heating of the Giardino district. The plant, which has a total installed electrical power rating of 3,600 kW and a thermal power rating of 3,660 kW, and will deliver an annual saving of 1,139 toe (tonnes of oil equivalent), representing the consumption of around 800 cars, and a CO₂ reduction of 2,693 tonnes, the equivalent of planting some 4,000 new trees. Thanks to this investment of around Euro 3 million, the Group will provide the city of Modena with a cutting-edge plant that enables district heating customers served to enjoy a special VAT rate of 10%.

Industrial cogeneration

The Hera Group operates in the industrial cogeneration sector proposing multi-year energy supply contracts through the development and management of electricity and thermal energy production plants dedicated to meeting all the energy needs of top customers.

The main product sectors in which the energy service is particularly effective are plastics, food, pharmaceuticals, ceramics and large-scale tertiary services such as museums, shopping centres, spas and condominiums.

With cogeneration and trigeneration (production of electricity and thermal energy at the same plant plus cooling services) primary energy is saved with respect to the traditional consumption, emissions are reduced, energy efficiency is increased and supply costs are reduced.

The Group's "Energy Service" sees Hera Comm supply all energy carriers, reducing the financial and operational burden on the customer. In terms of the customer's energy requirements, Hera Comm identifies the characteristics of the technology plant, manages the preparation of all authorisation documents, and manages and directs the plant.

At the end of 2010, sixteen plants were operational and another three were in the process of development. The environmental benefits can be quantified as lower

emissions of CO₂ (15,400 metric tonnes in 2011 and over 15,700 from 2012) and primary energy savings (6,500 toe in 2011 and over 6,600 toe from 2012).

Through “Energy Service” contracts, Hera Comm has guaranteed total savings to its end customers of more than Euro 3.5 million, corresponding to a saving of 7-15% that depends on the energy balance and the simultaneous use of energy carriers by customers.

Cogeneration plants managed in service

Plant	Location	Nominal installed electric power (MW)	Net electricity produced per plant in 2010 (MWh)	Thermal energy produced per plant in 2010 (MWh)
Safta	Piacenza	7.3	30,733	17,293
Cerindustries	Castelbolognese (Ravenna)	3.6	7,182	1,911
Magma	S. Zaccaria (Ravenna)	2.0	3,072	2,234
Covalpa	Celano (L'Aquila)	1.6	5,176	3,762
Centroplast	Meldola (Forlì-Cesena)	1.2	4,300	2,651
Cafar	Gatteo (Forlì-Cesena)	0.8	1,135	721
Fox Bompani	Ostellato (Ferrara)	0.7	1,647	949
Aldini	Bologna	0.6	1,459	2,351
Palazzo Pepoli	Bologna	0.4	608	751
Le fonti di Matilde	Reggio Emilia	0.2	271	252
Filomarket	Imola (Bologna)	0.2	154	246
Terme di Riolo	Riolo Terme	0.1	259	363
Total		18.7	55,996	33,484

District heating

District heating is a service involving the sale of heat for customer home heating and domestic hot water. It is an alternative system to traditional autonomous or condominium-based boilers which makes it possible to concentrate the production of heat in central installations, which are more efficient and better controlled than home boilers. From these installations, the heat, in the form of hot water, is brought to customer homes through a distribution network comprised of insulated piping. The heat then fuels the domestic heating system via non-polluting heat exchangers.

Customer have the advantage of increased safety and lower running and maintenance costs (no domestic boiler), while maintaining the freedom to independently regulate the temperature of the home.

For cities, district heating provides a solution to air pollution problems by replacing home boilers, which are sometimes still fuelled with gas-oil or fuel oil, and allowing heat generation from high-efficiency production methods, renewable energies, or energy recovered from other production processes.

Continuing in our policy of substituting fossil fuels with renewable energies or fuels from recovery, it was possible to obtain significant energy-environmental improvements in the Group's district heating plants.

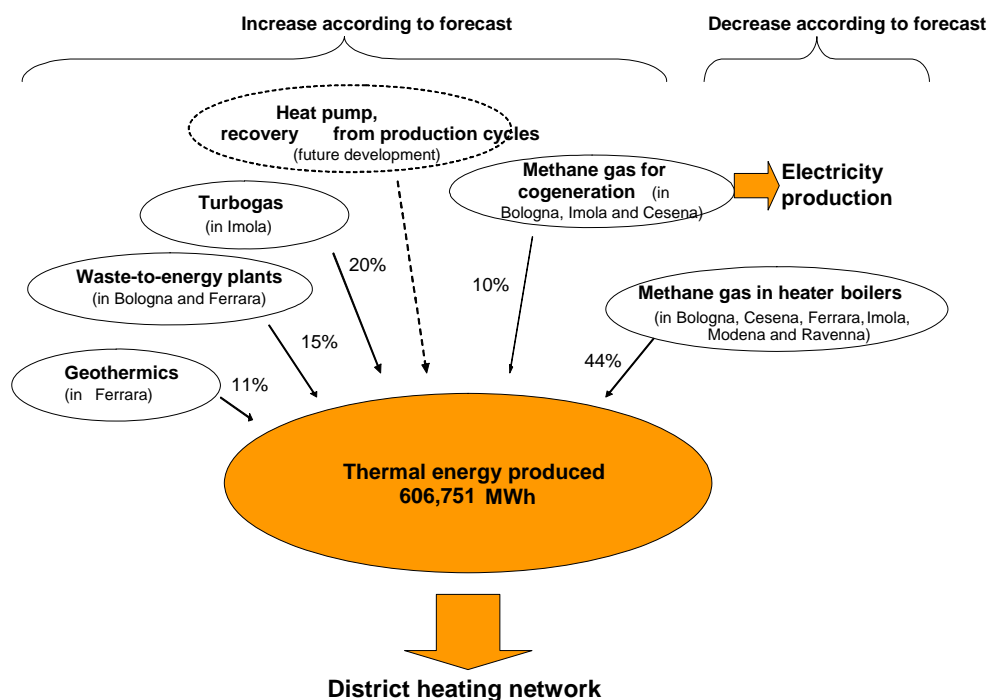
Environmental advantages of district heating

	2008	2009	2010
Primary energy saved (toe)	13,097	20,491	29,464
Nitric oxide avoided (t)	72.2	254.9	333.5
Carbon dioxide avoided (t)	56,598	117,794	156,341
Sulphur oxide avoided (t)	136.2	261.1	317.7

Calculated as the difference between a traditional system (heating installation 35% fuelled by gas-oil and 65% by methane, with an average seasonable output of 75%, and an Italian electricity power plant with average emissions) and Hera's district heating systems for the same quantity of energy (thermal and electricity).

In 2010 the plants managed by Hera recorded primary energy savings of 29,464 tonnes of oil equivalent, an increase of 44% compared to the savings in 2009, with a differential of 8,973 toe in absolute terms. On the environmental side, an entire year of operations at the cogeneration plant in Imola, in service since 2009, has made it possible to increase the amount of carbon dioxide, sulphur oxide and nitric oxide emissions avoided.

Sources used for district heating



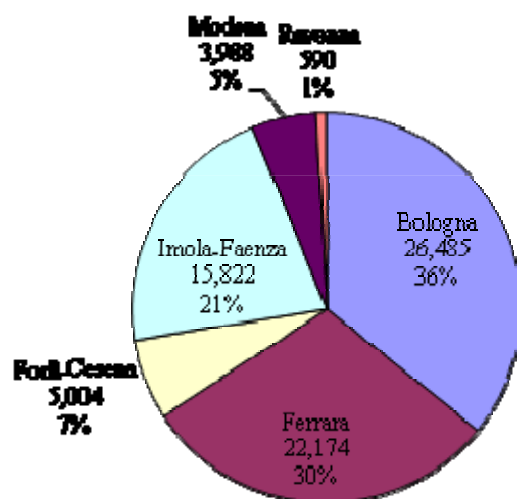
District heating data

	2008	2009	2010
Thermal energy sold (MWh)	422,633	475,026	534,808
Volumes served (thousands of m ³)	16,109	17,154	17,775
Housing unit equivalents served (No.)	67,120	71,475	74,064

Housing unit equivalents served were calculated on the basis of an average apartment volume of 240m³.

Thermal energy sold increased by 13% in the last year. This increase is due to the climate trend and the increase in the volumes served. There was a 4% increase in the amount of volumes served in 2010; the most significant increases took place in Bologna, Forlì and Imola. In 2011 the company will continue to strive for improvements, facilitating the development of district heating with increasing quantities of renewable sources, with specific reference to the general development projects in Forlì, Modena and Rimini.

Housing unit equivalents served per territory (2010)



Energy consumption

Hera's energy consumption reflects the multi-business nature of the Group (energy, water, waste management, and other services such as public lighting and telecommunications). The balanced portfolio of activities creates synergies that increase productivity in multiple sectors while limiting energy consumption. For example, Hera manages cogeneration plants that contribute to electricity needs and at the same time fuel district heating networks, waste-to-energy plants that meet waste disposal needs while achieving significant energy recovery, and turboexpanders that evaluate pressure differentials in the natural gas distribution stations in the local managed networks. By implementing measures on its own production systems and at end customers in the area

of operations as much as possible, Hera pursues a policy aimed at increasing energy efficiency in all activities carried out.

Primary energy consumption by type

thousands of GJ	2008	2009	2010
Methane for production	2,937	5,619	6,644
Waste-to-energy treatment	6,531	7,718	8,411
<i>Total energy consumed in electricity or thermal energy production plants</i>	<i>9,468</i>	<i>13,337</i>	<i>15,055</i>
Electricity excluding public lighting	1,628	1,681	1,570
Electricity for public lighting	548	600	589
Methane for heating of premises	111	134	133
Fuel for vehicles	345	363	383
<i>Total energy consumed for uses other than the production of electricity or thermal energy</i>	<i>2,632</i>	<i>2,778</i>	<i>2,675</i>
Total	12,100	16,115	17,730

Data have been calculated using the conversion standards defined by the GRI G3 guidelines. The data refer to energy consumption by Hera S.p.A., Uniflotte, Herambiente, FEA and Hera Luce. From 2009, the data also include Marche Multiservizi.

In 2010 there was an increase in consumption exclusively relating to greater energy production, including the waste-to-energy component. Excluding energy spending for processing reasons, other types of consumption fell by 4% overall compared to 2009 and, excluding Marche Multiservizi, by 8% compared with 2008. These results underline the effects of a policy of streamlining the use of energy resources.

White certificate objectives

Toe	2008	2009	2010
Gas distribution	81,489	106,359	147,896
Electricity distribution	8,495	14,959	19,946
Total	89,984	121,318	167,842

The Italian Ministerial Decrees dated 20 July 2004 set, for the five-year period 2005-2009, annual national objectives for energy efficiency relating to the end uses of energy by electricity and gas distributors with more than 100,000 end customers connected to their networks at 31 December 2001. Italian Ministerial Decree of 21 December 2007 extended the obligations sanctioned by the White Certificates mechanism until 2012, broadening the panorama of entities obliged to comply to include distributors of electricity and gas with at least 50,000 end customers connected to their networks at 31 December two years before the year of obligation. Hera S.p.A. is an obligee as both a gas distributor and distributor of electricity.

The Group's production of White Certificates pursues pre-established objectives through operations in the customer sector, operations on proprietary plants, or through operations commissioned by customers and carried out at their premises. The Group also promotes operations carried out by third parties with agreements that involve the splitting of the economic contribution deriving from the certificates and, finally, procures the unavailable quota of certificates from the market.

Energy saving in the piazza

On the day dedicated to energy saving, “M’illumino di meno” (“Light up Less”), Hera offered the citizens of Bologna “M’illumino d’arte” (“Enlightened by Art”), an invitation to look at one of the symbols of the city, the Basilica di Santo Stefano, in a new light. Having turned off the lights in the square, art historian Eugenio Riccomini illustrated the old face of the Basilica and the piazza to the public, showing them how they would have been in the days before electricity. The piazza was illuminated for an evening purely by light sculptures created with recycled material by designer Danilo Traverso.

Energy saving initiatives

The energy savings initiatives promoted by the Group continue and grow stronger, covering two main areas:

- the development of collaborations with various partners to whom Hera has made its know-how available to identify and plan energy optimisation measures specifically concerning the industrial sector. These are aimed at obtaining incentives (White Certificates) through the recovery of significant portions of thermal energy from processes or the use of renewable sources;
- the development of new interventions on the Group’s buildings and plants aimed at streamlining the end use of energy.

The energy savings initiatives aimed at the public have also continued, including that of promoting the use of low consumption florescent bulbs, with over 400,000 light bulbs distributed in 2010 alone through sales at significantly discounted prices, in partnership with a number of retailers.

The Group companies continue to disseminate specific energy analyses capable of identifying and quantifying potential measures for increasing energy efficiency, also in plants other than water cycle plants, the business sector that consumes the most energy. This has made it possible to identify numerous measures which, if they are all implemented, could generate savings of over 1,500 toe a year.

The main measures implemented in 2010 were:

- in terms of district heating, the entry into operation of the new cogeneration plant in Modena which makes it possible to produce high efficiency thermal energy in place of gas boilers. In the meantime, the extension of the Imola network continues to increase the amount of thermal energy recovery at the combined cycle plant;
- the improved efficiency of public lighting systems through the replacement of incandescent traffic lights with LED technology, the use of remote management and the introduction of sodium vapour lamps and high efficiency power supplies;
- the efficiency upgrading of the electric motor controls with inverters and the installation of new electric motors with class 1 efficiency.

Among the various projects carried out, of particular note was the AEEG’s issuance of White Certificates for the application of the technology of oxidation through “fine bubble” diffusors in numerous wastewater purification plants.

Energy saving in the Vossloh plant in Sarsina (Forlì-Cesena)

Among the projects implemented with industrial partners to improve the efficiency of their process cycles, particularly deserving of mention is an energy saving initiative in the field of industrial refrigeration that was carried out at the Vossloh-Schwabe Italia plant in Sarsina. Innovative water cooling techniques were employed that use systems made up of coolers in adiabatic chambers, which make it possible to reduce the number of hours that the chillers are in operation through the technique of free cooling.

In one of these applications, for which the approval of the White Certificates project has already been attained, a saving of over 150 toe/year has been forecast.

Public lighting system

Besides its main energy, water and waste management sector services, the Group is also a provider of certain “supplementary” services including public lighting, managed via the company Hera Luce, with head offices in San Mauro Pascoli (Forlì-Cesena).

Hera Luce is the number two operator in Italy in this area. It manages 338,037 light points (+2% on 2009) and ensures the efficiency of the public lighting service in 61 municipalities in the provinces of Bologna, Ferrara, Florence, Forlì-Cesena, Modena, Pesaro-Urbino, Ravenna and Rimini; for 26 of these municipalities, it also manages traffic light installations.

Hera’s management of public lighting focuses on improving the service by reducing consumption levels by using new remotely controlled, electronic lighting fixtures. These systems reduce energy consumption, control lighting strength based on needs and guarantee timely maintenance. The time required to replace burnt-out lamps was, on average, three days in 2010.

Hera Luce manages 10,200 traffic light lamps. The replacement of incandescent traffic lights with LED technology continues; after Bologna (3780 traffic lights) and Modena (2250), 750 traffic lights in Ferrara are to be replaced. Compared to traditional light bulbs, LED bulbs consume up to 75% less electricity and last much longer - 50,000 hours compared to 2,000, they require less maintenance and guarantee better visibility under critical conditions. The new lamps installed by Hera Luce will enable Bologna to decrease its consumption by 184 toe/year, which will avoid the emission of approximately 13,500 metric tonnes of CO₂ into the environment. In 2009, the traffic light installations in Modena were also modernised, involving 131 plants and almost 110 intersections, for a total of approximately 2,250 traffic lights. The saving of 286 toe/year will allow for the avoidance of emissions of 874.5 metric tonnes of CO₂ into the environment. The modernisation of the traffic light system in Ferrara will result in savings of 95 toe/year and will prevent the emission of 291 metric tonnes of CO₂ into the environment.

Experiments are currently taking place with new apparatus that also uses LED technology for public lighting.

Production and distribution of water

The Hera Group’s water supply sources comprise underground water, surface water and, to a lesser extent, springs. In the Romagna area, since 1 January 2009 almost all distributed water has been purchased wholesale from Romagna Acque – Società delle

Fonti, which manages the main water production plants and the adduction networks in the provinces of Forlì-Cesena, Ravenna and Rimini.

The purification processes vary in complexity depending on the quality of the source water: process steps include chemical and physical water drive, usually adopted for surface water, as well as simpler treatments of filtration and disinfection (in some cases, only disinfection) applied to water coming from deep wells and springs that already have good characteristics.

The treatments carried out guarantee that the distributed product has suitable chemical physical and microbiological features for human consumption, in constant observance of the limits laid down by current legislation.

Water introduced onto the network (breakdown by source)

	2008		2009		2010	
	thousands of m ³	%	thousands of m ³	%	thousands of m ³	%
Groundwater	150,751	44.0%	152,946	44.4%	135,779	39.8%
Surface water	169,416	49.5%	165,171	47.9%	178,437	52.2%
Springs and minor sources	22,339	6.5%	26,474	7.7%	27,263	8.0%
Total	342,505	100.0%	344,591	100.0%	341,479	100.0%

Figures include both the civil and industrial aqueducts (the latter being part of the Territorial Operating Structures of Forlì-Cesena, Imola-Faenza, Modena and Ravenna and comprising around 1.7% of the total).

The data show a slight increase in the total volume of water introduced into the network (just under 1% compared to 2009), mainly in the areas of Bologna and Rimini. In other territories the volume of water introduced into the network remained constant. There was a reduction of the same amount in the quantities introduced into the network by water system for domestic use.

The 2009 figure above is influenced by the installation of new metres at supply sources belonging to Marche Multiservizi, with a significant reduction in estimated volumes compared to the previous year. Considering only the water system for domestic use and not including Marche Multiservizi, there was a reduction of 1.8% compared to 2008 (5.5 million m³). The most significant variations in the 3-year period took place in Ferrara (-2.3%) and Modena (-3.6%). In 2008 (on a like-for-like basis) there was a 1.5% reduction compared with the previous year (equivalent to around 4 million m³).

In Bologna, the construction of the Reno-Setta water connection led to a 21% reduction in the amount of groundwater collected (approx. 10 million m³) as more surface water was collected. Overall, the percentage of groundwater collected was 39.8% compared to 44.4% the previous year. In the provinces of Forlì-Cesena, Ravenna and Rimini the substantial quantities acquired were a result of Hera's sale of the business unit relating to production for portable uses to Romagna Acque - Società delle Fonti, as of 1 January 2009; the quantities of water not acquired related to the sources not affected by the sale of the business unit.

The figures relating to the water acquired by the Ferrara TOS is regulated by an exchange agreement: the figure is preceded by a minus sign as the amount of water sold is superior to the amount purchased.

22 March 2010: raising a glass to water!

To mark World Water Day, Hera, in association with the Province of Rimini, Adriatica Acque and Romagna Acque, was present at the Rimini-San Leo Ecomarathon with its water bottles and with information on water saving for the marathon runners and the public in attendance. In addition, on 22 and 23 March a number of Hera employees met with the students of three schools in Rimini, Gemmano and Novafeltria to spread the message of water savings, to speak about Hera's activities, and to introduce them to the quality of Hera water with the fun "sommelier" game. The pupils were invited to taste tap water and different brands of mineral water and then say which one they preferred.

Water introduced into the network (breakdown by source and area) (2010)

thousands of m ³	Bologna TOS area	Ferrara TOS area	Forli- Cesena TOS area	Imola- Faenza TOS area	Modena TOS area	Ravenna TOS area	Rimini TOS area	Marche Multiservizi Area
Groundwater	38,987	7,762	6,743	8,600	42,452	0	24,107	7,128
<i>of which</i>	0	0	6,743	0	0	0	23,410	0
<i>purchased</i>								
Surface water	49,019	21,823	24,803	14,902	461	32,372	15,745	19,313
<i>of which</i>	0	0	24,404	12,547	0	32,372	15,427	396
<i>purchased</i>								
Springs and minor sources	4,514	-518	2,743	1,197	7,714	0	2,188	9,425
<i>of which</i>	0	-518	1,334	0	522	0	0	0
<i>purchased</i>								
Total	92,520	29,067	34,289	24,699	50,627	32,372	42,040	35,866

Figures include the water systems for both domestic and industrial use (the latter being part of the Territorial Operating Structures of Forli-Cesena, Imola-Faenza and Ravenna and comprising around 1.7% of the total).

The distribution network extends for 31,203 kilometres (including Marche Multiservizi which counts for around 4,446 kilometres). Where possible, interconnections and links are provided in order to guarantee supply continuity also in cases of temporary interruption of service of one or more pipes.

Water network components

%	2008	2009	2010
Plastic	52.4%	52.8%	53.2%
Asbestos cement	22.0%	21.6%	21.0%
Steel	17.7%	17.7%	17.3%
Cast iron	5.9%	5.9%	6.5%
Other materials	1.9%	1.9%	1.9%
Total	100.0%	100.0%	100.0%

The material components of the water network are essentially stable. The percentage reduction of the asbestos cement is primarily due to the use of different materials in newly constructed networks.

What is meant by non-invoiced water

The percentage of non-invoiced water compared to water introduced onto the network is related to physical or real losses (due to breakage of pipes or hydraulic equipment, etc.) or procedural or apparent losses (meter errors, errors in estimated presumed consumption as at 31 December, unrecorded internal consumption, illicit consumption). The latter losses result in water which is effectively delivered to the final customer but is not recorded or billed.

Until 2006, network losses were calculated as the difference between water introduced into the water system during the year and the water accounted for as supplied to customers during the same period. The latter figure was 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 as at 31 December. This estimate was then supplemented so as to take into account the correct charge of the water sold to customers as at 31 December in the previous year calculated after the reading of all the meters.

On the one hand, this calculation method permitted perfect consistency with the revenues recorded in the statutory financial statements for each year, but on the other hand it was the result of a misalignment between the figure relating to the billed water and that introduced into the system each year.

Since 2007 the figure of the networks losses has been calculated in a more accurate manner allocating the adjustments deriving from the meter reading in the pertinent year and thereby guaranteeing perfect comparability between water sold and the related amounts introduced into the system each year. It goes without saying that it is possible to calculate the final figure for the year using this new approach only around 4-6 months after the close of the financial statements, or after all the meters have been read. For this reason the table below does not include the provisional figures for 2010.

Non-invoiced water (physical and administrative losses from the domestic water system)

%	2006	2007	2008	2009
Percentage of non-invoiced water (Hera Group)	25.4%	25.3%	25.0%	25.8%
Percentage of non-invoiced water (Hera Group excluding Marche Multiservizi)	25.4%	25.3%	25.0%	24.8%

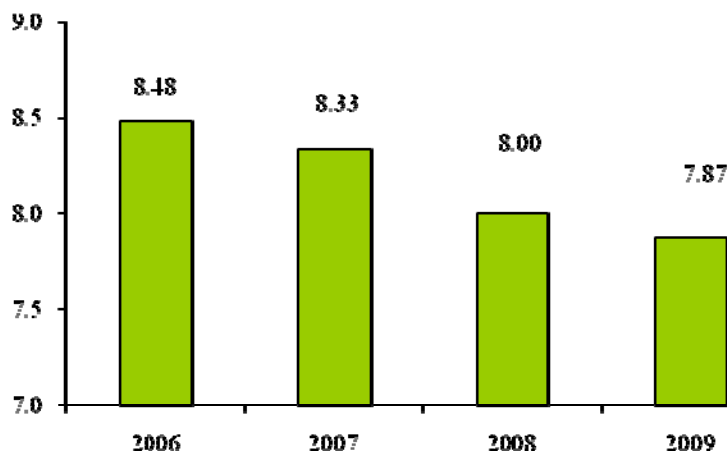
The figures show that the network losses for 2009 were 25.8% compared with the national average of 35% (Integrated Water Service Report prepared by Cittadinanzattiva in 2011).

The table above shows the figure for non-invoiced water excluding the area served by Marche Multiservizi, for which a significant increase in the amount of water introduced into the network was recorded in 2009; this increase was influenced by the installation of new meters at the sources, which produced more accurate figures compared with the previous year.

The figure of non-invoiced water per kilometre of network is also reported, as it is better representative of the effectiveness and efficiency of the distribution system, as well as easier to use to make comparisons with other companies. In 2009 the non-invoiced

water in the seven TOS areas in which Hera manages the water service was equal to 7.87 cubic metres per kilometre a day (the value becomes 7.82 with Marche Multiservizi included), with a 7% reduction between 2009 and 2006.

Non-invoiced water per kilometre of network managed (m³/km/day)



Data do not include Marche Multiservizi.

In the future a further reduction in the amount of non-invoiced water per kilometre of network is expected: the 2010-2014 business plan outlines an additional 8% reduction compared with 2009, reaching 7.2 m³/km/day in 2014.

In 2010, further progress was made in dividing the network into districts: the Riccione district was activated and works in the Rimini district were completed. In the Bologna TOS activities were finalised to equip 20 points with a magnetic flow meter and two pressure transducers (upstream and downstream of the reduction station).

In the Ravenna TOS, the North coastal pipeline became operational and the new lifting system to control network pressure was activated.

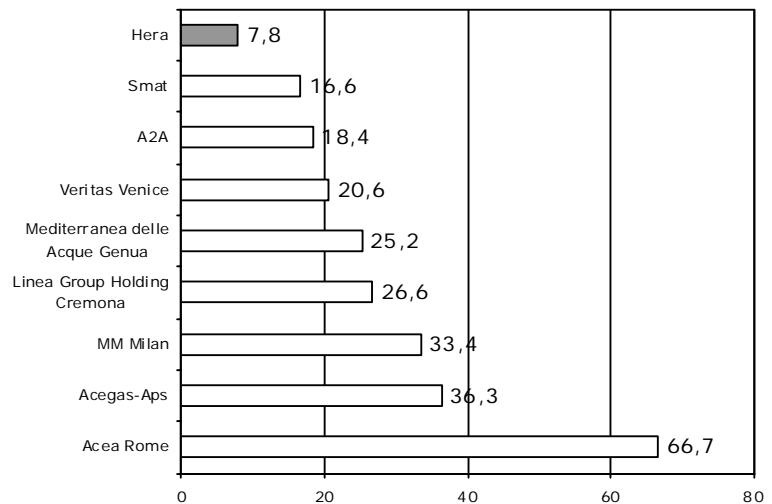
At the TOS of Ferrara and Modena, the process of dividing the network into districts continues, as well as detailed pressure reduction and the use of mathematical models and technological tools for loss detection. During 2010 the Ferrara TOS continued with the planned district metering operations (expected to be finished in 2011), which will guarantee the coverage of 80% of the entire network. Once on stream, the system will consist of 28 districts monitored by about 50 new measurement stations which will be added to the already existing stations at the tanks and plants.

The progress in the process of dividing the network into districts, as well as detailed pressure reduction and the use of the most advanced mathematical models and cutting-edge technical tools for loss detection, in addition to the careful monitoring of the night-time flow rates from the collection containers, will enable all of the territories managed by the Hera Group to reduce the amount of non-invoiced water. The installation of magnetic flow gauges on the points not yet monitored and replacement of old gauges with new magnetic flow gauges is continuing, in order to guarantee water balances which are increasingly precise and detailed.

The Hera Group continues to work diligently to reduce and monitor water leaks, with the most advanced technologies and methodologies from the world's foremost authority on leaks: International Water Association (IWA).

Non-invoiced water in the main Italian utility companies

This table compares the main Italian utility companies in terms of non-invoiced water by kilometre of network. The longer the network managed, the more difficult it is to control physical losses. Therefore, to compare different companies, the network length should be taken into consideration. Hera obtained the best results among the nine companies in the study (7.8 cubic metres per kilometre per day) due to its contained losses and the vast network it manages.



Water consumption

All in all, 2,900 thousand cubic metres of water was consumed at Hera plants and sites in 2010. Consumption was mainly attributed to the waste disposal plants (2,061 thousand cubic metres, of which 1,344 thousand in waste-to-energy plants) and cogeneration plants (682 thousand cubic metres, of which 342 thousand at the Imola plant). 160 thousand cubic metres was consumed in the offices.

In EMAS-certified plants, water consumption came to 1,379,732 cubic metres. In some plants, part of this water is reused in the production cycle. During 2010, the water reused came to around 36% of total water consumed.

Dry fume purification has been adopted in the Group's new waste-to-energy plants, which reduces water consumption as compared to plants using moist fume purification systems. For the Modena plant, for example, with the start up of the fourth line, water consumption dropped from 176 thousand to 34 thousand cubic metres. In the new waste-to-energy plants, water consumption is mainly due to diluting ammonia solution used in the nitric oxide abatement plants, the boiler drains, cooling samplers and putting out burning waste. Wastewater is treated in chemical-physical plants located, in almost all cases, in the vicinity of the waste-to-energy plant.

In the cogeneration plant in Imola, water consumption for the evaporative cooling tower came to 286,830 cubic metres compared with the 350,000 cubic metres authorised for this purpose.

Wastewater purification quality

In 2010, Hera managed sewage and wastewater purification services through the operating structures in 226 municipalities (of which 55 via Marche Multiservizi).

The sewage system managed by the company (excluding Marche Multiservizi) is approximately 13,879 kilometres long and is generally mixed (about 60% of the total). The sewage system covers approximately 94% of the requirements expressed as inhabitant equivalents (meaning the sum of resident inhabitants, production users transformed into inhabitant equivalents and presence due to tourism).

Wastewater purification is carried out through 834 wastewater treatment plants, of which 15 have power equal to 100,000 inhabitant equivalents and 53 with a power of over 10,000 inhabitant equivalents.

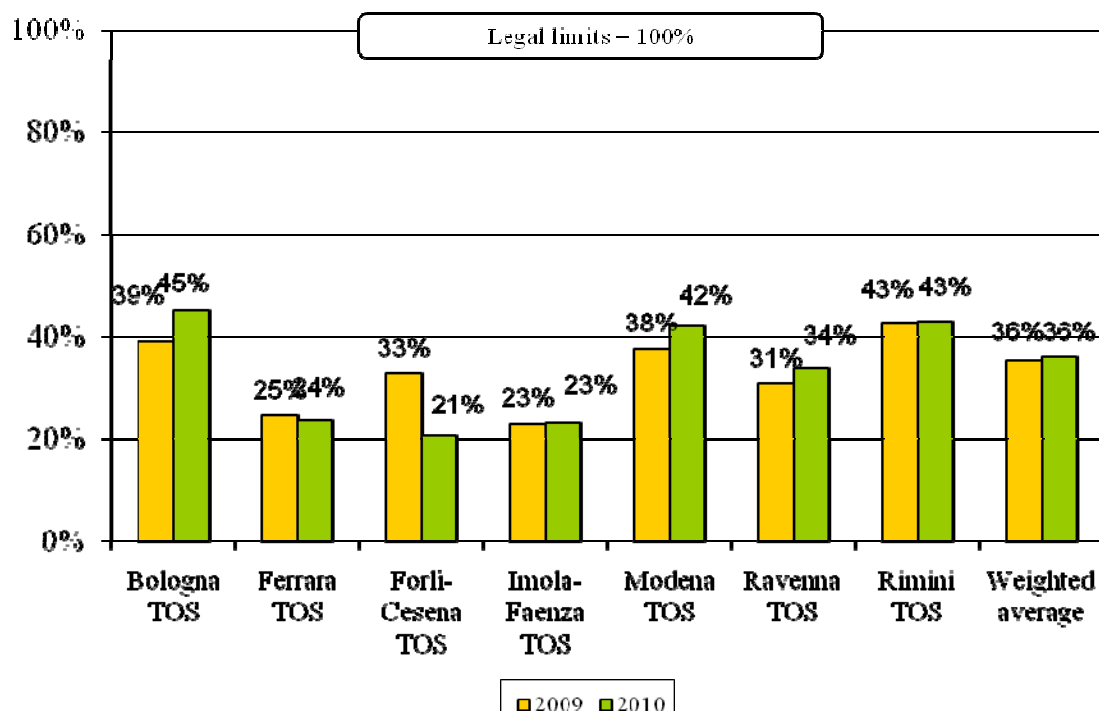
The purification service covers 93% of inhabitant equivalents in the area. These coverage values are decidedly higher than the national values: according to the 2009 Utilitatis Blue Book Report, in 2007 85% of Italians were served by the sewage network and 70% by a purification plant.

In December 2009, ISTAT published the survey of water resources for domestic use with a comparison of the Italian regions as regards the availability and the results of the water services.

With regard to purification, the 17 largest local water basins in terms of inhabitant equivalents were also analysed: Rimini's basin best satisfied the purification requirements of the area. Bologna is in third place in this ranking while the region of Emilia Romagna is also in third place in the classification of the regions.

The Hera Group treated a total of approximately 342 million cubic metres of wastewater in 2010 compared to 314 million in 2009, an increase of 8.6% essentially due to the greater rainfall during the year.

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



The indicator relates to the plants with more than 10,000 inhabitant equivalents (the volumes treated in these plants equate to 75% of the total wastewater treated) and is calculated on the basis of the ratio between the concentration gauged for BOD5, COD, TSS, ammonia nitrogen, phosphorus and total nitrogen and the related maximum concentrations permitted by Legislative Decree 152/2006 as amended. Bologna's plant limits are different from the regulation: ammonia nitrogen 25 mg/l; BOD5 40 mg/l; COD 160 mg/l; TSS 80 mg/l. For the Imola plant, where there is a final lagoon, the TSS limit is 150 mg/l. For the Forlì-Cesena TOS the calculation does not include total nitrogen.

In relation to the works which will be executed for the abatement of nitrogen, the main intervention regards the adjustment of the Bologna plant. This wastewater purification plant, with a nominal capacity of 900,000 inhabitant equivalents, is the largest wastewater purification plant managed by Hera and support programmes underway will make a significant contribution to reducing the nitrogen discharged into the environment. The restructuring work is proceeding regularly and will conclude in 2011. The planning has been completed for the adjustment to compliance with the limits on nitrogenous forms for the purifiers of Forlì (250,000 IE, work in progress), Riccione (180,000 IE, tender being considered), Formellino - Faenza (99,000 IE, work in progress) and Lugo (270,000 IE, work in progress).

At the S. Giustina (Rimini) treatment plant (205,000 IE), operations to improve the efficiency of the sludge dehydration section were completed with the installation of two new high efficiency centrifuges.

The adjustment works planned for the plants with capacity on the order of 2,000 – 100,000 IE are proceeding regularly according to the area planning: at the end of 2010, the planning underway in 2009 was under completion or near to calling of the tender. Similarly, the construction works are proceeding regularly, including the adjustment of the purifiers in San Giorgio di Piano and San Matteo della Decima (works in progress – Bologna TOS), and Granarolo (works in progress – Bologna TOS) and the purifier of Castel Guelfo (currently being completed - Imola-Faenza TOS).

In addition, our work at the Castelnovo Rangone (Modena) treatment plant (24,000 IE), which consisted in optimizing the biological oxidation section (by replacing immersed aerators with microbubble plates supplied by high-efficiency compressors), converting primary sedimentation to a denitrification section and completing the dephosphatation process, entered its conclusive phase in 2010.

Work is also ongoing to improve the treatment plant in Argenta (Ferrara) (from 8,600 to 20,000 inhabitant equivalents), which will completely redefine the biological process with the realisation of the single treatment phases (water line and sludge line). In early 2010 the adjustment work at the purifier of the former sugar refinery of San Giovanni in Persiceto (Bologna) was concluded with the consequent gradual divestiture of the old plant (14,000 IE).

The adaptation and construction of plants for the service of areas of less than 2,000 IE continues in observance of the investment plans put together by the Water and Waste Regulatory Authorities, on the basis of the economic resources made available by the Tariff of the Integrated Water Service and the other restrictions of the area planning. For smaller plants (less than 200 IE), the Provinces are finalising their reviews to establish intervention priorities and levels of treatment.

The following is scheduled for 2011:

- the completion of modernisation works at the Bologna, Argenta (Ferrara), Bondeno (Ferrara), Cona (Ferrara), Formellino Faenza (Ravenna) (just for disinfection), Castel Guelfo (Bologna) and Castelnovo Rangone (Modena);
- the continuation of modernisation works at the Forlì, Lugo (Ravenna), Granarolo (Bologna), San Giorgio di Piano (Bologna) and San Matteo della Decima (Bologna) plants;
- the start of modernisation works at the Cesenatico (Forlì-Cesena) and Riccione (Rimini) plant.

Average annual concentrations at the main plants (2010)

mg/l	Body of water receiving the purified wastewater	COD (limit : 125 mg/l)	BOD 5 (limit : 25 mg/l)	TSS (limit : 35 mg/l)	Ammonia nitrogen (limit: 15 mg/l)	Volumes treated (thousands of m ³)
IDAR (Bologna)	Navile Canal	51.9	13.8	19.8	10.2	44,825
Anzola (Bologna)	Scolo Sanguinettola Bassa or Scolo Lavinello	20.9	5.3	9.0	0.5	1,736
Calderara (Bologna)	Scolo Dosolo	32.0	6.6	8.1	1.6	971
Ozzano (Bologna)	Rio Marzano	27.5	6.1	8.3	1.9	1,065
S. Giovanni (Bologna)	River Reno	90.8	28.0	41.2	14.6	1,213
Gramiccia (Ferrara)	Po di Volano	26.1	4.6	9.5	1.5	23,746
Cesena (Forlì-Cesena)	Rio Granarolo	15.7	5.0	6.1	1.0	7,168
Cesenatico (Forlì-Cesena)	Scolo Madonnina	30.1	5.5	12.7	1.3	5,136
Forlì (Forlì-Cesena)	Scolo Cerchia	25.2	5.3	8.5	1.4	14,335
Savignano (Forlì-Cesena)	River Rubicone	25.7	5.0	9.6	5.9	6,587
Faenza Formellino (Ravenna)	River Lamone	42.4	5.1	11.0	0.7	5,815
Imola Santerno	River Santerno	31.3	5.4	43.4	2.5	7,043

mg/l	Body of water receiving the purified wastewater	COD (limit : 125 mg/l)	BOD 5 (limit : 25 mg/l)	TSS (limit : 35 mg/l)	Ammonia nitrogen (limit: 15 mg/l)	Volumes treated (thousands of m ³)
(Bologna)						
Modena	Naviglio Canal	21.5	5.2	10.1	1.2	33,058
Ravenna	Cupa and Scolo Fagiolo Consortium canal	22.8	3.2	7.8	1.9	19,750
Alfonsine (Ravenna)	Scolo Sabbioni	24.5	3.0	6.4	0.7	2,336
Bagnacavallo (Ravenna)	Scolo Cappuccine	24.4	4.4	7.4	0.9	1,247
Cervia (Ravenna)	Cupa Consortium Canal	17.7	2.5	3.7	1.6	6,395
Lido di Classe (Ravenna)	Pergami Canal	14.0	3.0	7.7	2.4	1,141
Lugo (Ravenna)	Scolo Arginello	40.4	4.6	7.1	2.3	7,218
Marina di Ravenna (Ravenna)	Scolo Piombone	16.9	2.6	4.5	0.8	1,382
Russi (Ravenna)	Scolo Pisinello	17.1	2.5	3.3	0.5	1,671
Rimini Marecchiese	River Marecchia	19.9	4.7	8.2	4.1	13,396
Rimini S. Giustina	River Marecchia	22.4	4.7	11.0	1.4	18,492
Riccione (Rimini)	Rio Marano	24.2	4.7	9.5	1.1	7,508
Cattolica (Rimini)	Torrente Ventina	20.7	4.7	9.4	1.8	6,824
Bellaria Igea Marina (Rimini)	River Uso	19.4	4.7	7.9	2.6	3,027
Pesaro Borgheria (Pesaro Urbino)	River Foglia	31.0	6.6	12.0	11.8	7,934
Total volume treated						251,019

The volume treated in the 27 plants indicated in the table equates to 73% of the total wastewater treated. Bologna's plant limits are different from the regulation: ammonia nitrogen 25 mg/l; BOD5 40 mg/l; COD 160 mg/l; TSS 80 mg/l. For the Imola plant, where there is a final lagoon, the TSS limit is 150 mg/l. For the Forlì-Cesena TOS the calculation does not include total nitrogen. For the Pesaro plant, the value refers to total nitrogen (limit mg/l).

The purification capacity of a purification plant is linked to its efficiency in removing pollutants in compliance with the legal limits. For the Group's 27 main purification plants (selected from those with a nominal capacity exceeding 10,000 inhabitant equivalents) the table sets forth the average outflowing concentrations of the most representative parameters, expressed in terms of COD, BOD5, TSS and ammonia nitrogen.

The concentrations of these sewage parameters are in line with those of the previous years, with the exception of the purification plant in San Giovanni in Persiceto (Bologna) which, as of May 2010, has improved greatly as a result of the operations carried out (maintenance of one of the two lines at the San Giovanni Capoluogo plant and entry into operation of the new San Giovanni plant, formerly a sugar refinery). The works carried out have significantly improved the purification capacity of the San Giovanni in Persiceto sewage system. The purification efficiency of the Bologna IDAR plant has been partially affected by the managerial limitations imposed by the concluding phase of the works (lot B) to bring the plant up to standards in force.

Improvement of the San Giovanni in Persiceto sewage-purification system

Since May 2010 San Giovanni in Persiceto (Bologna) has been served by a new treatment plant that will take its place alongside the old plant in Via Crevalcore, which has reached its power limit. A careful adjustment and restructuring project carried out by Hera and the Municipality for an overall investment of 2.5 million euro, which has made it possible to fully recover and totally reconvert for public use the treatment plant that has been in disuse for years on the site of the former sugar refinery.

The greater sewage values recorded in the first months of 2010 compared with 2009 derive from the impact that the final phases of the work had on the treatment plant in the provincial capital. More specifically, it was necessary to convert the tanks in one of the two biological lines into neutralisation tanks with the consequent overloading of the only functioning line.

In the future the new tank may be able to double its treatment capacity (from 15 to 30 thousand inhabitant equivalents) in order to better respond to the expected urban expansion of the provincial capital, thus allowing for the definitive divestiture of the plant in Via Crevalcore, whose role was gradually reduced to that of treating storm water.

Still in the area of the former sugar refinery, in the next few years the old industrial lagoon tanks are

expected to be reconverted into a constructed wetlands for wastewater. Constructed in the 1980's for the treatment of liquids deriving from the sugar beet extraction and refinement process, the treatment plant of the former sugar refinery was recovered, taking advantage of the existing buildings and reviewing the treatment process for public wastewater.

Improvement of plant performance

(mg/l)	2009 (old plant)	2010 (new plant)	Variation %
COD (limit: 125 mg/l)	60.5	30.9	-49%
BOD5 (limit: 25 mg/l)	17.1	6	-65%
TSS (limit: 35 mg/l)	27.6	8.8	-68%
Ammoniac nitrogen (limit: 15 mg/l)	10.7	3.9	-64%

Purification sludge is considered special waste and must be managed according to Legislative Decree 152/2006. As regards the possibility of recovering agricultural sludge, the reference regulation is Legislative Decree 99/1992; specific regulations for the Emilia-Romagna Region are contained in resolution no. 2773/2004.

In 2010, the purification process produced about 47 kg of sludge per inhabitant equivalent served (the figure refers to the quantity of sludge disposed with an average dryness grade on the order of 18-25%). The reduction in the amount of sludge produced (53 kilograms in 2009) is mainly down to the optimisation of the sludge treatment systems installed at the Group's main purification plants.

The sludge reused directly in agriculture was almost 2% of the total, in line with 2009, with characteristics and management methods that complied with relevant national and regional legislation. The remaining sludge produced was managed through dedicated incineration (approx. 25,000 metric tonnes), transfer to landfills (approx. 71,300 metric tonnes) and indirect agronomic reuse, following composting (52,400 metric tonnes).

Constructed wetlands

Hera also manages various constructed wetlands plants in the provinces of Bologna, Ferrara, Florence, Forlì-Cesena, Rimini and Ravenna: some are secondary biological treatment plants downstream of primary sedimentation, others are third party treatments used for final refinement. The constructed wetlands process is a natural process for the treatment of polluted waters based on the exploitation of the soil-vegetation system as a natural filter for the purification of water, and is made up of a system of biological ponds and of macrophytic vegetation. This kind of treatment also contributes to the reclamation of borderline areas, creating natural environments and landscapes that are pleasing to the eye, and often chosen as refuges for various species of bird, amphibian and reptile. In these areas, it is therefore also possible to organise educational tours to observe specific animal and vegetable species typical of wetlands.

Atmospheric emissions

Atmospheric emissions generated by waste-to-energy plants

Every Hera Group waste-to-energy plant is equipped with fume purification and process and emission control systems, designed and produced in order to attain:

- elevated fume purification performances in all process conditions;
- elevated management versatility;
- elevated reliability of emission control systems.

In order to meet these goals, new plants and plants undergoing renovation are equipped with the following systems:

- double reaction and filtration system to lower the concentrations of particulates, hydrochloric acid, hydrofluoric acid, sulphurous dioxide, heavy metals, dioxins and furans and aromatic polycyclic hydrocarbons (the Modena plant has a bag filter and an electrostatic precipitator);
- double reaction system (catalytic and non-catalytic) to reduce concentrations of nitric oxides;
- double fume monitoring system for process control (SMP): the two systems measure the concentrations of the main pollutants emanating from the oven and downstream of the first reaction and filtration phase, on the basis of which a calculation is made of the volume of reactants required to ensure purification levels that guarantee respect for legal emission limits and which are, on average, 80-90% inferior to these;
- continuous double monitoring system for chimney emissions: one as a reserve for the other in order to guarantee the continuity of the analysis of concentrations in atmospheric emissions.

Verification of Ferrara waste-to-energy plant emissions

In the Integrated Environmental Authorisation for the Ferrara waste-to-energy plant, it is prescribed that Hera enact an environmental and health monitoring protocol with the aim of establishing the eventual impact of the plant's emissions on the quality of air in the surrounding local area. The details of this activity were defined by Arpa, Ausl and

the Province of Ferrara in a specific protocol rendered operative by Hera in 2010 with the installation of three new monitoring stations. The monitoring carried out in the three sites is based on a technical regulation proposed by the CNR of Rome, which is responsible for the scientific coordination of the study.

The surveys take the form of a basic monitoring process carried out in intensive campaigns. The first involves ongoing analyses such as the concentration of PM₁₀ and PM_{2.5} and the measurement of chlorinated and PAH micro pollutants in PM₁₀. The intensive campaigns involve additional in-depth analyses with two annual campaigns that last one month each. These measure micro pollutants, PAH and particulate materials on a daily basis, with chemical-morphological analyses of the single size fractions of the atmospheric particulate. Then, using passive samplers, the distribution of the spatial concentration of ammonia, nitrogen dioxide and hydrochloric acid is measured.

The results of this study confirmed the preliminary evaluations made at the time of the issuing of the Integrated Environmental Authorisation and highlighted the contribution of the plant in terms of the extremely reduced quality of the air.

The possibility of using double purification and monitoring systems in series (in parallel as regards chimney monitoring) allows the above objectives to be successfully pursued. In addition to the aforementioned activities, as regards the monitoring of emissions and environmental impact, the following operations are carried out on an annual basis:

- timely controls of the chimneys, at a frequency fixed by the Integrated Environmental Authorisation, for those parameters which cannot be continuously monitored, resorting to certified workshops;
- controls on soil fallout of the pollutants: through external monitoring programmes in collaboration with the University and research agencies, deposition analyses are performed on soil, ground and vegetation etc., in order to ascertain that the emissions, in addition to being within the legally established limits, does not have any significant impact on the surrounding environment.

Atmospheric emissions generated by waste-to-energy plants

t	2008	2009	2010
Particulates	4.5	3.3	4.7
Hydrochloric acid	3.9	3.6	2.9
Nitric oxides	395.6	413.8	310.7
Sulphur oxides	19.3	5.0	3.0
Carbon monoxide	48.8	57.0	53.2
Hydrofluoric acid	0.4	0.2	0.1
Total Organic Carbon	7.8	7.0	6.1
<i>Waste treated in plants (t)</i>	<i>622,629</i>	<i>734,492</i>	<i>800,576</i>
<i>Net electricity produced (MWh)</i>	<i>336,871</i>	<i>405,714</i>	<i>436,863</i>
<i>Thermal energy produced (MWh)</i>	<i>55,346</i>	<i>70,446</i>	<i>88,755</i>

The data are calculated using continuous measurement systems which are subject to the approval of the supervisory 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.

The performance for total atmospheric emissions from waste-to-energy plants is mainly influenced by start up of the new plants:

- in April 2010 the new waste-to-energy line 4 of the Modena plant, active since 2009, became fully operational, and operations at the two old lines ceased for good;
- line 4 of the Rimini plant, operational since 2010, became fully operative in October 2010 and line 3 was shut down for good.

The different construction characteristics of the new production lines have resulted in notable improvements for many pollutants, in particular for the most critical, such as nitric oxide.

In the three years under consideration, there has been a continuing downward trend in total emissions of hydrochloric acid (-26%), hydrofluoric acid (-76%), sulphur oxides (-85%), nitric oxides (-21%) and Total Organic Carbon (-21%), and this despite the 29% increase in treated waste. The significant decrease in sulphur oxide is specifically concentrated in Bologna (optimisation of the doses of chemical reagents) and in Forlì (launch of new lines).

The worsening in the amount of particulates is partly down to the use of a different monitoring system in the new line at the Modena plant. The data relative to particulates for 2010 is currently being verified according to the ISO 14181 standard as the average concentrations recorded are slightly above the expected figures even if 75% below the legal limit.

With regard to pollutants not monitored continuously, total emissions can be estimated on the basis of the results of analysis performed during the year. Compared to 2009, in 2010 there was a reduction of over 70% in total emissions of aromatic polycyclic hydrocarbons and dioxins, and a 16% reduction in metals. In 2010, 130 kilograms of metals (155 in 2009) were emitted, along with 0.1 kilograms of aromatic polycyclic hydrocarbons (0.3 in 2009) and 13.8 milligrams of dioxins and furans (52.1 in 2009).

Atmospheric emissions generated by waste-to-energy plants in relation to disposed waste

g/t	2008	2009	2010
Particulates	7.2	4.5	5.9
Hydrochloric acid	6.3	4.9	3.6
Nitric oxides	635	563	388
Sulphur oxides	31.0	6.8	3.7
Carbon monoxide	78.4	77.6	66.5
Hydrofluoric acid	0.7	0.3	0.1
Total Organic Carbon	12.5	9.5	7.7

The data are calculated using continuous measurement systems which are subject to the approval of the supervisory 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.

Comparing quantities of substances emitted into the atmosphere with quantities of disposed waste results in specific emissions for various pollutants. This indicator measures the efficiency of the exhaust abatement systems used in the plants, and highlights the technical improvements obtained with the new plants. For some pollutants (sulphur oxide, hydrofluoric acid and nitric oxides), there has been a definite improvement. On average, for the pollutants indicated in the table, the reduction on 2008 is 46% (considering only the new plants in Ferrara, Forlì, Modena and Rimini this percentage rises to 54%).

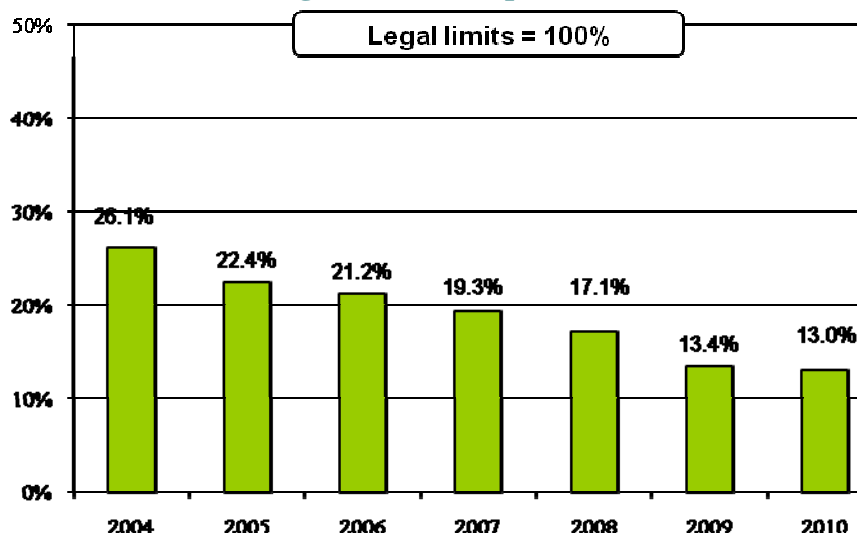
Concentrations of atmospheric emissions from waste-to-energy plants (2010)

mg/Nm ³	Legal limits Leg. Decree 133/2005	Bologna (lines 1 and 2)	Ferrara (lines 2 and 3)	Forlì (line 3)	Modena (line 4)	Ravenna (WDF)	Ravenna (special waste)	Rimini (lines 3 and 4)
Particulates	10	0.7	0.5	0.6	2.6	2.4	0.2	0.5
Hydrochloric acid	10	0.2	0.2	1.3	1.4	0.01	0.1	1.3
Nitric oxides	200	90.5	43.7	40.1	57.2	134.0	76.0	91.1
Sulphur oxides	50	0.5	0.3	0.2	0.7	0.1	2.6	1.0
Carbon monoxide	50	16.2	9.0	8.3	15.8	4.4	3.8	7.3
Hydrofluoric acid	1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Total Organic Carbon	10	2.5	0.4	0.6	0.2	1.9	0.4	0.6
Total metals	0.5	0.05	0.00	0.02	0.02	0.00	0.01	0.02
Aromatic polycyclic hydrocarbons	0.01	0.00001	0.00001	0.00001	0.00002	0.00001	0.00001	0.00001
Dioxins and furans (ng _{FTE} /Nm ³)	0.1	0.003	0.001	0.003	0.002	0.005	0.010	0.002
Cadmium and Thallium	0.05	0.00159	0.00047	0.00145	0.00074	0.00060	0.00080	0.00077
Mercury	0.05	0.001	0.002	0.001	0.002	0.001	0.000	0.001

The legal limits refer to Italian Legislative Decree No. 133/2005. For particulates, hydrochloric acid, nitric oxides, sulphur oxides, carbon monoxide, hydrofluoric acid, and total organic carbon, the values correspond to the average values measured in continuation and the limits correspond to daily averages. For all other components, the values correspond to the average of periodic measurements and limits refer to each individual measurement. In the new lines at Ferrara, Forlì and Modena mercury levels are continuously measured.

The various Hera Group waste-to-energy plants fully observe the limits laid down by current legislation. The concentrations of atmospheric emissions are in line with those of the previous year, for all plants. For the Rimini plant, thanks to the start-up of the fourth line, the values of concentrations of atmospheric emissions are significantly lower than those of 2009.

Compliance of atmospheric waste-to-energy emissions with legally established limits in Leg. Decree 133/2005 – continuously monitored parameters (optimal values < 100%), average of the seven plants



The plant renovation process has resulted in a significant improvement in the abatement percentages of pollutant emissions. The chart above shows the trend in the parameters continuously monitored for the period 2004-2010. In 2010, the concentrations of the atmospheric emissions of waste-to-energy plants were, on average, 13% of the limit set by the law, compared to 26% in 2004. This means that in 2010, emissions were 87% lower than the allowed level while in 2004 this percentage was 74%.

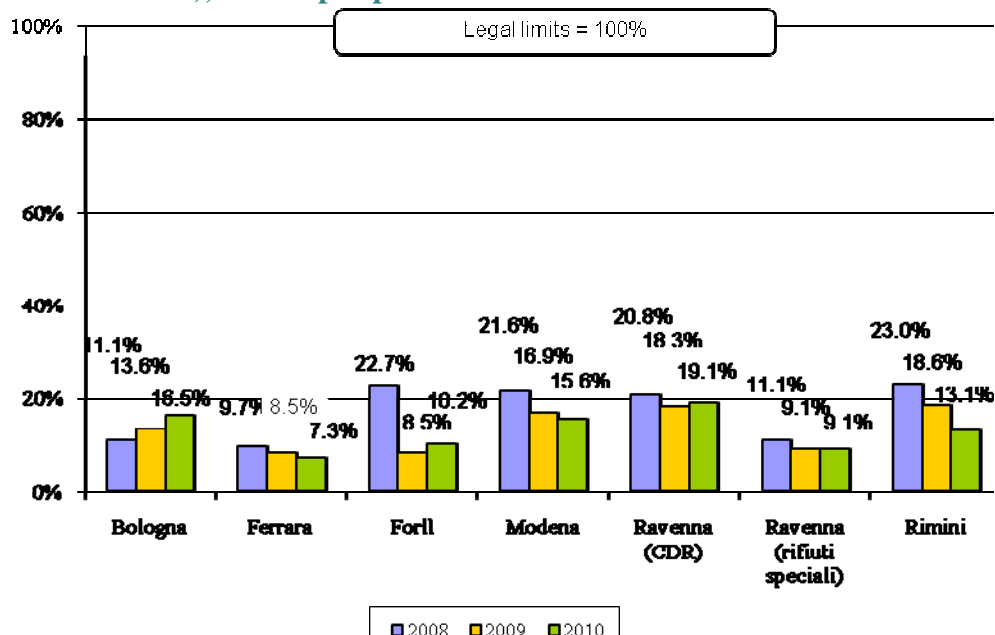
Operation transparency for the Modena waste-to-energy plant

There has been no stop to Hera's initiatives to guarantee citizens maximum transparency and accessibility regarding the waste-to-energy plant in Via Cavazza. In association with the local council and Circoscrizione 2, since the end of 2009 an information desk has been available at the plant, upon appointment, every Tuesday afternoon from 4 pm to 7 pm. By heading to this desk, citizens can request and obtain information on the functioning of the waste-to-energy plant directly from technicians that work there every day. To book an appointment at the info desk all you need do is phone or send an email to the URP of Circoscrizione 2.

In addition, as of January you can simply log on to the Hera website at www.gruppohera.it/visite_guidate to request a visit of the plant. Many local schoolchildren, citizens and professionals visited the plant in 2010, eager to find out how the plant functions.

The tour of the waste-to-energy plant is guided by a special visitors route, launched in October 2010 with the aim of demonstrating the waste disposal and energy recovery process in an effective and original way.

Compliance of atmospheric waste-to-energy emissions with legally established limits in Leg. Decree 133/2005 – continuously monitored parameters (optimal values < 100%), details per plant



Significant improvements in the results were obtained with the completion of new plants: in fact, the Ferrara and Forlì plants that started up in 2008 recorded the best results. The graphic also underlines the improvement that followed the start-up of the fourth line in Rimini and the fourth line in Modena. In the case of the latter the improvement is less evident, as previously mentioned, mainly because of the different system for monitoring particulates.

Atmospheric emissions from waste-to-energy treatment plants compared to authorisation limits – continuously monitored parameters (optimal values < 100%)

%	2008	2009	2010
Bologna (FEA) waste-to-energy plant	16.0%	18.7%	22.0%
Ferrara waste-to-energy plant	9.1%	9.3%	8.6%
Forlì waste-to-energy plant		16.2%	19.9%
Modena waste-to-energy plant		24.3%	17.8%
Ravenna waste-to-energy plant (special waste)	13.0%	10.9%	10.9%
Arithmetical average	12.7%	13.8%	15.8%

For the Ferrara plant, lines 2 and 3 were considered. The Integrated Environmental Authorisation for the Ferrara plant also requires the continuous monitoring of mercury. For the Forlì plant, line 3 was considered. For the Modena plant, the new line 4 was considered.

The same indicator was calculated for the five plants with authorisation limits that are more stringent than Italian regulations for 2010. The data is displayed in the table above. The results are also excellent in this case: the concentrations are, on average, around 84% lower compared to the more restrictive limits.

The small overall drop in the level of conformity compared with 2009 is due, in the case of the Forlì plant, to the use of instrument detection limits (e.g. for hydrofluoric acid) in place of the real value produced by the emission continuous monitoring system. The latter is less precise because it is lower than the measuring instrument detection limit: in

both cases we are talking about values close to zero that produce significant yet only apparent percentage changes if different instruments are used.

The improvement in conformity level registered by the Modena plant can be attributed to the fact that the new line is now fully operational and that the old ones have been dismantled.

Relative to the parameters for which Italian Legislative Decree 133/2005 does not require continual monitoring (total metals, aromatic polycyclic hydrocarbons, dioxins and furans, cadmium and thallium, and mercury), on all incinerators managed the Hera Group has carried out a total of 432 samples, in full compliance with the individual plant authorisations, a considerably higher number than the 180 provided for in national regulations.

Hera plants complied with the authorisation limits relative to amounts and types of waste treated in 2009. As regards the Modena plant, in 2010 an authorised modification was obtained that increased the quantitative limit of special waste (for 2010 only) from 30,000 to 45,000 metric tonnes a year.

The Monitor project

Hera joined the “Monitoring of Incinerators in the Emilia-Romagna Area” Monitor project launched by the regional Environment and Sustainable Development and Health Policies Inspectorate Offices, in collaboration with local authorities and ARPA. The purpose of the project is to standardise the methods of environmental monitoring of the waste incineration plants, to acquire new knowledge regarding pollutants emitted, as well as provide a standard approach to assessing the health of the population exposed to the emissions of the urban waste incinerators. An additional objective is to define the criteria for carrying out Health Impact Assessments (HIA) for any future plants. The conclusion of the project, which began in 2007, is scheduled for 2011 with the presentation of the final results.

The Monitor project emerges as an unprecedented study in terms of extent and completeness. The Emilia Romagna Region strongly desired it and financed it, and avails itself of a scientific committee made up of Italian and foreign experts to guarantee its quality and transparency.

The study is based on four major issues:

- developing knowledge on incinerator emissions;
- analysis of fall-out;
- epidemiological assessment of the effects on health;
- definition of criteria for Health Impact Assessment.

So far 2 notebooks in the Monitor series have been published, providing conclusive reports on the activities that have been carried out:

- Incinerators and communication “Incinerators and conflicts. Communication and involvement dynamics and experiences”
- Incinerators and health “Evaluating health impact. A new tool for supporting decisions”

The Monitor project was outlined and discussed at the Ferrara RAB on 18 May 2010 in a meeting with a number of the technicians from the Region and Arpa. After an illustration of the activities comprising the project, the focus turned to the communication of the results of the project, in particular the part dedicated to the “Communication and perception of risk”. In this case Monitor had the objective of

examining the content of the “social representation” of citizens with regard to the waste incinerator and derived risks. To this end, in 2008 six focus groups were held with citizens from the provinces of Modena, Ferrara and Bologna, which not only outlined the difference between the perception of risk and “objective” risk but, above all, the overall stock of opinions, beliefs and symbolic perceptions shared by the population. The study concluded with the publication of aforementioned report whose conclusions put forward seven “suggestions” for all local stakeholders so they can improve the quality, stability over time and the effectiveness of those relations with other stakeholders that were instituted a number of years ago with regard to the incinerators and the more general issue of waste management.

The final reports of several of the project's activities were presented in Bologna on 14 September 2010: characterisation of atmospheric emissions, the construction of maps showing where the pollutants emitted today and in the past from the various plants fall, and the results of the epidemiological survey on births during the period 2003-2006. The results demonstrate emission values 100 times lower than the legally established limits as far as dioxins and furans are concerned, and 1000 times lower for the polycyclic aromatic hydrocarbons. Data confirming the results that emerged from the checks required by law, which Arpa periodically carries out on the new generation waste incineration plants (such as Frullo, which was surveyed), to which almost all existing incinerators are being adapted, present very low pollutant emission values. These data are also consistent with the data published in this Report, which come from Hera's checks. The Monitor analyses also concerned the dimensions of the particles of dust emitted, which for the most part are smaller than 1 micron.

As for the birth rate, the data on twin births, small for gestational age, births before term, and low weight of babies born at term do not show significant differences from those expected according to the regional average for any of the exposure levels. The study will be repeated on pre-term births, from which a modest effect in the comparisons within the group emerged, analysing the following four-year period.

A study of fine and ultrafine particles (UP)

One of the fundamental parameters for assessing air quality is the concentration of airborne particulates. In the past, the measurement of total particulate matter (TPM) was used, meaning the total particulates which could be sampled using a filtering device. At the beginning of the 90's, attention was focused on the particulate fraction of less than 10 microns (known as PM₁₀, 10 millionths of a metre) as this could be inhaled by breathing and, as a result, have a greater correlation to effects on health. An additional refinement of environmental investigation knowledge and techniques resulted in an orientation towards the measurement of the fine fraction, meaning all particulate matter with a diameter of less than 2.5 microns (PM_{2.5}). The term nanoparticle, or ultrafine particle (UP), is used to define particles with a diameter on the order of tens of nanometres (0.01 microns), constituted of aggregates of several molecules or ions.

In May 2009, the study by the LEAP laboratory, a consortium that the Milan Polytechnic both promotes and participates in, concerning “Fine and ultrafine particle emissions from combustion plants” was presented. This study focused on and assessed the phenomenology, consistency and potential implications of emissions of ultrafine particles from combustion plants and compared ultrafine particle emissions from small heater boilers in residences fuelled by pellets, gas-oil or natural gas for domestic heating

and from waste-to-energy (the Milan, Brescia and Bologna plants were examined). The results showed that ultrafine particle concentrations detected in waste-to-energy treatment emissions generally fell within the same levels, when they were not actually lower, than those present in the ambient air in the localisation sites. For all three waste to energy plants considered, the concentrations measured were systematically lower, by at least 100 times, than those measured in the fumes of domestic heater boilers in residences fuelled by pellets and gas-oil, and slightly higher than those produced by heater boilers fuelled by natural gas.

Remote control of waste-to-energy treatment plants

Since 2007, the remote control station for Hera's waste-to-energy treatment plants has been operating in Coriano (Rimini); this is an eminent national innovation that permits the systematic control of the Group's waste to-energy treatment plants in real time. All management and environmental information present today on the individual plants is transmitted to the new control station. Data is acquired and transmitted in real time and it is also possible to simulate the emissions into the environment by means of the identification of points where the pollutants fall and the related concentrations thanks to the cross-referencing of the figures originating from the plants with the meteorological ones provided by ARPA. The remote control station is currently operative for the Ferrara, Forlì, Modena, Ravenna and Bologna plants. In 2010, the new plant in Rimini was connected.

Remote control enables Hera Group technicians to view, at their PC workstation, operating data on the plants in real time as well as that from the historical archives. In 2010 the system was further equipped and enriched with additional technical/management information, which was also made available to other company offices.

Atmospheric emissions generated by district heating

Atmospheric emissions generated by district heating

t	2008	2009	2010
Nitric oxides	135.8	128.0	125.1
Carbon dioxide	116,280	101,966	98,031

The data refer to the thermoelectric power and cogeneration stations that power district heating.

In 2010, nitric oxide and carbon dioxide emissions fell by 2.3% and 3.9% respectively compared with 2009 because of the greater use of heat produced from renewable and similar sources (geothermics, recovery of heat from waste-to-energy plants and turbogas), which resulted in a reduced need for thermoelectric power stations, whose heat output went from 48% in 2009 to 44% in 2010 (it was 61% in 2005).

In 2010, the district heating plants produced a total of 663 GWh of electricity and thermal energy. The ratio between the quantity emitted and the energy produced provides a measure of specific emissions. 189 grams of nitric oxides were emitted in 2010 for each megawatt per hour of energy produced and 148 grams of carbon dioxide for every kilowatt-hour, equal to -10% and -12% compared to the figures for 2009.

The 2010 results were significantly influenced by the coming on stream of the new Imola CCGT plant and the related closure of the Montericco plant. The greater production of the Ferrara waste-to-energy plant led to an increase in the use of renewable sources within the district heating systems.

Atmospheric emissions generated by district heating (2010)

t	Nitric oxides	Carbon dioxide
Bologna	75.9	60,820
Ferrara	20.9	16,613
Forlì-Cesena	14.9	10,227
Imola-Faenza	3.3	2,346
Modena	8.8	7,004
Ravenna	1.3	1,021
Total	125.1	98,031

Emissions of the Imola cogeneration plant

2010 (the first full year of operations at the power station) saw far lower concentrations of chimney emissions compared to legal limits and the limits defined in the Integrated Environmental Authorisation: the management of the emissions abatement systems was gradually refined to produce excellent environmental results.

Atmospheric emissions from the Imola cogeneration plant

mg/Nm ³	National limit	Authorised limit	2009	2010
Nitric oxide (NO _x)	60	15	8.7	7.7
Carbon monoxide (CO)	50	10	2.1	2.2
Ammonia slip (NH ₃)	not envisaged	2.5	0.2	0.1
Total Particulate Matter (TPM)	not envisaged	5	0.004	0.004
PM ₁₀	not envisaged	3.5 (1 being quality objective)	0.07	0.15

The limits of authorised emissions refer to decree environmental compatibility issued by the Ministry for the Environment and Protection of Local Areas DEC/DAS/2006/00142 of 15/02/06 (only NO_x, CO and NH₃) and the Integrated Environmental Authorisation of the Province of Bologna of 11/04/07, reference no. 124043 as amended. The values correspond to the average values measured in continuation (for PM₁₀ the values correspond to the average of the 14 analyses carried out). The limits correspond to the hourly average (with the exception of PM₁₀).

The low concentrations of emissions of the various parameters monitored are the result of abatement technologies used in the plant. It is important to note that the particulate emissions are almost nil (4 micrograms per cubic metre) and are lower than the particulate content in the city air taken in by the gas turbines.

We note that the values measures on a continuous basis for total particulate matter (which also includes PM₁₀) are more than 1,000 times lower than the authorised limit. Throughout the year the plant has always functioned with at least one line in order to guarantee the production of heat for the district heating system, except for the months of April and May during which annual maintenance was carried out. The two lines operated for 4,828 and 4,821 hours respectively.

First EMAS validation for the Imola plant

In September 2010 the process of attaining EMAS registration for the plant concluded successfully with the validation of the environmental declaration by the certifying body and the positive evaluation by ARPA. To obtain registration it forms part of the Ecolabel-Ecoaudit Ministerial Committee, which formally concludes the procedure.

Corporate vehicle fleet

Fleet (No. of vehicles)

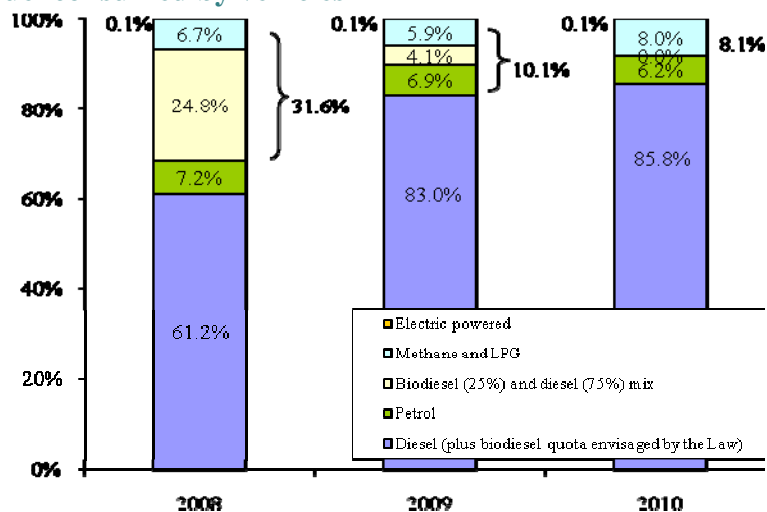
no.	2008	2009	2010
Diesel	1,814	1,869	1,884
Petrol	930	844	794
Methane	475	532	538
Biodiesel (25%) and Diesel (75%) mix	97	0	0
Electric powered	47	46	44
Total	3,363	3,291	3,260

Non-circulating vehicles being disposed of were not included.

The Group confirms its strategic approach of rationalising the use of vehicles and introducing vehicles powered by alternative fuels and concept cars with regard to atmospheric emissions. In 2010, 265 “pre-Euro” vehicles were sold and 88 of the latest concept cars were purchased (in terms of the law in force since 1 January 2011, 17 vehicles compliant with “Euro 5” legislation have already been purchased). 8 of these 88 cars are fuelled by methane.

The technologies that have been adopted render biodiesel, used in substantial quantities up until 2008 according to a voluntary decision made by the Group, unusable. Furthermore, the application of regulations that contain obligations for producers of diesel for the automotive industry to mix a minimum quantity of biodiesel into diesel has caused significant problems in terms of the market availability of biodiesel, forcing the Group to abandon its voluntary decision and adopt the standard mix pursuant to law. The Ministry of Economic Development Decree dated 25 January 2010 set the minimum quota for 2010 at 3.5%, for 2011 at 4% and for 2012 at 4.5%. A sanction system is also in force for producers, as provided for the by Ministry of Economic Development Decree of 23 April 2008, no. 100.

Fuel consumed by vehicles

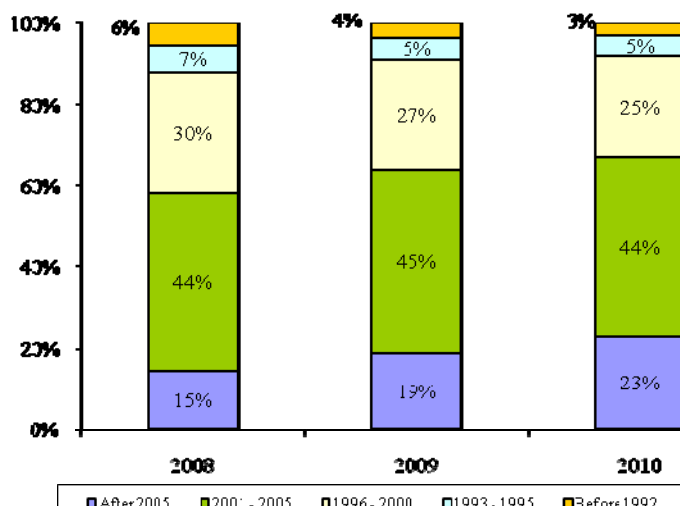


A comparison between the various types of fuel was made considering the primary energy present in the single fuels calculated using the GRI method.

As detailed above, low environmental impact fuel consumption (calculated in terms of primary energy contained in the fuel expressed in GJ) fell to 8% of the total in 2010. Currently, the Hera Group uses 14 methane automatic waste compactors out of an overall total of 177.

Excluding Marche Multiservizi, the average age of Hera S.p.A.'s fleet is 8.5 years.

Breakdown of the vehicles by year of registration



Data do not include Marche Multiservizi. The classes into which the vehicles have been divided up refer to the year of registration and the European Directives (Euro 1, Euro 2, Euro 3, Euro 4).

Mobility management

2010 saw the continuation of actions to reduce the environmental impact (traffic, atmospheric emissions, noise, energy consumption, etc.) of Group employee commutes. There was further expansion of the section of the company intranet containing

information on the concessions introduced by the group, in close connection with the local authorities, aimed at encouraging the reduced use of private vehicles.

Actions to support public transport and the use of bicycles, targeted at those who live near the Viale Berti Pichat and Via del Frullo sites in Bologna, and the Via Casalegno site in Imola, also continued with success. In 2010, 205 staff members took advantage of special 50% discounts on the price of yearly bus and train tickets (+70% compared to 2004). The Stazione Centrale (Central Station) - Berti Pichat - Frullo corporate shuttle bus, which runs four times a day and is free for all workers, was used on average by thirteen individuals a day (+45% compared with 2006) for commuting purposes, and is also available for work-related trips between the two premises. For the use of bicycles, 17 special discounts were offered (up to a maximum of Euro 50 per person for the purchase of a bicycle and accessories or for maintenance). Yearly monitoring data recorded at the Hera headquarters in Viale Berti Pichat reveal that, between 2003 and 2010, the number of cars used per 100 employees for commuting purposes has fallen from 74 to 64.3, a reduction of more than 13%, despite the increase in the total number of employees from 864 to 911. This equates to an estimated decrease of around 365,000 km travelled per year.

In the offices in via Casalegno in Imola, a maximum contribution of Euro 50 per year was proposed to reimburse expenses for purchasing or maintaining a bicycle, for employees that make at least 80 bicycle commutes a year. In 2010 eight workers, who made more than 80 bicycle commutes each, participated in the scheme.

In order to further reduce the use of private cars by Group employees when commuting, in 2011 analysis and mobility management actions will be extended with the subsequent introduction of benefits for those that adopt sustainable forms of mobility, for the main Group sites in Ferrara, Modena and Ravenna.

Fewer journeys with telepresence

The telepresence service has been active since August 2010, making it possible to connect up all of the main company premises with video and audio technology via a highly reliable network infrastructure. As well as guaranteeing respect for all security standards, this project ensures extremely high performance, making it possible to optimise meetings between the various sites. A saving in time, energy, stress and the cost of transfers deriving from such journeys. After a trial period of around six months in the TOS of Imola-Faenza and Modena, the service was extended to all Territorial Operating Structures, the two Herambiente sites in Rimini and Ravenna, and the Hera Comm site in Imola.

In total, 13 rooms have been equipped for this service. In 2010, 166 meetings took place in this way for a total of 199 hours of use.

Greenhouse gas emissions

Greenhouse gas emissions of plants subject to the Emissions Trading scheme

The primary, and most common gas responsible for the greenhouse effect is carbon dioxide, which is produced during combustion processes. Starting with the Kyoto Protocol, over the last 25 years, numerous international agreements have been signed for the purpose of regulating and controlling greenhouse gas emissions. In Europe, a

series of regulations and directives are in force which establish a system for assignment and trading of quotas of greenhouse gas emissions quotas, better known as the Emissions Trading scheme. The various industrial activities which are subject to the Emission Trading regulations also include several plants managed by the Hera Group. The Ministry for the Environment assigns annual quotas for carbon dioxide emissions, expressed in tonnes of CO₂, to each of the plants falling within the Emission Trading regulations. Every year they must quantify and submit their emissions for inspection, comparing them to the assigned quotas. The quotas of CO₂ assigned but not emitted represent credits which can be spent on the emissions market. Vice versa, plants that produce quantities of emissions that exceed the assigned amounts must turn to the market to purchase the quotas of carbon dioxide for the amount exceeding their assigned quota.

Kyoto Protocol compliance ratings

Plant	Power (MW)	Type	2008	2009	2010
ACER Barca (Bologna)	28.8	Thermal power	121%	153%	208%
ACER Pilastro (Bologna)	32.8	Thermal power	561%	276%	906%
Berti Pichat plant (Bologna)	25.7	Cogeneration plant	100%	48%	48%
COGEN (Bologna)	26.9	Thermoelectricity cogeneration and thermal power	91%	76%	87%
Ecocity (Bologna)	33.8	Thermoelectricity cogeneration and thermal power	184%	176%	186%
San Giacomo (Bologna)	21.7	Thermal power	143%	163%	176%
Canal Bianco (Ferrara)	92.3	Thermal power	106%	88%	91%
Casalegno (Imola)	222.7	Cogeneration plant	100%	174%	50%
Montericco (Imola)	20.2	Thermoelectricity cogeneration and thermal power	45%	24%	0%
Giardino (Modena)	33.4	Cogeneration plant	-	-	58%
SAFTA (Piacenza)	41.3	Cogeneration plant	47%	43%	48%
Weighted average			70%	89%	57%

The Kyoto protocol compliance rating (%) indicates real emissions divided by assigned quantities. A value over 100% indicates that the level of authorised emissions has been exceeded. The quotas referring to the Giardino plant in Modena are estimates, as these are still to be assigned.

There are 11 Hera Group plants authorised to emit greenhouse gases on the basis of Emissions Trading legislation, involving total installed furnace power of 579.6 MW. The carbon dioxide emissions for these plants amounted to 240,855 metric tonnes in 2010.

There was an increase in total CO₂ emissions in 2010 due to the fact that the Imola plant was fully functional for the entire year, even if the maximum quantity of authorised emissions is higher with all things being equal. The plant pool subject to Emissions Trading was also joined, in 2010, by the plant that powers district heating in the Giardino district in Modena.

Overall greenhouse gas emissions

The Group plants produced total greenhouse gas emissions of 619,430 metric tonnes of CO₂ equivalent. The 38% increase in emissions in the 3 years in question is due to the start-up of new plants and is nonetheless lower than the increase in energy produced by these plants in the same period (+92%).

Total greenhouse gas emissions of plants

t	2008	2009	2010
Waste-to-Energy plants	349,965	415,046	378,575
Plants authorised according to Emissions Trading directive	99,937	200,121	240,855
Total	449,902	615,167	619,430

In addition to these emissions, there are also the emissions deriving from landfills, losses in the gas network and motor vehicles, which are estimated at 852,301 metric tonnes. Indirect emissions from electricity consumption came to 230,828 metric tonnes. The following components were considered:

- 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 the portion corresponding to biodegradable substances was removed;
- district heating: carbon dioxide from the combustion of methane;
- losses in the gas network: estimated as the difference between the methane input into Hera stations and the methane invoiced to customers; thus, this calculation includes real 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.

Landfill emissions were estimated using a mathematical model based on the amount of waste disposed in eleven landfills in each year, type, composition and biodegradability of waste and amount of tapped biogas.

Waste-to-energy plant emissions were based on direct chimney measurements. For district heating, the heating of sites and electricity consumption, the calculations are made using coefficients provided in the Emissions Trading regulation, while emissions for motor vehicles and gas network leaks are calculated using coefficients from readings.

Hera biomass project: + energy and - greenhouse gases

The project involves the recovery of biomass of various types, both as an agricultural fertiliser as well as a raw material in energy production, thereby avoiding its disposal in landfills and the consequent production of greenhouse gases.

The project is comprised of a number of strongly interconnected actions:

- the planning of a series of collection systems and platforms, and connections between the treatment plants;
- the development of four “Dry” anaerobic digestion systems firmly connected with the current composting plants with which they integrate and attune, maintaining the goal of producing compost for agriculture, but adding energy recovery through the production of biogas;
- the development of systems for the pre-treatment of “green” waste made up of prunings and brushwood, both at special platforms (equipped ecological platforms, composting plants etc.) in order to obtain fuel for waste-to-energy plants;
- the saturation of the production capacity of the current waste-to-energy plants, replacing and integrating solid urban waste, currently used as a fuel, with a fuel made up of biomass.

In 2010 the individual feasibility studies relating to these operations were carried out. 2011 will see the completion of the planning phase and the start of the executive phase. Once on stream, the "biomasses" project will contribute by about 10% to the achievement of the sector specific targets of the Regional Energy Plan.

Waste collection

The Hera Group is a major player in the field of urban waste management. Hera manages an integrated service in 6 ATOs in Emilia Romagna, for a total of 142 municipalities; in addition, through Marche Multiservizi, it also serves 39 municipalities in the province of Pesaro-Urbino. In total, Hera served 181 municipalities in 2010, for a total population of 2.75 million inhabitants. Compared with 2009, there has been an increase in the customer base served following the consolidation of Naturambiente, the company that manages the waste collection service in 8 municipalities in the province of Pesaro-Urbino (23,664 inhabitants).

CiboAmico brings solidarity to canteens and helps the environment

In November 2009, Hera launched CiboAmico, an initiative aimed at recovering unused foodstuffs in the Group canteens and distributing it to local associations that assist people in difficulty. In 2010, 9000 meals were donated (an average of 38 full meals a day), 4 non-profit associations were involved (Opera di Padre Marella, Comunità Papa Giovanni XXIII, Comunità Arcobaleno and Associazione Il Piccolo Principe), and 4 Hera canteens participated in the project.

The project was carried out with the support of Last Minute Market, a University of Bologna spin-off that encourages actions to prevent waste and the recovery of unused goods.

2950 kg of cooked and raw products were recovered, the equivalent of 3% of all meals prepared each day in the four canteens - an extremely low level of waste.

Hera has developed an organisational model for the separate and non-separate collection of urban waste which is based on the management experience of one of its local founding companies: the study and analysis of best management practices made it possible to base the new organisational model on the consolidated wealth of knowledge and experience we have acquired over the decades.

The Hera integrated waste management system (WMS)

Hera's Waste Management System (WMS) is characterised by three main systems:

- local collection: for domestic and small non-domestic users, carried out according to methods that fit best with the context served (mainly basic drop-off points with the IEB model also with closure systems or, where appropriate and sustainable, via domestic systems);
- "target user" residential collection: for non-domestic users that produce specific waste similar to urban waste (cardboard in shops, glass or tins in bars, organic waste in canteens or restaurants, etc.);

- Separate waste collection centres: also known as Equipped Drop-Off Points, these are infrastructures that complete the range of services offered to residents for dropping off all other types of separated urban waste, including dangerous waste.

The system is also integrated with the domestic collection of bulky waste (free of charge, by phone call or by appointment), the collection of green waste, and the collection of other types of dangerous waste at specific businesses (e.g. batteries and drugs).

As regards local collection, the IEB (Basic Drop-Off Points) model involves the reorganisation of the service with the objective of offering a complete service to residents and, therefore, improving the yields of separated waste collected. It is possible to drop off the main types of materials at a single collection point: non-separated waste, paper, plastic, glass, tins, organic waste, clippings (several materials can also be dropped off in combined form). The streamlining of the service according to the IEB model reduces the number of drop-off points that do not provide a complete service to a minimum, and reduces the number of bins for non-separated waste, in favour of those for separated waste collection.

Free collection of waste containing asbestos in Ferrara

The protocol signed by Hera will enable citizens to dispose of small quantities of dangerous waste that contains asbestos, thus preventing it from being disposed of in the local area. This is a free collection service carried out by Hera in Ferrara that has clear benefits for citizens. It is enough to consider that, for the complexity and onerous nature of the reclamation plans, disposing of the roof of a garage or a dog kennel costs around Euro 1000 whilst with the launch of this new collection service, by carrying out straightforward operations himself that involve the use of inexpensive materials, the citizen can dispose of asbestos for virtually nothing. This service is operational in Forlì-Cesena, Imola-Faenza, Modena and Ravenna.

As well as the Waste Management System (which represents an evolved model with a strong industrial connotations and elevated mechanisation), there are two other collection systems in the territory served:

- street collection, with special disposal control mechanisms (lids): collection is carried out through containers distributed across the local area according to the Basic Drop-Off Point model, but with a container closure mechanism for the collection of non-separated waste (controlled disposal according to user and quantity);
- door to door: domestic collection system for all main collections using bags/bins.

Of the 142 municipalities served by Hera via the Territorial Operating Structures, 121 were served in 2010 mainly by the street collection service, representing 94% of the population served. An additional proportion of the street service is carried out with control mechanisms: 15 municipalities and 82,000 citizens, the equivalent of 3% of the population served. In 6 municipalities (61,000 citizens, 2% of the population served) in 2010 there was a door to door rubbish collection service (by the end of the year this had risen to 7).

It should also be pointed out that in 46 municipalities served mainly by the street collection system, there are door to door areas or collection chains with door to door system, whilst in almost all municipalities there are door to door collection services for target users.

In terms of the separate waste collection results, an average of 47.5% separate waste collection was recorded with street collection; in 2010, in the 15 municipalities that street collection with controlled disposal was operational, the overall level of separate waste collection was 65.2% (and over 70% in some municipalities); meanwhile, in the 6 municipalities in which it was carried out, the door to door system produced an average result of 68.9% (with a maximum of 75% recorded in the municipality of Forlimpopoli).

Reuse of computers with the Trashware project

December saw the launch of the Trashware project, which consists of recovering old PCs, making them functional again, and then donating them to entities that require them (schools, associations, non-profit institutions, people in difficulty etc.), therefore recycling products that would otherwise have been disposed of. Promoted and financed by the Municipality of Cesena and Hera, the project was also carried out with the assistance of student association Sprite and the University.

Collection of urban waste

The overall production of urban waste in 2010 recorded a slight increase of 3.9% compared to the previous year. Excluding the waste deriving from the cleaning of shorelines, the increase recorded in 2010 was 2.3%, which is reflected by the increase in per capita production (+1.6% compared with 2009).

It is important to highlight that the quality of separated waste increased in 2010 (+11%), whilst there was a decrease in that of non-separated waste (-1%).

A key for encouraging separated waste collection in Rimini

An innovative system for collecting waste is operational in Rimini. Launched in 2008 in Poggio Berni, by 2011 the project will involve all the municipalities of the province of Rimini. The innovation consists in a new way of managing non-separated waste, which is deposited through a special lid placed on the bin, which can only be opened using a memory stick personally assigned to each user. The system was officially introduced in the residential areas of the 15 municipalities in 2010, serving a population of around 82,000 people. Overall, the objective of 65% of separate waste collection was achieved, with peaks of over 70% in some municipalities. The project will be completed in 2011 with the extension of the collection model in the residential areas of tourist municipalities in the province of Rimini.

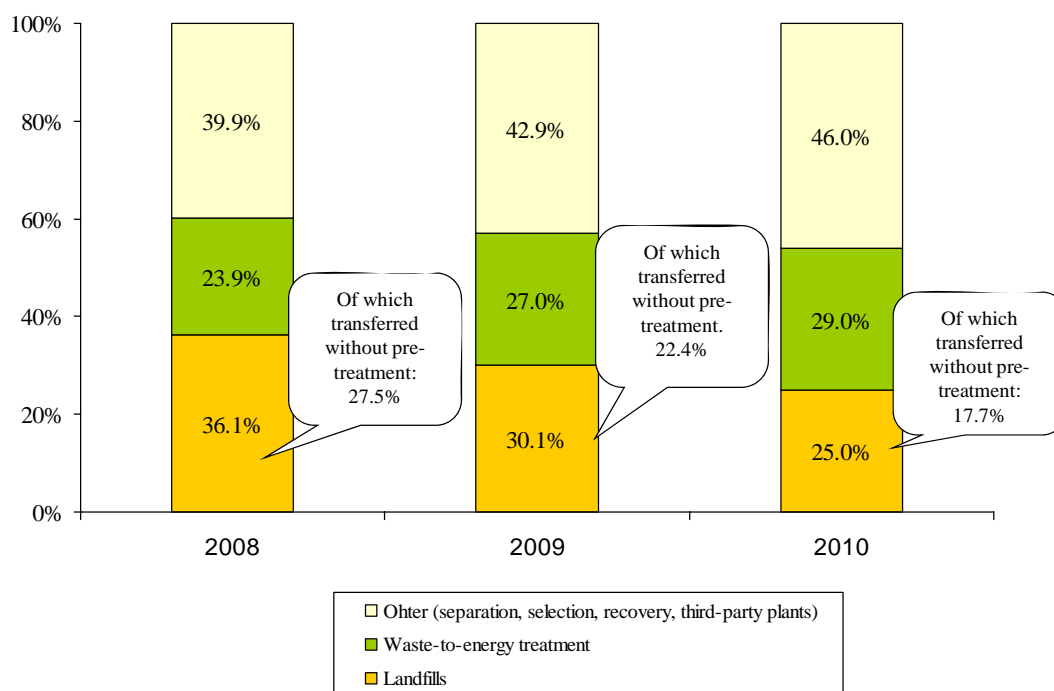
Urban waste collection by Territorial Operating Structure

thousands of t	2008	2009	2010
Bologna TOS	373.2	359.2	365.0
Ferrara TOS	92.6	90.5	93.1
Forlì-Cesena TOS	269.3	274.4	290.9
Imola-Faenza TOS	138.4	137.8	142.0
Modena TOS	268.0	306.2	315.2
Ravenna TOS	238.2	237.1	244.2
Rimini TOS	258.9	257.0	271.1
Marche Multiservizi	127.9	133.3	144.1
Total	1,766.3	1,795.5	1,865.6
Kg per inhabitant*	662	657	667

*Excluding waste from shorelines.

The area served by Hera is characterised by higher assimilation and thereby has the highest annual per capita urban waste production rates in Italy: 667 kg was collected per person in 2010 compared with the Italian average of 541 kg in 2008 (source 2009 Ispra Urban Waste Report). The region of Emilia-Romagna produced 682 kg per inhabitant in 2009 (source “Waste Management in Emilia Romagna Report 2010”, Region of Emilia-Romagna, 2010).

Urban waste collected by destination



The percentage of urban waste collected by Hera and disposed of in landfills is lower compared to 2009, and consistent with the 2010 objective. The 5 percentage point

reduction in the quantity disposed of in landfills is offset by an increase in municipal waste treated in waste-to-energy plants (+2 percentage points). There was also an increase in waste sent for selection or recovery (+3 percentage points) as a result of greater plant capacity following extensions to the authorisations and the start-up of new plants (Cesena anaerobic digester managed by Romagna Compost), consistent with the greater quantities of separated waste collected.

During 2010, the portion of urban waste disposed of in landfills following pre-treatment came to 25.0% (including Marche Multiservizi, which disposed 64% of urban waste in landfills) compared with an Italian average of 44.9% (2009 Ispra Urban Waste Report). If Marche Multiservizi is excluded, the portion falls to 21.8%.

The percentage of waste disposed of in landfills without pre-treatment came to 17.7%; excluding Marche Multiservizi this figure falls to 13.9%.

Disposal of urban waste in Europe

National and EU regulations define principles and priorities for waste management, from minimising waste at source to material recovery, energy recovery and, only as last resort, disposal in landfills.

Landfills are still the main way of treating waste in Italy: 49% of disposed urban waste was transferred to landfills in 2008 compared to 12% sent for waste-to-energy treatment. In some regions such as Liguria, Lazio, Sicily and Molise, the use of landfills to dispose of urban waste exceeds 85%. In 2010, Hera's customer base used landfills for disposing of waste for 25% of urban waste collected.

At European level the tendency to reduce the use of landfills for disposing of urban waste continues: in the EU-15 the figure dropped to 31% in 2009 while in the EU-27 it was 38% in 2009 (Eurostat data).

In Europe, the countries which use waste-to-energy treatment the most are Denmark, Switzerland and Sweden with percentages around 50%. In all of these countries, the percentage of waste destined for recovery is more than 40%, proof of a possible coexistence between waste-to-energy treatment and substantial separated waste collection. In Belgium, France, Germany, Luxembourg, Norway and the Netherlands, the percentage of waste destined for waste-to-energy treatment is between 32% and 41%.

In Austria, Germany, the Netherlands, Sweden and Switzerland, the use of landfills is almost nil, with percentages of under 2%.

Waste prevention initiatives

European Directive 2008/98/EC on waste, acknowledged in Italian legislation with Leg. Decree 205/2010, defines the following hierarchy in terms of the prevention and management of waste:

- prevention;
- preparation for reuse;
- recycling;
- other types of recovery, such as energy recovery;
- disposal.

Hera, while operating as waste management manager, and in full respect of the prerogatives of those responsible for waste planning, has developed and participated in numerous initiatives aimed at encouraging waste prevention. Hera promoted or

collaborated on approx. 20 initiatives to reduce waste, 3 of which were activated in 2010.

Among these initiatives, Hera₂O (promotion of tap water at Hera sites) and CiboAmico (donation of unused food in Hera canteens to associations within the local areas) stand out because they are targeted at employees and contribute towards reducing plastic packaging, in the former case, and organic waste in the second case. Both projects have been closely pursued together with numerous municipalities (with the “Mayor’s Water” campaign for example) and major local businesses (Last Minute Market, associations such as Padre Marella in Bologna and Giovanni XXIII in Rimini).

The other initiatives include:

- domestic composting, the free supply of Domocomposters, small containers for the domestic composting of organic waste (over 20,000 Domocomposters were distributed at the end of 2010, with an estimated 4,500 metric tonnes of organic waste treated in this way in 2010; some ATOs, or individual municipalities, offer discounts on rates or taxes to citizens that use the domestic composter);
- Toner and mobile phone Eco-boxes, containers for sending used toner cartridges and mobile phones for recycling, mainly distributed in schools (since the start of 2009 the Eco-boxes for phones have been offered to around 1700 schools with over 500 schools participating at the end of 2010 and around 1800 phones collected in 2010);
- “Still of Use”, the project launched in April 2010 in Ferrara to collect and donate unexpired medicines to non-profit organisations (around 6500 boxes suitable for donation collected from April to December 2010, mainly cardiovascular medicines, and medicines for the nervous system and the gastrointestinal apparatus).

There are also initiatives aimed at families, children and schools: ScArti in Ferrara, Campi d’Arte in Bologna, Una carrozzina per due and Rifiuto con affetto in Ravenna, Tric e trac in Modena, Trashware in Cesena.

Guardie Volontarie against rubbish dumping in Ferrara

In June 2010, an agreement was signed between the Province of Ferrara, the Municipality of Ferrara and ATO6 regarding the employment of the Guardie Volontarie. Coordinated by the Provincial Police and Hera, they will have the task of reducing the deterioration of the environment and preventing episodes of rubbish dumping. The Guardie Volontarie service will mainly consist of educational and information activities, but will also include the monitoring of critical areas to prevent negative occurrences such as the abandonment or irregular dumping of rubbish.

Separate waste collection

Separate waste collection is performed by the Group mainly with the single materials system, and regards an extremely wide range of waste. The main materials are paper, cardboard, glass, plastic, tins, organic waste, clippings, and bulky waste, collected mainly through street and domestic collections; in addition there is the waste disposed of by citizens in Separate Waste Collection Centres (or Equipped Drop-Off Points)

where the range of managed materials is completed, and more specifically: waste from electrical and electronic appliances (*RAEE*, *WEEE*), sorted by categories, mineral or cooking oils, batteries and accumulators, medicines and other dangerous waste. In specific cases, mixed materials collection is envisaged, where different types of materials are collected at the same time, favouring those that are easiest to separate in the selection plants.

Number and volume of separate waste collection bins

	2008	2009	2010
Number of bins (no.)	130,897	147,604	160,545
Bin volume (m ³)	162,584	181,941	194,491

The implementation of the WMS system and its evolution with the IEB (Basic Drop-Off Points) project resulted in a marked increase both in terms of number of skips (bins, “igloo” bins, drums) for separated waste collection available to residents, and in terms of total volumes of the skips, and a concurrent reduction in the number of skips for non-separated waste.

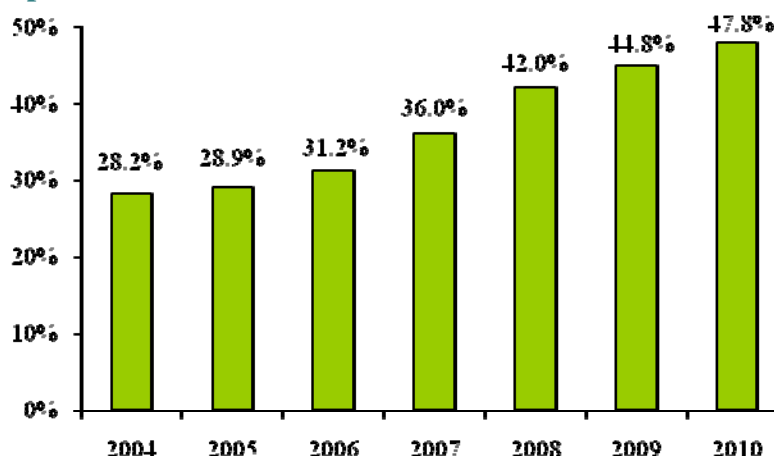
Compared to 2009, there were increases in both the number of bins for separate waste collection (+9%) and their volume (+7%). The increases were uniform across all areas served. In order to improve the efficiency of its services, the Group reduced the number and volume of bins for non-separate waste collection; there has been an overall volume reduction of 4% in the last three years.

An additional separate waste collection system was implemented through the Collection Centres. In the areas in which Hera operates, there are 135 Collection Centres. These points, which are also called equipped drop-off points, are dedicated areas with bays and containers, open to the general public, for users to directly drop-off separated waste, which is then sent for suitable recovery or disposal. Many Collection Centres are equipped with weighing and user-recognition systems: in addition to tracking waste drop off, these systems permit the application of tariff discounts.

Hera and Disney together to recover used toys

To mark the release of “Toy Story 3” Hera and Disney took to the streets in Bologna to collect toys that had had their time but which could still be given new life. Those that were still in good condition were donated to a non-profit association, whilst electric and electronic toys at the end of their lives were sent for recycling. The day was successful in raising awareness of the correct methods of recovering waste, but also for donating toys to those who have very few.

Separate waste collection



The percentage of separate waste collection is calculated excluding waste from shorelines.

Over the last few years, the quantity of separated waste collected has risen, maintaining good quality: this favours the recovery of waste as a material in recovery and recycling plants, as well as reducing the quantities being disposed of.

In 2010, separate waste collection came to 47.8% (48.5% if you exclude Marche Multiservizi).

It should be underlined that for the calculation of separate waste collection, regional regulations (Decree of the Regional Government no. 2317/2009, which modified Decree of the Regional Government no. 1620/2001) have established new criteria that essentially excludes non-reusable fractions (i.e. the waste downstream of the screening processes) deriving from mixed materials collection from the separate waste collection calculation. With this method, the percentage of separate waste collection in 2010 came to 47.4%.

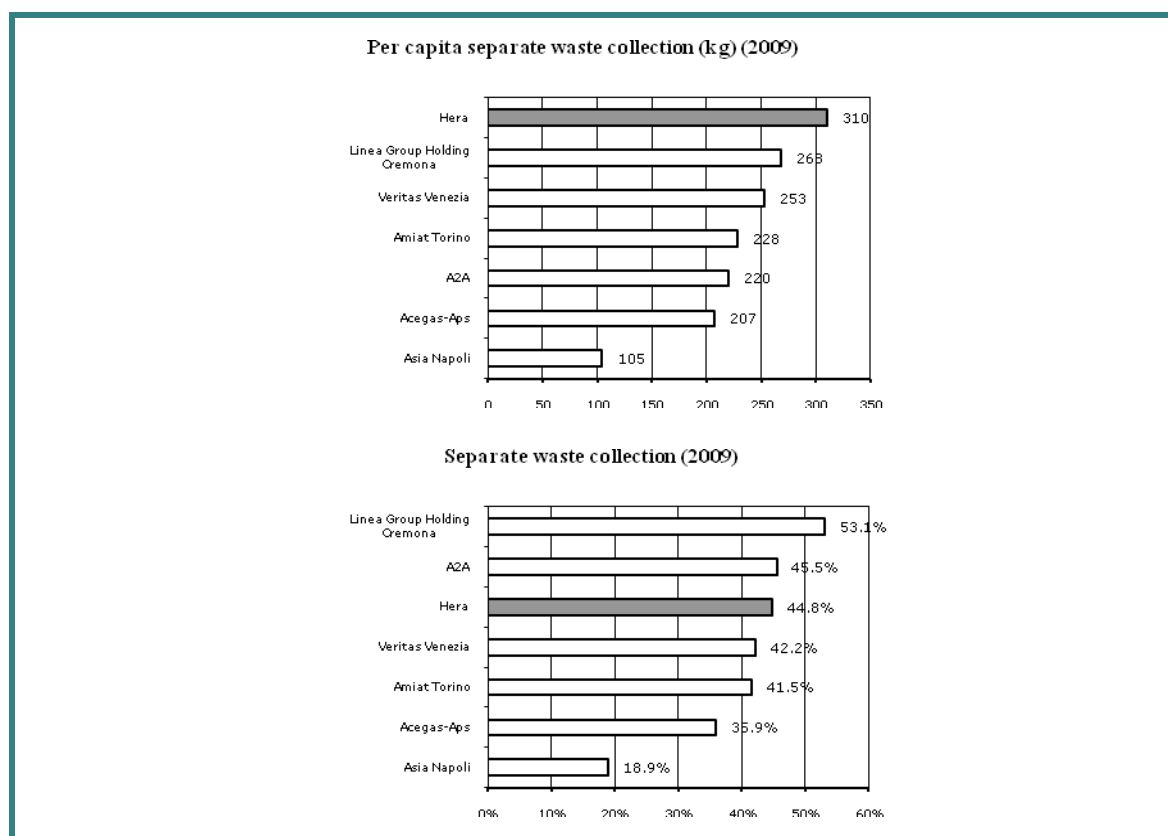
In Italy separated waste collection was 179 kilograms per capita in 2009, whereas the collection in North Italy totalled 237.6 kilograms in the main towns (data processing source: Legambiente, Ecosistema Urbano).

The calculation of separate waste collection also includes similar waste sent for recovery by the manufacturer and separated waste collected from third parties as provided by Decree of the Regional Government no. 2317/2009, implemented in municipal regulations and regulations of the Water and Waste Regulatory Authorities in force. In 2010, this amount of waste was equal to 121,000 metric tonnes, or 13% of total separated waste collected, as was the case the previous year.

In 2010, 936,700 metric tonnes of separated waste was collected, an increase of 12% on 2009. In 2010 per capita separate waste collection was 339.9 kg per inhabitant, an increase of 9.5% on 2009.

Separate waste collection in the main Italian utility companies

Hera is in first place in terms of per capita separate waste collection and in third place in terms of percentage separate waste collection among the 7 companies considered in the comparative analysis between the main Italian utility companies.



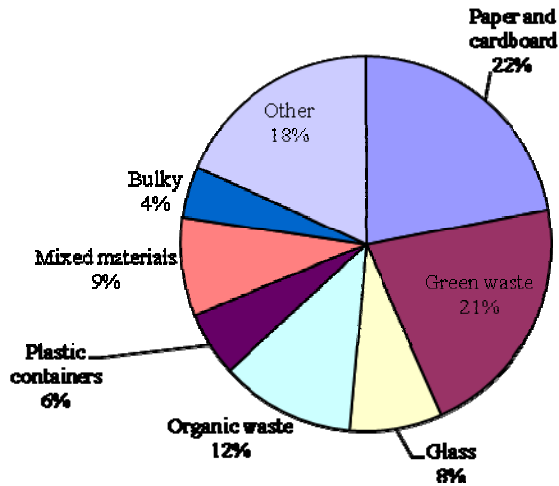
Separate waste collection by Territorial Operating Structure

%	2008	2009	2010
Bologna TOS	36.0%	39.7%	39.0%
Ferrara TOS	43.4%	46.6%	49.0%
Forlì-Cesena TOS	42.8%	45.9%	48.4%
Imola-Faenza TOS	41.4%	43.8%	46.0%
Modena TOS	44.5%	49.7%	51.3%
Ravenna TOS	50.6%	51.7%	56.0%
Rimini TOS	41.5%	43.1%	52.8%
Marche Multiservizi	36.4%	37.2%	39.7%

The percentage of separate waste collection is calculated including the quantities of waste deriving from road sweeping, and excluding the waste from the shore. The calculation of separately collected waste also includes similar waste transferred by manufacturers for recovery and separately collected waste from third parties or directly from municipalities. 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.

Separate waste collection has increased significantly in all Territorial Operating Structures with the exception of the Bologna TOS. Three Territorial Operating Structures (Modena, Ravenna and Rimini, 1.1 million citizens in total) are above 50%.

Separate waste collection by waste type (2010)



The increase in separated waste recorded in 2010 particularly regarded organic waste (+21%). On the other hand, there was a reduction in mixed materials collection, as this type of collection is being discontinued in favour of single materials collection. This has resulted in an increase in the collection of plastic (+25%).

Tracking waste: where does the separated waste collected go?

For the first time, in 2010 Hera formulated a report on the destination of waste collected separately. The 43 first destination waste plants in 2009 were identified and, by involving the managers of these plants, the percentage of waste transformed into “second raw materials” (replacing raw materials of natural origins) was determined and the production plants that utilise the materials deriving from separate waste collection identified.

The initiative regarded the main materials collected separately: paper, green waste (residues, prunings), organic waste, glass, plastic and metals (steel, aluminium and tinplate packaging).

In 2009 the overall percentage effectively recovered was 91.1%: 90.5% paper, 94.2% organic, 92.3% green, 93.5% glass, 76.4% plastic and 94.0% metal.

The results were presented in a leaflet distributed at the main customer branches, at schools and public events. These data can also be consulted on the Group website.

The initiative will be repeated every year and will therefore become one of the tools that the company uses to report on the progress it is making in terms of sustainable development.

As well as the portion of separately collected waste that is effectively recovered, part of the undifferentiated waste collected is sent for recovery at mechanical screening plants. In 2010, around 164,000 metric tonnes of undifferentiated waste was sent to these plants, equal to 15.6% of all undifferentiated waste collected. Ferrous metals (roughly 2,000 tonnes in 2009, sent for recovery) and the organic portion of the waste (65 thousand tonnes, sent to composting plants to produce biostabilised material to cover the landfills) were separated from these materials.

Waste disposal

The Hera Group manages a pool of 77 unique plants in Italy that allow us to both fully and appropriately respond to EU and Italian legislation.

The Group's plant pool includes storage and initial pre-treatment plants, plants for selection and recovery of dry material, plants to recovery the organic portion through composting, and waste-to-energy plants with high energy recovery.

Given that all of these plants generate, through their recovery activities, non-reusable by-products (the so-called non-reusable fractions, combustion waste, dust from purification fumes, leachates, etc.), other types of plants are fundamental. Final disposal takes place at landfills. The chemical-physical treatment plants for liquid waste allow purified water to be returned to the environment (through biological purification) while special plants for solid waste treatment stabilise hazardous waste.

Herambiente manages all of these types of plants thus providing an integrated waste management system, with a continually evolving plant pool; every year new plants are developed, existing ones expanded or modernised, and treatment technologies updated to provide an environmentally suitable answer to the management requirements of both urban waste and special waste, which represent a significant and predominant percentage of the total waste produced.

The following operations took place in 2010:

- the coming on stream of the new line 4 of the Modena waste-to-energy plant;
- the coming on stream of the new line 4 of the Rimini waste-to-energy plant;
- development and coming on stream of the new third WDF production line at the Ravenna waste-to-energy plant;
- expansion by 1.5 million metric tonnes of capacity of the landfill for urban and special non-hazardous waste in Tremonti (Imola - Bologna);
- development of lots 5 and 6 A of the landfill for urban and special non-hazardous waste in Ravenna (expansion of 0.5 million metric tonnes);
- development of sectors 1 and 2 of the landfill for hazardous and non-hazardous waste in Castel Maggiore (Bologna) (expansion of 250,000 metric tonnes);
- completion and revamping of the anaerobic digestion plant in Spilamberto (Modena).

Work continued at numerous other important work sites in 2010:

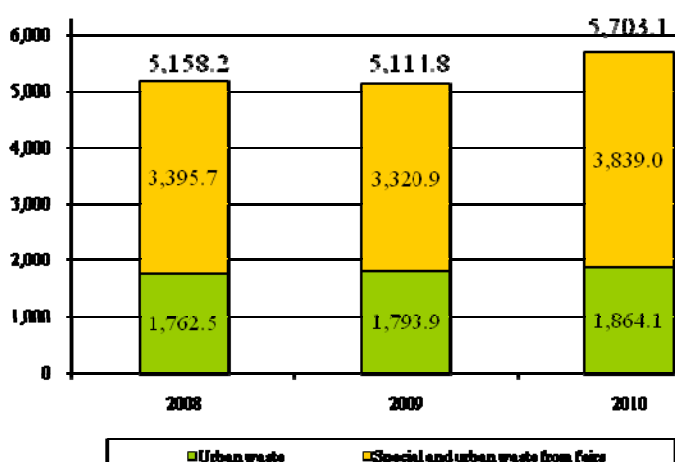
- preliminary structural works on the lifting of the Galliera (Bologna) landfill;
- development of the new "Disidrat" plant in Ravenna for the treatment of sludge and other semi-solid and pumpable special sludge waste;
- revamping of the chemical-physical ITFI plant in Bologna, with expansion of its production capacities and insertion of industrial wastewater recovery line and Fenton treatment line;
- revamping of the dry-moist separation plant in Ostellato (Ferrara);
- operations to renovate the liquid waste and wastewater plant at the Via Baiona site in Ravenna.
- revamping of the recovery plants for separately collected waste materials at Coriano (Rimini), Ferrara and Mordano (Bologna), managed by subsidiary Akron.

A new frontier for organic waste

Thanks to an innovative anaerobic process (without air) called digestion, in addition to compost, the Romagna Compost plant, located in S. Carlo di Cesena (Forlì-Cesena) and operational as of December 2009, also produces biogas, a methane-based gas used to produce renewable energy. In 2010 the plant treated 35,300 metric tonnes of organic waste producing 5,389 kilowatt per hour of electricity.

The jury of the 2010 Sustainable Development Award promoted by the Foundation for Sustainable Development together with Ecomondo - Fiera di Rimini, included Romagna Compost among the top 10 companies nominated for the Waste sector: the award ceremony took place on 4 November 2010 in Rimini during Ecomondo.

Waste treated by type



Urban and special waste disposed by plant type

Thousands of t	2008	2009	2010
Separation plants	76.5	1.3	6.7
Selection plants	267.4	289.3	322.2
Waste-to-Energy plants	622.6	734.5	800.6
Compost plants	352.2	402.0	463.8
Landfills	1,597.8	1,400.4	1,429.7
Stabilisation and chemical and physical treatment	1,058.1	1,084.6	1,227.4
Third party plants	1,183.5	1,202.7	1,452.7
Total	5,158.2	5,114.8	5,703.1

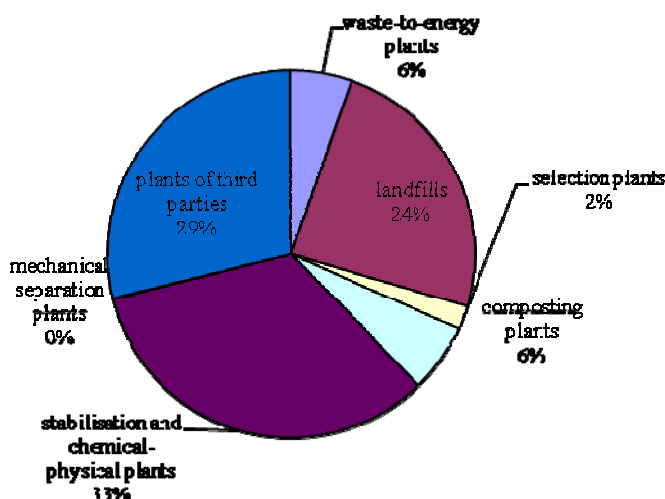
The data refer to plant inflow waste. Duplication may therefore be included. Some of the waste treated in selection plants, for example, may be targeted for landfill disposal following selection treatment. The outgoing waste from plants which were counted among the final use plants was subtracted from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

There was a general increase in the amount of waste treated in the various plant types. More specifically, there was a considerable increase, because of the unfavourable weather conditions, in the production of waste at the disposal plants (e.g. leachate from landfills) which is mainly sent to chemical-physical plants or third party plants.

The overall increase in managed waste was possible thanks to the greater plant capacity resulting from the entry into full function of the new line of the waste-to-energy plant in Modena and the coming on stream of the new line of the Rimini waste-to-energy plant.

In the area managed by Marche Multiservizi, there was an increase in scope with the entry of the company Naturambiente, operational in 8 municipalities in the province of Pesaro-Urbino. As well as the increase in separate waste collection there was also an increase in the amount of waste sent to plants that treat dry and moist fractions, thanks to the expansion of the authorised capacity and the start-up of the new anaerobic digester in Cesena managed by Romagna Compost.

Special waste disposed of by plant type (2010)



When discussing waste management, the dialogue is often limited to problems relating to urban waste, or waste produced by domestic residents, ignoring what is produced by commercial, production and industrial activities.

This is partly due to the fact that the management of so-called special waste is not subject to planning by agencies as urban waste is, and for this reason, its importance, both qualitatively and quantitatively, is undervalued.

It should be clarified that special waste is quantitatively much more important than urban waste. ISPRA data reported urban waste production of about 32.5 million metric tonnes in 2006 in Italy, compared to special waste production of about 134.7 million metric tonnes.

Hence, the portion of special waste represents more than four times that of urban waste, and, even if a large part of special waste consists of demolition materials, it is easy to see that property waste management in local areas must consider this type of waste.

15,854 metric tonnes of reagents were consumed in waste-to-energy plants, consistent with the quantities recorded last year. 12,300 metric tonnes of chemical reagents were consumed in the stabilisation and chemical-physical treatment plants, 21.9% less than in 2009.

Expansion of the waste-to-energy plant in Rimini

In June 2010 the new waste-to-energy line in Rimini was activated. Like the previous plants developed directly by Hera, this line immediately produced pollutant emission concentrations well below the levels authorised by the Province of Rimini, which are more restrictive than those provided for by national legislation.

The construction of the new line was separated into two distinct phases; the first phase regarded the construction of the part dedicated to the combustion of waste and the abatement of pollutants resulting from this combustion, while the second phase, yet to be completed, regards the realisation of the new thermal energy recovery and energy generation section. The first phase was completed in June 2010 with the first waste-fuelled activity of the waste-to-energy plant, and in 2010 registered an average presence of 74 man-days with peaks of 90 man-days; the second phase began in July 2010 and involved a presence of 10 man-days. The resources used and the widespread control of the safety training provided by all suppliers to their employees, so that every worker was trained and informed on the safety measures to be adopted, ensured that no injuries were recorded. There were however 3 “near misses”, according to the recordings carried out in compliance with the OHSAS 18001 specification.

Urban and special waste disposal by plant

thousands of t	ISO 14001	EMA S	2008	2009	2010
Coriano - Rimini	x	x	37.7	69.8	109.6
Frullo Granarolo - Bologna (Frullo Energia Ambiente)	x	x	204.1	198.4	206.2
Canal Bianco, Ferrara	x	x	129.3	132.0	130.0
Grigioni Forlì	x	x	68.3	118.3	116.0
Strada Romea km 2.6 Ravenna	x	x	49.1	42.8	42.8
Comparto Area 2 Cavazza Modena	x		103.5	137.0	157.8
Special Waste Ravenna	x	x	30.6	36.2	38.2
<i>Total waste-to-energy plants</i>			<i>622.6</i>	<i>734.5</i>	<i>800.6</i>
Civitella – Forlì-Cesena			17.4	0.0	0.0
Busca – Forlì-Cesena	x	x	117.0	85.7	79.6
Strada Romea km 2.6 (1C) Ravenna	x	x	203.0	286.1	297.6
Galliera – Bologna	x	x	176.4	157.8	176.7
Tremonti Imola - Bologna	x	x	237.3	198.7	153.7
Il Pogo Firenzuola – Florence	x	x	28.6	78.7	86.9
Strada Romea km 2.6 formerly 2B super Ravenna (Sotris)	x	x	2.2	6.3	0.4
Strada Romea km 2.6, formerly 2B super TN Ravenna (Sotris)	x	x	75.3	63.1	97.3
Caruso 1C Modena	x		322.0	0.0	0.0
Zocca – Modena	x		8.8	56.9	59.6
Castelmaggiore - Bologna (A.S.A.)	x	x	195.6	179.0	220.4
S. Agata Bolognese - Bologna (Nuova Geovis)	x		5.2	21.2	20.3
Tavullia – Pesaro-Urbino (Marche Multiservizi)	x		94.9	93.2	81.8
Montecalvo – Pesaro-Urbino (Marche Multiservizi)	x		17.2	39.4	69.6
Urbino (Marche Multiservizi)	x		-	30.3	36.8
Third party landfills			97.0	104.1	48.9
<i>Total landfills</i>			<i>1,597.8</i>	<i>1,400.4</i>	<i>1,429.7</i>
Coriano - Rimini (Akron)	x	x	59.2	68.2	80.0
Modena (Akron)	x		30.2	60.0	60.6
Mordano - Bologna (Akron)	x	x	55.7	44.1	48.2
Lugo-Cotignola - Ravenna (Akron)	x	x	74.7	70.6	75.9
Ferrara (Akron)	x		45.3	42.7	53.2
Other external plants			2.2	3.8	4.4
<i>Total selection plants</i>			<i>267.4</i>	<i>289.3</i>	<i>322.2</i>
Busca – Forlì-Cesena (Romagna Compost)			14.4	21.9	42.8
S. Agata Bolognese - Bologna (Nuova Geovis)	x		124.8	99.4	111.4
Ozzano - Bologna (Nuova Geovis)	x		24.0	21.5	22.0
Voltana di Lugo – Ravenna	x	x	48.4	48.3	52.6
Cà Baldacci Rimini	x	x	40.5	37.4	42.9
Ostellato - Ferrara	x		99.9	87.3	99.6
WDF stabilisation plant - Ravenna	x		0.2	17.0	22.9
Tremonti Imola stabilisation plant - Bologna (Akron)	x	x	-	65.2	59.5
Stabilisation plant (Marche Multiservizi)	x		-	3.9	10.1
<i>Total composting plants</i>			<i>352.2</i>	<i>402.0</i>	<i>463.8</i>
Forlì chemical phys. plant	x	x	25.0	25.3	38.6
Ravenna chemical phys. biological plant	x	x	191.6	187.3	215.7
Ravenna sludge treatment plant			119.3	134.8	115.3
Ravenna Ind. area chemical phys. plant.	x	x	235.4	243.2	342.4
Alfonsine chemical phys. biological plant - Ravenna	x		1.9	0.0	0.6

thousands of t	ISO 14001	EMA S	2008	2009	2010
Russi chemical phys. plant - Ravenna			0.0	0.0	0.7
Lugo chemical-physical-biological plant – Ravenna	x	x	70.9	92.0	133.7
ITFI stabilisation and chemical phys. plant Bologna	x	x	130.9	130.0	155.9
Ravenna stabilisation plant (Sotris)	x	x	14.2	10.3	15.4
Chemical-physical plant (with special waste platform) Ferrara	x	x	7.0	8.3	17.7
Area 2 Cavazza chemical physical plant Modena	x		150.0	133.3	66.6
Area 3 chemical physical plant Modena	x		18.2	19.9	22.4
CTIDA Area 3 chemical physical plant Modena	x		0.3	0.0	0.0
Soliroc plant Modena	x		4.9	4.8	2.5
Anaerobic digester Spilamberto - Modena			88.3	76.3	91.1
Leachate treatment plant Forli-Cesena (Romagna Compost)	x		-	3.7	0.0
Experimental sludge treatment plant SOTRIS			-	12.5	8.8
CIC stabilisation and chemical physical plant Modena	x		0.3	3.1	0.0
<i>Total stabilisation and chemical phys. plants</i>			<i>1,058.1</i>	<i>1,084.6</i>	<i>1,227.3</i>
WDF production Ravenna	x	x	3.7	-1.7	5.3
Bologna separation	x		0.3	-0.2	0.1
Separation Tremonti Imola - Bologna (Akron)	x	x	67.2	-2.0	0.0
Forli separation	x	x	-	5.2	0.0
Ostellato separation - Ferrara	x		-	-	1.4
Nuova Geovis separation	x		5.2	0.0	0.0
<i>Total mechanical separation plants</i>			<i>76.5</i>	<i>1.3</i>	<i>6.8</i>
Wastewater treatment plants			1,183.5	1,202.7	790.9
Third party plants					661.9
<i>Total other plants</i>			<i>1,183.5</i>	<i>1,202.7</i>	<i>1,452.7</i>
Total			5,158.2	5,114.8	5,703.1

Waste produced by Hera

The activities managed by the Hera Group generate various waste types: on the basis of the specific chemical-physical characteristics of the waste, it can subsequently re-enter the recovery (energy or material) or disposal processes managed within the Group.

Main types of waste produced by Hera

thousands of t	2008	2009	2010
Sludge from water purification, treatment and distribution	192	148	129
Sand from wastewater treatment plants	20	19	18
Ash from purification sludge incineration	4	4	3
Other sludge produced by the Territorial Operating Structures (sewer cleaning, septic tanks, etc.)	11	6	4
Other waste produced by Territorial Operating Structures	1	1	2
Waste-to-energy plant electrofilter dust	14	25	28
Waste-to-energy plant waste	93	167	178
Solid waste from stabilisation	12	41	27
Sludge produced by chemical-physical-biological plants	53	69	102
Sludge treatment water	78	97	354
Separated oils produced by chemical-physical-biological plants	0	0	1
Surnatant from chemical-physical-biological plants	489	592	500
Leachate from landfills	292	458	781
Scavenging water/sludge from waste-to-energy plant fumes	152	125	62
Non-reusable fractions from plants for selection and for the production of fuel from waste	112	160	176
Other waste from Herambiente storage and plants	7	24	22
Total	1,531	1,936	2,387

Data refer to Hera S.p.A., Herambiente, Akron, FEA, Nuova Geovis, Romagna Compost, Marche Multiservizi (the latter from 2010). For 2008, the data refer to Hera S.p.A.

In 2010, the Group produced 2.4 million metric tonnes of waste. In 2010, the quantities of waste produced by waste-to-energy plants (waste, dust and solid waste from stabilisation) increased due to the increase in quantities of waste sent to waste-to-energy plants. Leachate and waste from chemical-physical-biological plants greatly increased due to the adverse climate conditions, which resulted in higher rainfall and, as a result, a greater production of by-products. The increase in quantities of non-reusable fractions can be attributed primarily to the selection and composting plants, and the greater quantities they treated.

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

- sludge generated by water offtakes, treatment and distribution: dehydration, landfill, reuse in environmental renovation works;
- purification sludge: landfills, conditioning and subsequent reuse in agriculture, thermal treatment, dehydration, transfer directly to agriculture;
- dust from waste-to-energy plants: stabilisation and successive disposal in appropriately controlled landfills;
- waste from waste-to-energy plants: landfills, recovery of iron and metal fractions, production of concrete and bricks; 43% of waste produced in 2010 was recovered;
- surnatant from chemical-physical-biological plants: biological purification treatment in plants;
- leachate from landfills: treatment in chemical-physical-biological plants;
- non-reusable fractions from plants for selection and for the production of fuel from waste: waste-to-energy, landfill.

Recovery of waste-to-energy treatment plant waste

The growth and plant renovation plan pursued by Herambiente in the last five years on its pool of waste-to-energy plants has had a positive impact on the production of combustion waste. The new combustion systems and, above all, the “gondola”-type combustion waste “cooling” (i.e. the operation to cool the waste produced in the oven by soaking it in water baths) and extraction systems make it possible to have waste with a very low quantity of unburned matter and reduced water content. These resulted in a both lower percentage of waste produced (22% in 2010) and, above all, a waste quality level more suitable for subsequent recovery.

This fulfils the most important waste management priority of reducing waste at source. Having said this, the quality of waste is also a fundamental parameter for the subsequent recovery of matter which, in terms of the waste produced by Herambiente plants, takes place in proprietary or third party plants, thanks to consolidated, long-term commercial agreements in place.

The waste is used to produce second raw materials, which are used in the production cycles of concrete and bricks. During the process, which recovers almost all of the waste, ferrous and non-ferrous metals are also recovered and then reused in the metallurgical industry.

Biodiversity

Starting in the 1980s, 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. In 1992, with the signing of the Convention on Biological Diversity in Rio, all member states of the EC recognised the in situ conservation of ecosystems and natural habitats as a priority to pursue, setting themselves the goal of “anticipating, preventing and attacking the causes of significant reduction or loss of biological diversity at source because of its intrinsic value and because of its ecological, genetic, social, economic, scientific, educational, cultural, recreational and aesthetic value”.

The EU policy for the conservation of nature on Community territory is largely based on two pieces of legislation: Council Directive no. 409/79, adopted in April 1979, regarding the conservation of wild birds (the “Birds Directive”) and Council Directive no. 43/92, adopted in May 1992, regarding the conservation of natural habitats and wild flora and fauna (“Habitats Directive”).

These two Directives constitute the legislative basis for the protection and conservation of habitats and wild species in Europe. The key point of this policy is the creation of a consistent ecological network of protected areas via the European Union, known as NATURA 2000. The protected natural areas are portions of land or water areas where alterations generated by mankind are very limited or absent. These areas are subject to special protection and management regimes, as they are intended for the conservation of the biological diversity, cultural heritage and natural resources.

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”. In the province of Ravenna, the Marina di Ravenna treatment plant is located within the EU Conservation Area “Piallassa

Piombone”, while the Ravenna city treatment plant disposes of the wastewater treated within the SPA “Piallassa Baiona”. Within these two plants, in order to protect biodiversity, Hera carries out acute toxicity tests. In the period 2005-2010, these tests demonstrated that the water disposed of was not toxic in any way.

Hera’s waste disposal plants, which are being upgraded and newly built, are subject to the Environmental Impact Assessment (EIA) procedure. For plants located near protected areas (generally within 5 km distance and when specific conditions exist that may result in even a limited impact), Hera performs a Incidence Assessment, which is a sort of evaluation of specific environmental impact for the peculiarities and natural abundance in the protected areas. The Councillor for Cultural Heritage, the Parks Department and the Region of Emilia Romagna analyse these assessments, prescribing mitigation measures aimed at containing any impact and protecting the biodiversity of the indigenous plant and animal species (i.e. planting of species of trees and bushes, adoption of measures to avoid attracting animals which are excessively sythropic or opportunistically trophic).

In 2010, impact evaluations were carried out on SCI and/or SPA as part of projects to expand the landfills at Galliera (Bologna), Baricella (Bologna) and Voltana di Lugo (Ravenna) In all cases, the outcome of the evaluations demonstrated a “low impact” on the Sites of Community Interest and Special Protection Areas closest to the intervention areas.

This evaluations analyse the possible interference of the planned work on the environment and, in particular, the specific biotic (flora, fauna and ecosystems) and abiotic components (air, soil, subsoil, surface water and underground water) in the protected area; also examined are aspects related to ecological connections, i.e. the presence of waterways, rows of trees, hedges etc., that make it possible to install ecological networks between the most natural ecosystems and the plant department subject to the work.

The projects to expand/develop landfills or other waste treatment plants contain a specific section dedicated to environmental renovation, renaturalisation and the visual mitigation of the areas surrounding the intervention location, which describe the specific actions aimed at creating and strengthening ecological networks in a manner consistent with existing networks.

Appendices

Glossary

Inhabitant equivalent

The concept of inhabitant equivalent was introduced to enable the comparison of various types of sewage (urban, household, industrial) in terms of organic pollution. Using conversion factors, an estimation is made of 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.

AEEG

The Italian Authority for Electricity and Natural Gas, formed under Italian Law No. 481/1995.

Water and Waste Regulatory Authorities (ATO)

In accordance with Italian Law No. 36/1994, the ATO water and waste regulatory authorities define the local level of 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.

ARPA

Regional Environmental Protection Agency. The system of Regional Environmental Protection Agencies currently comprises 19 agencies across Italy.

Ammonia nitrogen

The term ammonia nitrogen (NH₄) is used to define the concentration of ammonia ions in water. It provides an index of biodegradation of nitrogenous organic substances. It is expressed in mg/l.

Sustainability Report

An instrument which accounts for the impact of corporate activities on three dimensions of sustainability: economic, social and environmental.

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 BOD₅), at a given temperature, to biodegrade the organic matter present in the water via bacterial action (uptake of oxygen by micro-organisms). High biochemical oxygen demand indicates intense biodegradation of organic matter, and may highlight the presence of organic pollution. It is therefore an indirect measure of pollution levels. Its value is expressed in mg/l.

Bonds

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

Services Charter

Corporate document that establishes quality standards for corporate services.

CCGT

A Combined Cycle Gas Turbine is an electricity generation plant that functions thanks to the combined presence of a gas turbine and a steam turbine. CCGT technology is one of the most advanced available today and guarantees elevated performances and greater environmental compatibility.

WDF

Waste-derived fuel.

Green certificates

Certificates issued according to the provisions of Article 5 of the Italian Ministerial Decree dated 11 November 1999. All producers or importers must introduce into the grid a 2% quota of electricity produced from plants fuelled by renewable sources. This percentage increased by 0.35% per year from 2004 to 2007 (in 2007 it was 3.05%) and since 2008 has increased by 0.75% per year. Electricity produced at plants fuelled by renewable sources is entitled to Green Certification. Green Certificates can be sold as a means of ensuring compliance with the obligation to introduce energy from renewable sources.

CIP 6

Ruling 6/1992 of the CIP (Interministerial Price Committee) concerning incentives for the production of electricity from renewable sources. This 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 degree of pollution, mainly organic, in the water from substances which can be oxidized. 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

Aerobic 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.

Social cooperatives

Cooperatives regulated by Italian 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 differently-abled or otherwise face hardship.

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 players 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 its stakeholders.

Warning

A warning is a deed issued by the Public Administration and/or supervisory bodies in cases where, in exercising their inspection and control activities, they detect existing or possible future deviations from regulations and provisions of national and regional law: the warning sets a term by which breaches must be eliminated.

Dispatching (electricity sector)

Activities aimed at providing instructions for the use and the coordinated operation of production plants, the transmission grid and auxiliary services (Bersani Decree).

Dispatching (gas sector)

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 (Letta Decree).

EMAS

EU Regulation No. 761/2001 which provides for the adoption by business concerns of environmental management systems based on policies, programmes, procedures and objectives aimed at improving the environment, and the publication of an Environmental Statement, to be validated by the Ecoaudit Committee.

Primary energy

Primary energy is the energy potential presented by energy carriers in their natural form, for example oil, natural gas, coal, natural uranium, water and other renewable energy sources. In the majority of the cases, the primary energy must be transformed into secondary energy in electricity power stations, refineries, etc.

Focus group

A surveying technique based on discussions between members of a group of persons. The main aim is to conduct an in-depth study of a specific issue in relation to given targets. Interaction between focus group members provides the basis for the surveying action.

Ethical funds

This term is used to describe mutual investment funds whose choice of shares, bonds and government securities is inspired by ethical selection criteria. These parameters are defined as exclusion/inclusion.

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 part of products, waste and residues generated by farming (including vegetable and animal substances), forestry and associated industries, as well as the biodegradable part of industrial and urban waste.

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.

Geothermics

The science dedicated to problems relating to the internal energy of the Earth and to the practical applications of this energy source.

GRTN

Gestore della Rete di Trasmissione Nazionale. 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.

IAFR

Qualification as an IAFR, a "Plant Fuelled by Renewable Energies", is a prerequisite for obtaining some of the most important incentives for the production of electricity from renewable sources (issuing of Green Certificates and access to the feed-in tariff). The Energy Services Manager has the task of qualifying production plants fuelled by renewable sources once possession of the necessary requisites has been verified. IAFR qualification can be attained both by plants that are already operational and plants that are at the planning stage at the time of the request.

KPI

Key Performance Indicators are specific indicators selected on the basis of corporate information needs. They are used to carry out corporate monitoring. KPIs may be financial, production-oriented, commercial, environmental or social in nature, or may regard multiple aspects.

Mobility Management

Refers to an internal corporate department in charge of managing staff commuting.

Nm³

Normal cubic metre, volume of gas at 0°C and 0.1 Mpa

OHSAS 18001: 2007

The OHSAS 18001 (Occupational Health & Safety Assessment Series) standard is an internationally recognised benchmark for the certification of workplace health and safety management systems.

Nitric oxides

Nitric oxides (mainly NO and NO₂), gases produced by the combustion of fossil materials. Nitric oxides contribute to the formation of ozone in the lower atmosphere and acid rain.

PCB (polychlorinated biphenyls)

Highly toxic organic compounds used in a wide range of applications e.g. as fluids for capacitors and transformers. When managing and disposing of them careful attention must be paid to ensure they are not released into the environment, in accordance with laws in force.

Leachate

Substance deriving from the filtration of water and other liquid mixtures through waste.

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.

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.

Waste

Italian legislative decree No. 22/1997 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 hazardous or non-hazardous.

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.

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 amount of substances present in the sample following drying, at 105°C. Its value is expressed in mg/l.

Stakeholders

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 the lowering of the underground water table, in turn caused by withdrawal of groundwater at a faster rate than the natural recharging time.

Sustainable development

“Development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland Report, World Commission for Economic Development, 1987).

District Heating

Transfer over distances of heat from thermoelectric power stations, cogeneration plants or waste-to-energy plants through an energy vector (hot water, superheated water, steam).

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).

Waste-to-energy plant

Plants using waste as a fuel to produce heat or energy.

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 9001:2008

International technical standard for the certification of quality management systems.

UNI EN ISO 14001: 2004

International technical standard for the certification of environmental management systems.

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