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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.

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.

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

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

This Sustainability Report, the eighth published by the Hera Group, can also be viewed on the internet site www.gruppohera.it, where it can be downloaded both in 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 internet site.

This report also includes an evaluation form you can use to give us your opinion. 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 through the acquisition of 4 VERs (Verified Emission Reductions), voluntary reductions deriving from the forestation project in the province of Ferrara in line with the criteria of the "Parks for Kyoto" Committee.

In particular, the neutralisation was carried out by participating in a reforestation project of a 10 hectare area belonging to the province of Ferrara, in the municipalities of Codigoro and Comacchio. These interventions are part of the larger strategy implemented by the Province to increase the forest areas in the local areas it is responsible for.

This report was prepared with Blue Angel 100% recycled ecological paper (Cyclus Print) 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 2009 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 first time this year.

The G3 Reporting Guidelines standard were drawn up in 2006 by the Global Reporting Initiative to evaluate 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 2009-2013, Budget 2010 and Balanced Scorecard 2010. These interconnected instruments contain sustainability objectives which have an effect on stakeholders.

The data collection actions required for the report entailed the distribution of forms providing the technical indications used for construction of 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 2009 press review, blog, forum and newsgroup as well as the results of the activities for stakeholder involvement, which are described in Section 3.

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 General Manager of Herambiente, the Manager of the Fluid Distribution Division, the Chief Executive Officer of Hera Comm, the Manager of the Business Unit Division- SOT Imola-Faenza, the Quality, Safety and Environment Manager, the External Relations Manager and the person in charge of Management Control.

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.

Guidance Committee:

Maurizio Chiarini, Roberto Barilli, Filippo M. Bocchi, Ennio Dottori, Cristian Fabbri, Giuseppe Gagliano, Claudio Galli, Rita Malossi, Franco Sami, Susanna Zucchelli.

Corporate Social Responsibility Department:

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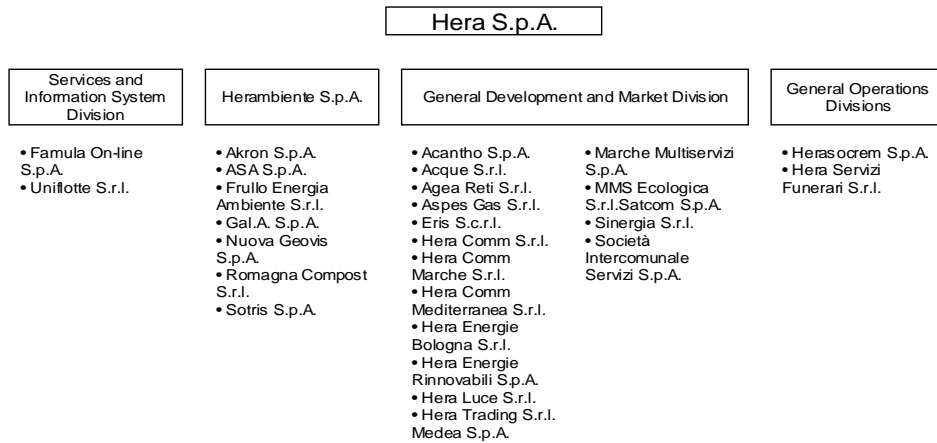
Scope of reporting

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.

The main changes in the scope of reporting compared to the previous report refer to the addition of Acantho and Satcom to the Group (110 employees at the end of 2009), which operate in the telecommunications sector. These two companies were consolidated using the line-by-line method in the Group's consolidated financial statements.

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



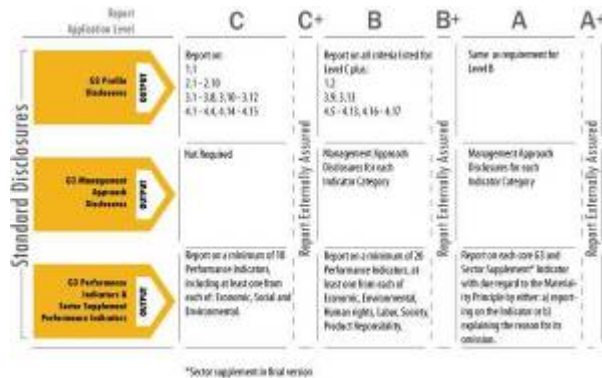
Auditing of the Report

This Report was audited by an external company, which certified its compliance with the GRI – G3 (Sustainability Reporting Guidelines & Electric Utility Sector Supplement) and GBS guidelines, according to the “AA1000 Assurance Standard 2008.” This audit assesses compliance with the AA1000 Accountability Principles (materiality, inclusion of stakeholders, ability to respond to stakeholders) and the reliability of the specific sustainability performances.



The corporate quality management system, certified in compliance with the ISO 9001:2000 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 240 municipalities of the provinces of Bologna, Ferrara, Forlì-Cesena, Modena, Ravenna, Rimini, Pesaro and Urbino. Hera also operates in several municipalities in the province of Florence.

Hera provides energy (gas, electricity), water (water systems, sewage and treatment), and waste management (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 at the dividend coupon date includes 186 public shareholders (holding 62% of shares, in all), 465 institutional investors and over 22,000 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 privatized via the placing of 44.5% of the share capital on the Milan stock exchange.

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 as from 1 January 2008;
- the merger of SAT S.p.A. into Hera S.p.A. approved in 2007, which became effective as at 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 2.8 million cubic metres per year to approx. 1.1 million service customers. Hera distributes electricity in the Modena and Imola areas and sells approximately 7.1 TWh of energy per year to approximately 336 thousand customers.

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

Water services

Hera manages the integrated water services in 226 municipalities (it manages the sewage and purification services in all and also manages distribution services in 223) with sales volumes of approximately 257 million cubic metres of water for civilian and industrial use, 319 potabilization plants, 30,849 kilometres of aqueducts, approximately 15,000 kilometres of sewage networks and 973 treatment plants.

Waste management services

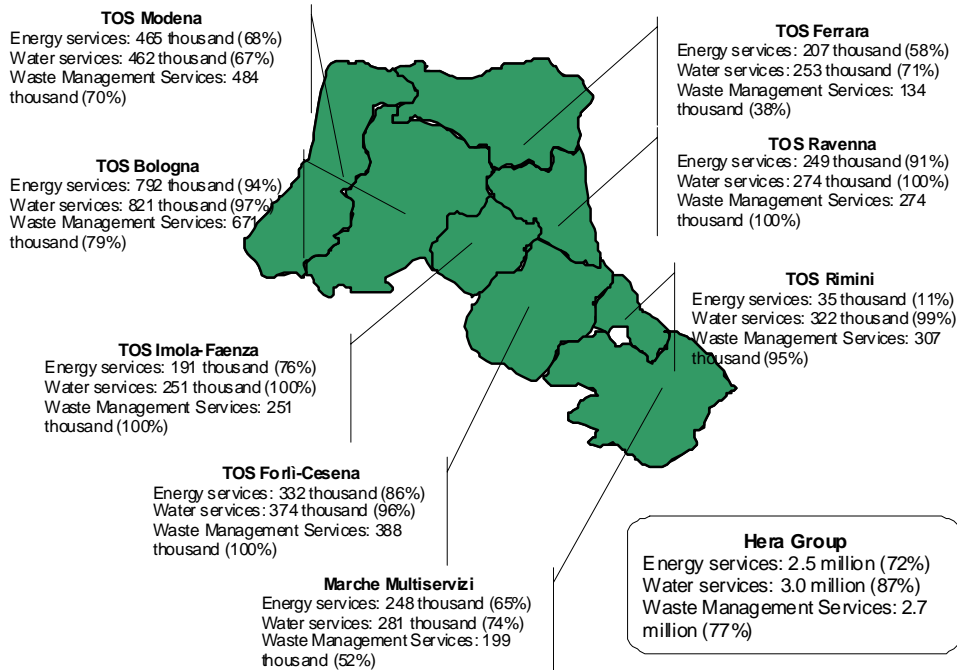
Hera manages the entire waste cycle: collection, recovery, treatment and disposal. The group manages urban waste in approx. 174 municipalities representing a customer base of approx. 3 million users (collecting approx. 1.8 million tonnes of refuse per year).

Hera owns over 70 disposal plants. With its 7 disposal plants, Hera is one of the major operators in Italy in the waste-to-energy sector. In 2009, about 3.3 million tonnes of waste were disposed of.

Hera- Key Statistics (2009)

Gas customers (thousands)	1,079.0
Gas sold (millions of m3)	2,811.3
Water customers (thous.)	1,170.6
Water sold (million m3)	256.6
Electricity customers (thous.)	335.9
Electricity sold (GWh)	7,047.4
Waste treated (thous. t)	5,114.8
Permanent workforce (as at 31/12) (no.)	6,481

Customers served in the local areas*



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

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

Coherence: 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 business plan to 2013 sets the Hera Group as one of the major Italian multiutility companies.

The achievement of the objectives that had been set and the setting of new goals to reach allow the Group to reaffirm its growth strategy in its major businesses, strengthen synergies deriving from the rationalisation of the activities and the innovation of processes, consolidate its own sustainability philosophy as a competitive advantage and continue listening to and dialoguing with stakeholders.

The Group's strategy reiterates the essential elements of the mission defined in 2006, thus confirming business growth, service excellence and the multi utility approach:

- in order to secure a significant role in the long term business outlook of the sector, by expanding the portfolio to include 2 million customers;
- to always guarantee the best service to customers by reaching a high level of customer satisfaction;

- by creating a business project that continually adds value to the area and the shareholders, confirming economic and financial spin-offs in the area served by the Group.

The strategy will be carried out through growth of the Group's three main strategic assets, the areas of intervention of each being:

- monitoring of the energy chain: consolidation and autonomy in the supply and production of energy and increased sales of electricity and gas;
- leadership in the environmental sector: development of plants and the capacity for waste disposal; technological innovation and leadership in the industrial waste market;
- excellence in grid management: quality and safety of services; development of intelligent networks; innovative and technologically advanced systems for control of the grids and the management of work in the area.

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

- multistakeholder relations for focusing actions and interventions;
- a unique portfolio of customers to serve with the maximum effectiveness;
- enhancement of personnel and the increase and dissemination of the competences of excellence;
- attention to the environment and reduction of the impact of our actions, with transparency towards the various stakeholders.

Hera awarded the CEEP-CSR Label

Hera obtained the CEEP - CSR Label Award 2009 for Corporate Social Responsibility, an important acknowledgment for companies that distinguish themselves in the application of European standards on corporate social responsibility and which voluntarily integrate social and environmental rules into their activities. This is a mark of quality promoted by the European Commission as part of the Discerno III project, aimed at developing social responsibility in companies that provide public utilities. The label was awarded in Brussels by CEEP (European Centre of Employers and Enterprises Providing Public Services) to 15 companies selected (4 of which Italians) from among over 100 participants from all of Europe, by a jury composed of international CSR experts.

The challenges that the Group will have to face derive from the ongoing volatility of the commodity markets and the difficult economic situation, but with an outlook for slow recovery, and the continuous regulatory changes that significantly affect the Group's industrial assets.

The Group will overcome these challenges due to its significant business structure: a strong portfolio of 1.8 million customers. 57 thousand kilometres of grids/networks managed and over 70 waste disposal plants.

The strategy adopted and the Business Plan for 2009-2013 confirm the business requisites for the creation of value for all stakeholders, whether public or private and aims for a reliable and coherent outlook within a multi-utility approach.

The attention of all management is focused on achieving the net profits forecasted, with the help of the new operating structures and by promoting internal resources.

In working towards fulfilling the business plan, the Hera Group confirms that it has the ability to grow along internal lines while looking out for external opportunities that will present themselves within the sector.

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.

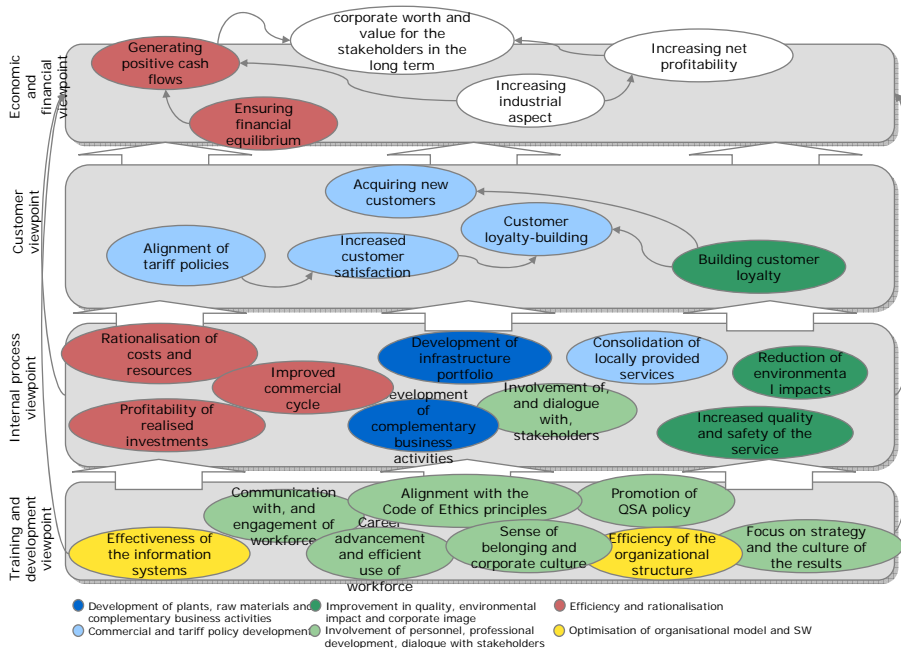
The Balanced Scorecard approach provides a methodology pinpointing strategy which it translates into day-to-day actions and objectives on an organisation-wide basis. The innovation of this approach consists in considering the achievement of strategic objectives of social and environmental sustainability (such as, for example, the involvement of stakeholders, the increased quality of services to customers, the professional development of employees and attention to environmental impact) 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 set forth in the Sustainability Report. To achieve the 27 strategic objectives for the purpose of increasing the company’s long-term value, 68 priority projects were selected during the 2009 budgeting process. These were assigned to members of the Executive Committee. Of these projects 5 fell within the strategic macro-area of “Involvement of personnel, professional development, dialogue with stakeholders,” 6 within the strategic macro-area of “Optimisation of organisational model and software,” 11 within “Commercial and tariff policy development, 12 within “Improvement of quality, environmental impact and company image”, 15 within “Development of plants, raw materials and complementary business activities,” and, lastly, 19 projects within “Efficiency and rationalisation.”

Strategic map of the Hera Group



Each project was defined in all its aspects identifying:

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

The definition of projects-objectives and the quarterly monitoring system of the project elements by the Executive Committee is a significant strategic management instrument 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 through comparison of the performance levels within the area served by the Group and the sharing and dissemination of the best practices;
- highlighting and analysis of situations that are critical for the achievement of the objectives that were set and the definition of speedy corrective actions.

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

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

- **Reduction of environmental impacts**

Minimizing 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 renewable energy and similar energy (by 2012 the aim is to double the production of energy from traditional renewable sources compared to 2008, and to triple it including similar sources), the reduced use of landfills (20% of urban waste in landfills by 2013), further development of separated waste collection, the recovery of energy and materials, and the containment

of atmospheric emissions (waste-to-energy plants emissions on average 20% lower than the legally-allowed amount).

- **Increasing quality and safety**

Improving customer satisfaction with services provided. Investing in order to improve the quality of the service and the relations with customers to acquire a competitive advantage in calls for tenders for assignment of regulated services.

To further improve: compliance with commercial quality standards in gas and electricity services (respectively 98% and 97% of the cases), the waiting times for call centres (within 90 seconds for the mass market customers and 60 seconds for business customers) and the branches (12 minutes in 2013), the safety of the gas services (to maintain calls for emergency services with response within 60 minutes at 97%) and the customer satisfaction index (to reach an index of 70 for residential customers in 2011 and within 2013 for business customers).

- **Involvement and dialogue with stakeholders.**

Further developing the model of a business capable of reaching a sustainable balance of the interest of various stakeholders, in order to improve competitiveness over the long term. Further develop the initiatives for dialogue and consultation with stakeholders (customer satisfaction surveys, RAB, improvement groups, focus groups) through the application of the guidelines that have been defined and with complete, transparent reporting on those initiatives. Promote Hera's contributions to the development of the territory, including through specific consultation activities and dialogue with stakeholders.

- **Communication and workforce involvement.**

Implementing systematic instruments and procedures for dialogue with the workforce and adopting the consequent corrective actions (internal climate surveys, improvement groups, focus groups). Reaching an internal climate index of 60 by 2011.

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

Strengthen the institutional and managerial training model so that it is in line with appropriate skill development interventions at the most significant phases of working life. Consolidate and further develop the "Scuola dei Mestieri" model, including through identification and promotion of the apprenticeship communities. Retrain and promote the workforce by defining new paths for growth through optimization of internal mobility.

- **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. Evaluate the areas for improvement of the activation system 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.

- **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 management system for quality, safety and the environment. Disseminate the culture of respecting and implementing the commitments of the QSA policy.

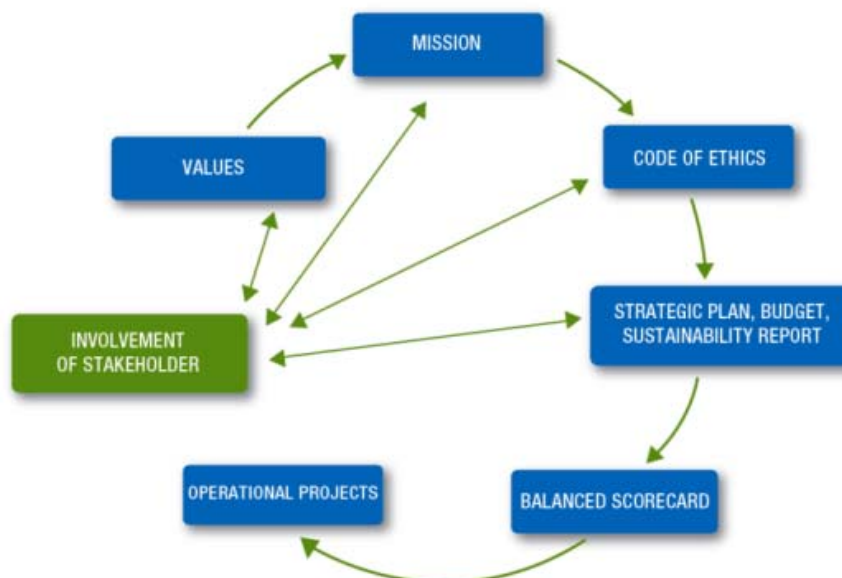
The commitments to stakeholders listed in this report are contained in the Hera Balanced Scorecard. This is to provide guarantees of consistency and coherence among the various instruments used for management and achievement of the Group strategy (Business plan, Sustainability Report, management reporting, 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 all stakeholders in a balanced manner. From 2003 with the annual publication of the sustainability report and thereafter with the establishment of the Corporate Social Responsibility Division, Hera 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 is the strategic 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 strategies and social responsibility policies into specific operational projects managed by managers and executives and periodically monitored. This virtuous cycle of social responsibility within Hera is complemented by a constant process of stakeholder involvement that allows for the bivalent examination of legitimate claims and their opportune insertion as part of the corporate policies and the relative implementation instruments.

From strategy to daily management: a virtuous cycle



Key Performance Indicators

Key Performance Indicators	2005	2006	2007	2008	2009
Economic Responsibility					
Value added (in millions of €)	715.4	792.4	797.8	909.2	967.5
Total investments (in millions of €)	346.9	504.8	471.8	429.7	428.3
ROI (Operating Income/Net Capital Employed)	8.8%	8.6%	7.4%	8.9%	8.1%
EBITDA per open ended contract employee (thousands of €)	65.4	68.5	74.2	82.7	87.5%
Social Responsibility					
Open-ended contract employees (average annual % of total workforce)	95.5%	93.2%	93.4%	94.3%	95.2%
Hours of training per capita	18.5	20.1	24.3	33.2	23.0
Workforce attending at least one training course (%)	81.2%	92.5%	92.1%	97.6%	90.2%
Accident frequency index (number of accidents/hours worked x 1,000,000)	50.1	47.5	42.4	37.6	32.6
Internal climate index (score 0-100)	50	-	53	-	58
Index of customer satisfaction for residential customers (score 0-100)	67	67	65	67	69
Compliance with quality standards (gas, electricity, integrated water service, district heating)	94.7%**	94.6%	94.8%	95.8%	97.6%
Gas emergency services: percentage of calls with intervention within 60 minutes	94.7%	96.3%	96.8%	96.5%	96.8%
Average call centre response time for residential customers (seconds)	70.2	34.5	46.2	66.1	33.2
Average branch operator waiting time (minutes)	26.9	23.7	21.9	18.5	14.6
Total return for shareholders since listing (%)	94.2%	184.6%	171.8%	53.0%	70.0%
Value of supplies from local suppliers (% of total)	70%	70%	62%	69%	73%
Value of supplies from ISO 9001 certified suppliers (% of total)	61%	60%	68%	71%	74%
No. environmental education programme students	33,505	37,622	36,014	45,617	39,901
Environmental responsibility					
Portion of energy produced from renewable sources (incl. waste-to-energy at 51%)	25.2%	27.6%	27.0%	31.9%	27.4%
Portion of energy produced from renewable sources (incl. waste-to-energy at 51%) and similar	50.8%	51.2%	50.8%	53.9%	62.9%
Waste-to-energy plant emission levels vs legal limits (real concentrations/legal limits: optimal value <100%)	22.4%	21.2%	19.3%	17.1%	13.4%
Quality of treated water vs legal limits (real concentrations/legal limits: optimal value <100%)	30.0%	31.7%	30.0%	25.3%	22.5%
Compliance with the Kyoto Protocol (real emissions/authorised emissions)	98%	86%	64%	70%	55%
Non-invoiced water (physical and administrative losses from the civil aqueduct) "percentage of water inputted into the system	n.a.	25.4%	25.3%	25.0%	25.0%*
Non-invoiced water (physical and administrative losses from the civil aqueduct): mc/km of system/day	n.a.	8.42	8.28	7.94	7.87*
Separated waste collection	28.9%	31.2%	36.1%	42.4%	45.3%
Vehicles with low envir. impact fuel (methane, gpl, electric) (% total)	9.2%	13.7%	14.0%	15.8%	17.6%
Portion of urban waste collected for disposal via landfill with no pre-treatment (% total collected solid waste)	29.1%	24.0%	25.0%	24.4%	18.7%
Portion of urban waste collected for disposal via landfill (% total collected solid waste)	n.a.	37.0%	35.3%	33.5%	27.0%

* Provisional figure ** Gas service. The social and environmental key performance indicators do not include Marche Multiservizi.

The instruments of governance

Corporate governance

Hera is the only Italian 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 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 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 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 2009.

Name and Surname	Office	Position	Appointed by
Tomaso Tommasi di Vignano	Chairman	Executive Director	Municipality of Forlì
Maurizio Chiarini	Chief Executive Officer	Executive Director	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 Giovannelli	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 26 other 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 co-option 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.

Name and Surname	Office	Position	Appointed by
Stefano Zolea	Director	Non-executive independent director	Comune di Bologna (municipality of Bologna)

The composition of the Board of Directors was renewed on 29 April 2008 and the Board 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 2009 Financial Statements.

The Board of Auditors

The Board of Auditors was appointed at the Shareholders' Meeting held on 29 April 2008 and will remain in office until the approval of the financial statements for 2010.

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

The Executive Committee

The Executive Committee was appointed by the Board of Directors on 30 April 2008, pursuant to 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 submittal to the Board of Directors; it is also expected to adopt resolutions, in relation to defined brackets of amounts, concerning contracts and agreements tied to the corporate purpose, consultancy relationships with outside professional experts, the company's membership in organisations, associations and other bodies, settlement of disputes and releases of creditor claims, acts amending or terminating contracts for credit lines and loans, and stipulation, amendment and termination of investment contracts.

The Executive Committee is composed of the Chairman, Vice Chairman and Chief Executive Officer of Hera S.p.A. It met 6 times in 2009.

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 2009.

The Committee is made up of four non-executive independent directors: 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. Taking part in its meetings are the Chairman of the Board of Auditors or another Auditor designated by the said Chairman, as well as, when expressly requested by the committee Chairman, the Chief Executive Officer and the Chairman of the Board of Directors.

The Committee for Internal Control met 6 times in 2009.

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.

At the meeting of the Board of Directors of Hera S.p.A. on 27 January 2010, the Committee presented its annual report on activities and the reports it received, as required by article 71 of the Code of Ethics on the activities carried out and the reports received during 2009. The Code of Ethics was amended insofar as its dissemination and implementation at that same meeting. The Code identifies a Committee composed of three members of whom at least one is a director of Hera S.p.A. and two experts in corporate social responsibility and the issues set forth in Legislative Decree 231/2001. As a result of this amendment, an external member joined the Committee.

The Ethics Committee met 4 times in 2009.

The first two years of the Ethics Committee

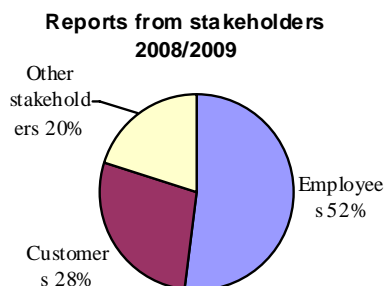
In 2008 the Ethics Committee received 11 reports (6 from employees, 4 from customers and 1 from trade unions), while 14 were received in 2009: 7 from employees, 3 from customers and 4 from other stakeholders.

The reports required investigation that involved the corporate contacts at the competent or referred to departments.

Among the reports in 2009 was the issue of availability to carry on a dialogue and the response times to requests of employees or residents/customers. Recourse to the Committee by customers followed written complaints which were officially answered by Hera.

Among the 2008 reports were several critical issues relating to the context of the relations between managers and employees, costs and execution times of some services insofar as customers were concerned.

The solutions, as a result of dialogue and discussion, were applied without requiring that official reprimands be made. In the two years since its inception, the Committee has issued 2 internal recommendations.



The reports by employees reached the Committee mainly via email which is available on the intranet, while customers mostly used the form available on the relative section of the Group's internet site.

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 be linked to administrative liabilities of the Group companies, according to the terms of Legislative Decree 231/2001.

This body is an independent body appointed by the Boards of Directors of the Group companies participating in "Progetto 231" (Project 231)¹. The Board reports to each Board of Directors on matters of concern as per Legislative Decree 231/2001. It avails itself of the Internal Auditing Division 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 Division. The Supervisory Body met 6 times in 2009.

The Organisation

2009 was a year in which significant and organizational changes led the Group to evolve in line with the business framework.

In an aim to simplify the corporate structure, there was a decision to move away from the Territorial Operative Companies by integrating their activities into the Holding company.

Concurrently with this action and in compliance with resolution 11/2007 of the Authority for Electricity and Natural Gas (AEEG), which requires multiservice companies to separate their selling activities from their distribution activities insofar as the electricity and gas services, the commercial activities of the TOS Customer Management Operations were moved to HeraComm.

Furthermore, in order to improve and ensure a higher level of standardization of the service provided by the central structures to the regions, the activities of Administration, Quality, Safety and Environment and Media Relations and Local Communication were moved from the Territorial Operating Structures to the respective Central Divisions while regional supervision was maintained insofar as logistics.

The restructuring of the Group involved the removal of certain Divisions and the establishment of new Divisions.

The Legal and Corporate, Services and Information Systems, External Relations Central Division and the Investor Relations Division report to the Chairman. The organisational change to Famula On-Line took place within the Services and Information Systems Central Division (effective from 1 January 2010), which is characterized by a greater focus on the customer internally and a moving away from the commercial activities of the external market. The Development and Markets Division also reports to the

¹ 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 (99.5 % of the Group's employees work in these companies).

Chairman as does Herambiente S.r.l. from 1 July 2009 (following the transferral of the Waste Management Division business unit which was in charge of managing the plants and the companies controlled to Ecologia Ambiente) and the concurrent merger by incorporation of Recupera. From an organizational point of view, for the Production Division (waste treatment and disposal), this transaction involves a move from a way of thinking that is regional to one that is based on a production chain, with the consequent specialisation in the management of various types of facilities. From a commercial point of view, the Market Division ensures dedicated and focused supervision on the activities on the free market as they relate to the handling of special waste, on an organisational level.

The Procurement and Tender Contracts, Administration, Finance and Control, Personnel and Organisation, Quality, Safety and the Environment Central Divisions and the Corporate Social Responsibility Division report to the Chief Executive Officer.

Furthermore, the General Operations Division, which in addition to the abovementioned changes to the TOS, has been rationalized with a focus on strengthening the coordination structures of the regulated businesses and the integrated and dedicated supervision of the “distributor’s role” also reports to the Chief Executive Officer.

In addition to the seven Territorial Operating Structure Business Units, reporting to the General Operations Division are the Fluid Distribution, Gas, Electricity, Environmental Services, Large Plant Engineering and District Heating. Furthermore, the Meter Reading activity which was previously handled by the Services Division was also moved to the General Operations Division.

In 2009 the companies Acantho and Satcom, both companies operating in the telecommunications services, were consolidated.

The rationalisation of the analysis laboratories was completed. The centralisation of the activities and staff at the Bologna, Ravenna and Forlì centres, which was part of the implementation of the project, was completed.

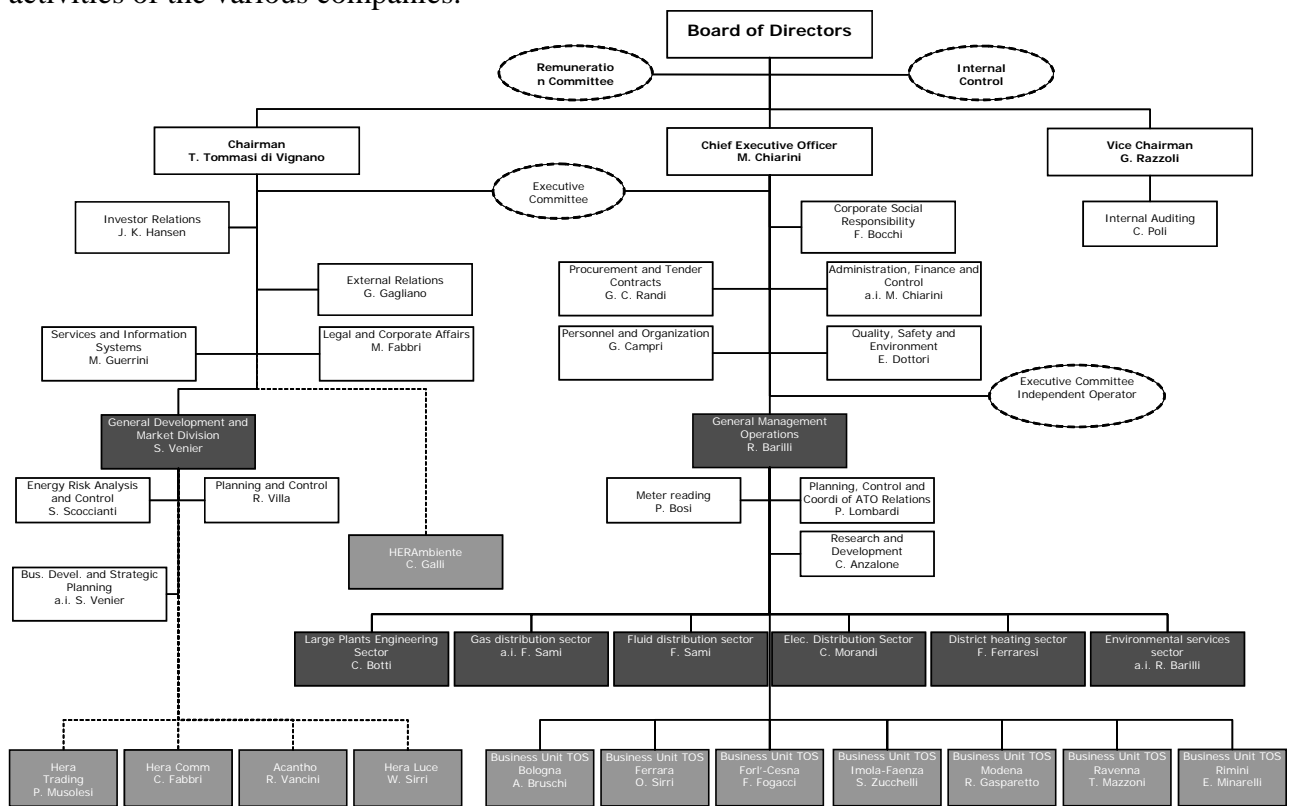
Finally, the centralisation of remote control for fluids is continuing.

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 various plants. The Laboratory System covers 5,000 m² of structures, while over 1 million calculations were carried out in 2009, which is approximately 3,000 per day, by 80 technicians. The operating units of the main laboratories comprise a SINAL (Lab analysis quality certification) accredited “multi-site” laboratory that complies with the UNI EN ISO/IEC 17025:2005 standard. The Quality Management System of the multi-site laboratory is certified according to standard UNI EN ISO 9001:2000. The Bologna laboratory, which is dedicated to the analysis of potable water, wastewater and microbiological analyses is recognized by the Ministry of Education, Universities and Research as a research laboratory. The Laboratory System is equipped with highly specialized equipment that is rarely found in Italy, even at the major research centres. In particular, the Forlì laboratory, inaugurated in March 2009, is one of the most advanced in Europe: it is equipped with a mass spectrometer that uses a magnetic sector, an instrument with a very high resolution that is able to analyze organic micro-pollutants ensuring high selectivity, increased sensibility and extreme accuracy. The analyses

conducted at the new Forlì facility are on solid waste, mud, atmospheric emissions, organic micro-pollutants with detection of even very minute quantities, in addition to plant emission, including waste to energy plants.

Three committees have been set up for purposes of corporate management. The Executive Committee meets every three months to monitor management trends and the progress of Balanced Scorecard projects. The tasks of the Managing Committee are to obtain group-wide consensus on policies, strategies and operational planning decisions, while fostering integration between the various functions. The Coordination Committee of Heads of the Territorial Operating Structures monitors progress with respect to locally managed services, while ensuring alignment of the activities of the various companies.



Effective 31 December 2009, for the promotion and development of strong local roots each TOS shall set up a Territory Committee composed of a Chairman and the Director of the TOS, who will be joined by members representing the local area the Committee covers.

The Committee will periodically focus on some key themes such as monitoring customer satisfaction and the quality and sustainability of services offered. The Committee will also be in charge of supporting the top management of the Group in its dealings with local public institutions and other local stakeholders.

Governing Corporate Social Responsibility

The Corporate Social Responsibility Division

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 from 2010 is now a Division, 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 and ensuring the continued development of the integrated balanced scorecard system with sustainability strategies.

The Internal Auditing Division

In 2003, the Internal Auditing Department (which from March 2010 is now a Division) of Hera S.p.A. was instituted, according to the provisions of the Code of Conduct for Listed Companies prepared by Borsa Italiana. Since 2006, the Internal Auditing Division reports directly to the Deputy 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 Division evaluates corporate risks, delineates and executes the long-term audit plan and implementation, and executes the related specific audits.

The Internal Auditing Manager has 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.

In December 2007, the Board of Directors of Hera S.p.A. updated and expanded the mandate to the Internal Auditing Division, approved the Operational Manual, and assigned the Executive Committee the task of overseeing the implementation of the Action Plans resulting from audit reports.

Audits may regard infrastructure, activities, processes and information of Hera S.p.A. and its subsidiaries. In 2009, the total tasks carried out resulted in 24 audit reports. Pursuant to Legislative Decree 231/2001 761 information flows were examined.

The organisational model for corporate crime prevention

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 of such persons or subjected to supervision on their part.

The Board of Directors of Hera S.p.A. and the main subsidiaries of the Group adopted an Organisation, Management and Control model to ensure conditions of correctness and transparency in conducting business and company activities. The composition of the Supervisory Body was renewed in 2008.

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 2009, two new protocols named “Personnel Recruitment and Hiring” and “Disciplinary System and Dispute Management” were disseminated and the following protocols were revised: “Mandate Management” “Management of Relations with Shareholders, Statutory Auditors and Independent Auditors,” “Hera S.p.A. Separate Financial Statements and Group Consolidated Financial Statements” “System of Reporting and Management of Notifications, Sanctions and Warnings” and “Disposal of Vehicles.”

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

The information and training on issues involving the Organisational Model pursuant to Legislative Decree 231/2001, carried out by the Internal Auditing Division, resulted in an all encompassing initiative which was implemented in 2008 and involved members of the corporate bodies and employees of Group companies totalling 250 people, of which 140 were workers.

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 consolidation of 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. Starting from 2006, supplier qualification is subject to acceptance of the Code of Ethics.

The updated Code of Ethics was approved by the Board of Directors of Hera S.p.A. on 12 September 2007, upon completion of a development process that involved 40 employees within 2 focus groups, all the Group’s executives and managers and 4 Mayors of shareholder municipalities who were interviewed.

All Group companies falling within the scope of Law 231 approved the Code of Ethics which is integrated in the organisational model. In 2008, Acantho approved its own Code of Ethics, which was developed on the basis of its own activities. Though it contains almost the entire text of Hera’s Code of Ethics, this latter code also contains

additions and parts from the Code of partner Infracom, an equal partner of Hera since 2008. Acantho has created its own Ethics Committee.

Risk analysis

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

With regard to specific risks inherent in the issues falling within the scope of 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 Model 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 & Control Department within its organisation, in order to optimise the company risk profile, adopt pro-active behaviours in relation to corporate risk, minimising threats and taking advantage of opportunities, in order to ensure increasingly efficient protection of business assets.

Risk Management processes are applied at specific moments, such as awareness of the risk, identification of danger, risk analysis, risk management and treatment, and the control/auditing of the Risk Management policies.

The Hera Group's requirements for insurance services are covered by a pool of leading Italian and foreign insurance companies.

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 certifications of management systems as an essential governance tool. Indeed, over the years these activities have helped 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 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.
- control of the performance of suppliers, including the impact of the activities they carry out for Hera on the environment.

In 2009, Hera S.p.A. in its entirety and the seven Territorial Operative Companies took a special commitment involving the maintenance and certification of their quality, safety and environmental management systems.

In March, April and May Hera S.p.A. and the TOCs were successful in passing the re-certification controls for the ISO 9001 and ISO 14001 systems. In both cases, in completion of both certification processes, the companies achieved better results compared to its previous experiences: no major non-compliances and the minor non-compliances were reduced to one third of what they were in previous years.

Additionally, the verifications for the first certification of the management system according to the OHSAS 18001 standard were carried out from January to March for the first portion (management processes, environmental services, district heating), from September to November for the second part (gas, electricity, designing of large plants, laboratories) and were all completed successfully.

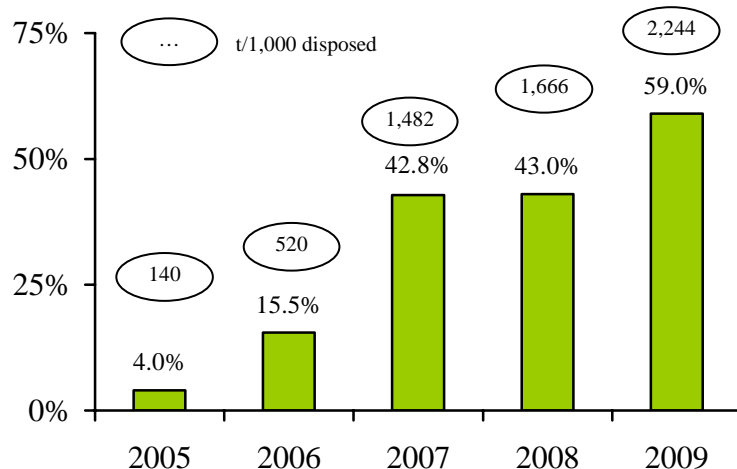
Hera's commitment to environmental and quality certification

ISO 9001 certified quality management systems are a widely applied and shared instrument within the Hera Group. Based on the number of employees with open-ended contracts, the companies that received ISO 9001 certification were 97% of the total.

As at December 2009, 64 waste disposal plants received ISO 14001 environmental certification; 93% of the waste disposed of in Group plants took place in that plants.

There are 33 plants with EMAS registration in total and a further 4 plants have passed the test carried out by the external company and are awaiting ministerial validation. In 2009, waste disposed in plants with EMAS registration amounted to 56% of the total waste treated in Group facilities. This percentage rises to 59% if the plants for which the investigation for registration is still underway are counted.

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



In 2009, waste disposed of in plants with EMAS registration amounted to 2.2 million metric tonnes of waste or 59% of the total waste treated in Group plants. The urban waste disposed of in plants with EMAS registration amounted to 756 thousand metric tonnes or 59% of the urban waste treated in Group facilities.

For 2010, Hera S.p.A. aims to obtain its first OHSAS 18001 certification of the activities that are part of the third part of the objective, which relates to the integrated water services.

Following completion of the OHSAS 18001 certification process, the Hera Group plans to begin specific feasibility analyses for SA 8000 certification (social responsibility management systems) and will carry out feasibility analyses for certification according to ISO 16001 (energy management systems) and ISO 27001 (information security management systems).

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

During 2009, the Ministry of the Environment issued EMAS registration for 13 new plants and renewed the pre-existing registrations expiring during the year. The 13 new EMAS registration sites are: Granarolo (BO) waste-to-energy plant, the Busca (Forlì-Cesena) and Lugo (Ravenna) landfills, the Montefiorino (Modena) and Bentivoglio (Bologna) landfill under post-closure management, the Coriano (Rimini), Mordano (Bologna) e Lugo-Cotignola (Ravenna) selection plants, the Tremonti (Bologna) plant, the Cervia (Ravenna) and Lugo (Ravenna) transfer service.

Furthermore, applications for registration are underway for the “Il Pago” (Florence) landfill, the Voltana (Ravenna) composting plant, the Bellaria-Igea Marina (Rimini) transfer service and the Piangipane (Ravenna) landfill under post-closure management.

In 2010, validation inspection of the environmental declarations of the following sites are expected: via Baiona (Ravenna) consisting of 4 plants, the Cà Baldacci (Rimini) composting plant and the Civitella (Forlì-Cesena) landfill for non-hazardous waste.

The section “Environment and Future Generations” sets forth a list of the plants with ISO 14001 certification and EMAS registration.

Major regulatory developments impacting sustainability

The implementation of the reform under art. 23 bis of law 133/2008, as it was amended by subsequent provisions issued in 2009 will have a significant impact on the local public utility markets. In particular, Law 166/2009 intervenes on the one hand by offering new market players the opportunity to invest in the capital of numerous in-house companies while on the other hand limiting the original protection of listed companies with mixed public and private shareholding, and an expiration of the contracts as an effect of the decrease in the shares held by the public sector to under 40% by 30 June 2013 and therefore to under 30% by 31 December 2015. The enacting law which was originally provided by art. 23 bis, has not yet been issued in expectation of the necessary opinion from the State-Regions Conference, though it has been drafted for some time now by the government.

Further modifications to the reform introduced by art. 23 bis have involved the revision of the field of application, excluding services (gas, electricity and transportation) which return to being governed by the respective specific laws. In particular, the exclusion of the gas sector from the scope of art. 23 bis is without prejudice to art. 46 bis of law 222/2007, which provides for the determination by the ministry (definition is currently temporary) of new calls for tender for the assignment of the distribution service.

The drafting of a specific decree is however a favourable development, because it is a development in a process that has begun some time ago while it also identifies an average size of an area, which coincides with the province, and a maximum limit of three hundred thousand final customers, which is in line with industrial requirements and the Group’s expectations.

Insofar as renewable sources, law 99/2009 introduces important new elements. We note the passage from the supply side (producing and importing entities) to the demand side of the obligation to input a given amount of renewable energy into the network and the correction upwards of the coefficient that multiplies the energy produced from the transformation of biodegradable waste from 1.1 to 1.3, as provided by the incentive system of the 2008 financial law, for the purposes of the calculation of Green Certificates. Again in the environmental area, the expected decree confirming the protection of the rights acquired by the waste-to-energy plants which entered into operation by 31 December 2007 is being assessed by the Council of State. These plants were put in a position of uncertainty due to the onslaught of laws on this subject beginning from 2006.

In the interest of consumers, the same regulation introduces a new standard for Class Action. A class action may be undertaken by individual "domestic" customers and not by businesses, professionals, or companies. It may be aimed at businesses that provide a public utility (for example providing electricity or gas to consumers) or at concessionaires of public services operating as a legal monopoly (for example, companies operating an integrated water service), and is limited to the contractual relationships with the aforesaid consumers.

In regard to the regulation of the distribution and sale of electricity and gas we note:

- the adoption of a Consolidated Law on the Retail Sale of Gas, based on what has already occurred on the electricity market, introduces the principle of

progressive contraction of the scope of application of the protection service to final customers, so that as from September 2010 only domestic customers will remain in this category;

- the reorganization of the law on the regulation of the physical and economic lots of the dispatching service, through approval of the Consolidated Law on Settlement;
- the issuance, in a dual fuel perspective, of a directive for the harmonization and transparency of invoices that will apply to both regulated sectors;
- the launch, including for the electricity sector, of the process for the adoption of communication standards between sellers and distributors, prior to the introduction of a grid code which is awaited by distributors and market operators.

In the area of the regulation of the relations between distribution and sales the cancellation by the judge of the court of appeals, of the resolution introducing the “guidelines for functional separation,” has assumed a high degree of significance; the result, subject to the intangible principles of independence, unbiasedness and transparency in the management of the networks, is a higher level of flexibility, accompanied by the acknowledgement, as declared by the regulator, of the "provisional" nature (i.e., in expectation of completion of the structural market reforms, this time by the competition) of some of the provisions relating to separation, such as the information systems, which have a significant impact in terms of organization and economics.

Dialogue with stakeholders

Hera's stakeholders

An industrial group with the characteristics of Hera 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 strategy.

Hera has mapped its company stakeholders. The starting point was a survey of corporate stakeholders and of current listening and dialogue activities. Various stakeholder classes were then identified and, for each, a breakdown was provided. The presence of targets of particular interest and the issues of particular significance to these targets were also identified. Following this process of identifying corporate stakeholders, an assessment was made of the influence 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 the decision-making power, pertaining to legal or contractual obligations, employment relations with the company and links with corporate strategies.

Mapping of the stakeholders and key issues to be targeted by involvement actions enabled us to pinpoint the stakeholders of major importance for the company (workforce, customers, shareholders), a second group of stakeholders with interests of a broader nature which nevertheless can 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).

Dialogue and involvement 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 opportunities, safety, internal communication</p>	<ul style="list-style-type: none"> - Biennial internal climate survey: third survey carried out in 2009 (3,544 questionnaires filled in, equal to 57% of those sent) - Meetings with the Chairman and Chief Executive Officer for presentation of the business plan to the entire workforce (in April 2009, meetings with the entire staff took place), while another series of meetings is scheduled for March 2010 - Improvement groups (4 groups launched and concluded in 2009) - Meetings to present the Sustainability Report 2008 (involving approx. 400 workers) - Application of a dedicated section on Corporate Social Responsibility in the Hera Group Supplementary Collective Labour Agreement 22 March 2006: This involved Trade Unions in initiatives concerning safety relating to the new Health and Safety Management System.
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"> - Annual residential and business customer satisfaction survey: 2,837 interviews of residential customers, a stratified sample by local area, consumer range and service, 1,319 interviews of the various types of business customers, a stratified sample by local area and turnover, 367 interviews with district heating customers - Application from 1 February 2009 of the joint mediation procedure, with 64 requests for mediation from Hera customers.
Shareholders	<ul style="list-style-type: none"> - Public shareholders - Institutional investors - Private investors - Financial community - Ethical funds 	<p>Dividends, share performance, investor relations, corporate governance aligned with best practices</p>	<ul style="list-style-type: none"> - Investor Relations activities: meetings with 474 investors - Participation in the Environment Forum which takes place each year in Paris; meeting with over 40 new investors. - Quarterly publication of the Newsletter for private investors and implementation of the “interactive financial statements” on the website, with a format that allows investors to request information and/or documents. - Increased participation of shareholders in the assembly held as at 28 April 2009: shareholders representing 64.7% of the share capital participated.
Financial institutions	<ul style="list-style-type: none"> - Banks - Bond market 	<p>Continuity of relations, long-term solidity of equity</p>	<ul style="list-style-type: none"> - Participation in the Technical Committee of the “Sustainable Factoring” project, which resulted from Unicredit Factoring’s wish to award and sustain responsible companies operating in the social-environmental area with various economic initiatives
Suppliers	<ul style="list-style-type: none"> - Suppliers of goods and services and temping agencies - Qualified suppliers - Local suppliers 	<p>Continuity of relations, qualification, bargaining conditions, payment deadlines</p>	<ul style="list-style-type: none"> - Meetings with the associations that were signatories of the “Memorandum of Understanding for the Hiring of People Facing Hardship” for the development and subsequent application of a new method for periodic monitoring of the Memorandum’s application - Help desk for assistance on the e-procurement platform.

Stakeholders	Main classes	Key issues	Main dialogue and consultation initiatives
Public Administrations	<ul style="list-style-type: none"> - Local government 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"> - The Users Representation Council (Consiglio di Rappresentanza delle Utente or CRU) for the Ferrara area - “Committee for Local Services Performed by Hera” at the Municipality of Bellaria - “Technical Roundtable for Integrity and Safety” at the Municipality of Riccione
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 21 May 2009 to present the 2008 Sustainability Report - Conventions and meetings for the presentation of the 2008 Sustainability Report to the local stakeholders of Imola, Rimini, Ferrara, Modena and Cesena
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, separated waste collection, waste disposal	<ul style="list-style-type: none"> - Participation in the “Microkyoto imprese” protocol promoted by the Province of Bologna and signed by Impronta Etica - Local initiatives to promote energy and water savings and separated waste collection

Hera’s significant commitment to the development of stakeholder involvement is by now an internal element of the operational structure 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 analyze a situation, 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 2009 are set forth by stakeholder category.

Dialogue on the Sustainability Report

On 21 May 2009 in Bologna, Hera presented its Sustainability Report for 2008, reserving the central role of the conference for the testimonials and assessments of the stakeholders of the Group. During this event, which was attended by over 280 people, the following persons spoke: Vittore Marangon, CEO of DNV Italia, Danilo Barbi, Secretary General of CGIL Emilia-Romagna, Maurizio Focchi, Chairman of Confindustria Rimini (video), Marco Venturelli, Director of Confcooperative Emilia-Romagna, Duccio Campagnoli, Councillor for Productive activities of the Emilia-Romagna region, Stefano Ciafani, Head of Research for Legambiente, Antonio Maticena, Full Professor of Technical Professions at the University of Bologna. Duccio Bianchi, a member of the Board of Directors of Ambiente Italia then presented a recent study on eco-efficient recycling and European policies for waste prevention followed by Stefano Consonni, Full Professor of Systems for Energy and the Environment at the Politecnico di Milano, who spoke on the evolution of thermal treatment of waste and the techniques for minimizing the relative impact on the environment.

After the Bologna conference, the Report was presented at public meetings with local stakeholders. This started on 6 July in Modena, then went on to Imola and Cesena up to the meeting held on 3 August at the new Palazzo dei Congressi at Riccione. The meetings opened with presentations of the local views of the Sustainability Report by the Chairmen and General Directors of the Territorial Operating Structures: sustainability figures, commitments and objectives were presented relating to the specific area. At all the meetings, the floor was given to the stakeholder representatives, who spoke 40 times in the four meetings that were organised. Mayors, technicians and provincial administrators, technicians of Water and Waste Regulatory Authorities (ATOs), environmental and consumer associations, trade associations, suppliers, social cooperatives, trade unionists, teachers of high schools and university professors spoke. All these people expressed their opinions on Hera's approach to sustainability and their requirements and expectations.

Some of the issues discussed triggered the launching or extensions of Group initiatives: the traceability of the waste flows targeted for recovery following separated waste collection, the presence of incentives for citizens that implement separated waste collection, the application of social criteria in the assessments made prior to outsourcing services, the importance of establishing partnerships with suppliers for the development and maintenance of the necessary specialized competences for their operators, the relation between management and the control of environmental services and the quality of the local tourism services.

There were over 750 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: the relation with the local areas and the listening strategy.

The Sustainability Report was also presented on 16 July in Ferrara to the mayors of the municipalities of the local area served by the Ferrara TOS and finally, it was presented in Ravenna at the end of July to municipal administrators of the local area served by the Ravenna TOS.

Results and Value Added

This section includes the key data on economic aspects of the company.

Operating results

Consolidated income statement

(in millions of €)	2008	2009
Revenues	3,716.3	4,204.2
Change in inventories of finished products and work in progress	2.6	-1.9
Other operating income	73.1	82.8
Raw materials and consumable materials (net of changes in inventories)	-2,421.4	-2,774.9
Service costs	-716.0	-633.4
Other operating costs	-43.7	-37.4
Personnel costs	-331.1	-352.0
Capitalised costs	248.5	80.0
EBITDA	528.3	567.3
Amortisation, depreciation, allowances	-247.6	-276.0
EBIT	280.7	291.3
Financial charges	-91.9	-113.4
Other non-operating expenses	-	-15.3
Pre-tax profit	188.9	162.6
Tax	-78.6	-77.6
Net profit for the year	110.3	85.0

The year 2009 was marked by the repercussions of the global economic downturn, which led to a significant slowdown in economic activity.

Regarding the impact on the Group's business, in addition to a general drop in consumption, the reduction in special waste production and treatment and the substantial decline in demand for new connections and customer work are also reported. We also note that in 2009 there was a benefit from the tariff system for gas distribution. The results take into account the two non-recurring operations described below:

- the capital increase carried out through the transfer of the gas and district heating networks already managed by the Group which generated a one-off effect of approximately Euro 14.7 million;
- the recovery by the Revenue Office of the "state aid" related to "tax moratorium": in fact, year 2009 shows a negative result for a total amount of Euro 27.6 million, of which Euro 15.3 million are related to the recovery of taxes, classified as "other non-operating costs", and Euro 12.3 million for interest expenses.

In regard to the corporate structure, in addition to the consolidation of the equity investments in Acantho and Satcom (both companies which operate in the telecommunications sector), we should highlight the reorganisation of the territorial supervision, which involved, the merger of the Territorial Operative Companies into Hera S.p.A. on 31 December 2009 and the concurrent transfer of the Customer Management activities to Hera Comm. The only effect of this operation on the financial

statements of 2009 is derived from the different accounting treatment of work carried out by the Territorial Operating Structures, which is not entered into the income statement, thus allowing a reduction of capitalised costs, with no effect on margins.

Revenues for 2009 amounted to Euro 4,204.2 million up by 13.1% compared with Euro 3,716.3 in 2008. EBITDA increased from Euro 528.3 million in 2008 to Euro 567.3 million in 2009, up + 7.4%, and EBIT from Euro 280.7 million to Euro 291.3 million, up 3.8%. Following the impact of the aforementioned tax moratorium, Net profit/loss for the year changed from Euro 110.3 million as at 31 December 2008 to Euro 85.0 million in 2009.

The increase in Revenues, amounting to Euro 487.9 million, is almost entirely attributable to the Electricity Area and is mainly linked to higher trading volumes and the rising raw material costs.

The increased Costs of raw materials and consumable materials, amounting to Euro 353.5 million (+14.6%), is linked to the increase in electricity unit costs mentioned and the higher volumes traded for about Euro 400 million, partially offset by lower capitalized costs for about Euro 24 million, of which approximately Euro 15 million can be attributed to the different accounting treatment, and the remaining part to the reduction in the purchasing cost of the gas raw material.

Other operating costs (Service costs were down by Euro 82.6 million and Other operating costs by Euro 6.3 million), saw a total decrease of Euro 88.9 million (-11.7%); the reduction is attributable by approximately Euro 136 million to lower costs on internally capitalised activities, of which Euro 117 million are due to the different accounting treatment and the remaining part due to a reduction in the activity level, particularly in the Integrated water cycle; net of the accounting treatment variance, Other operating costs would have been up by approximately Euro 47 million (+6.2%), mainly linked to the consolidation of companies operating in the telecommunications sector.

The increase in Personnel costs, which rose from Euro 331.1 million in 2008 to Euro 352.0 million in 2009 (+6.3%), should be attributed for approximately 50% to the effects of changes in the perimeter and for the remainder to the evolution of the contractual dynamics.

The reduction of Capitalised costs, which decreased from Euro 248.5 million to Euro 80.0 million, is connected for Euro 132 million to the different accounting treatment and the remaining part to lower internal investment, particularly in the Integrated Water Cycle, details of which are provided in the specific section.

The consolidated EBITDA of the Group as at 31 December 2009 increased from Euro 528.3 million in 2008 to Euro 567.3 million in 2009 (+7.4%), due to the effect of the operational factors outlined above and of the extraordinary capital gains obtained in the transfer of the gas and district heating networks.

Amortisation, depreciation and allowances increased by 11.5%, from Euro 247.6 million as at 31 December 2008 to Euro 276.0 million on 31 December 2009. This increase is due for about one-third to the consolidation of telecommunications activities, and the remainder to the new investments that were capitalised during the year.

In light of the above, the 2009 financial statements show an EBIT of Euro 291.3 million, an increase of 3.8% compared to 2008, which was particularly positive given the adverse macroeconomic environment generated by the recession that characterized the last twelve months.

With regard to financial management, 2009 results were impacted by the recovery of “state aid” for a total of Euro 27.6 million, of which Euro 15.3 million corresponds to Other non-operating costs and Euro 12.3 million to interest expenses within Financial charges.

Financial operations for 2009 recorded a negative result of Euro 113.4 million compared to Euro 91.9 million in 2008. If we consider that in 2009 this item recorded, compared to the previous year, greater profits from associated companies by Euro 2.6 million and exceptional items related to the tax moratorium and the repayment of loans to the Cassa Depositi e Prestiti for Euro 9.2 million, the net increase in financial charges amounted to Euro 14.8 million, of which only Euro 7.1 million are related to the increased debt burden while the rest is due to the application of IAS principles.

The Pre-Tax Profit rose from Euro 188.9 million at 31 December 2008 to Euro 162.6 million in 2009, a decrease of 13.9%: net of the tax moratorium effect, pre-tax profit would have improved by Euro 1.3 million.

Income Taxes slightly decreased from Euro 78.6 million in 2008 to Euro 77.6 million in 2009.

Net profit as at 31 December 2009 therefore stands at Euro 85.0 million, down 22.9% compared to Euro 110.3 million in 2008.

Balance sheet

(in millions of €)	31-Dec-2008	31-Dec-2009
Net fixed assets	3,594.5	3,985.8
Net working capital	-22.9	26.8
Provisions	-421.0	-420.0
<i>Net capital employed</i>	<i>3,150.6</i>	<i>3,592.5</i>
Shareholders' equity	1,579.1	1,700.7
Long-term debt	1,563.2	2,143.7
Net short-term position	8.3	-251.9
Net financial position	1,571.5	1,891.8
<i>Total sources of financing</i>	<i>3,150.6</i>	<i>3,592.5</i>

Net capital employed in 2009 increased by 14.0% from Euro 3,150.6 million to Euro 3,592.5 million due to the substantial investment plan explained in more detail below, to the integration of Satcom and Acantho in the scope of consolidation, and to the contribution of Gas and District Heating networks to corporate assets.

Net fixed assets as at 31 December 2009 amounted to Euro 3,985.8 million, against Euro 3,594.5 million, indicating an increase of Euro 391.3 million (+11%).

The provisions at the end of 2009 were essentially in line with the values in the previous year of Euro 420 million as at 31 December 2009, compared to Euro 421 million as at 31 December 2008.

Net working capital grew, rising from Euro -22.9 million as at 31 December 2008 to Euro 26.8 million as at 31 December 2009. This increase should be viewed in relation with the turnover growth experienced in the period.

Shareholders' equity, which rose from Euro 1,579.1 million to Euro 1,700.7 million, was impacted by the share capital increase and consolidation operations mentioned above.

Operating investments (non financial)

(in millions of €)	2007	2008	2009
Gas/District Heating/Heat Management Services	49.9	67.6	64.1
Electricity/Industrial Co-generation Services	58.9	48.9	37.9
Integrated Water Services	131.4	114.1	105.4
Waste Management Services	166.2	125.2	118.1
Other Services	7.1	6.3	12.0
Central Structure	50.4	57.5	54.0
Total	464.0	419.7	391.5

The calculation criterion for the prior year data has been aligned with the data for the year underway.

Investments relating to the Gas Services in the area in question, regarded expansion, enhancement and upgrading of networks and plant systems. District heating service investments concerned extension work to the service, mainly 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 the extended service and to extraordinary maintenance of plants and distribution networks in the territories of Imola and Modena, and the network service support. Compared to the same period in the previous year, worthy of mention is the mass replacement effort of electronic meters, in order to comply with the substitution plan resolved by the AEEG. This item includes the investments in plants producing electricity and heat specifically related to the construction of the co-generation plant in Imola and the construction of new co-generation plants at the local companies.

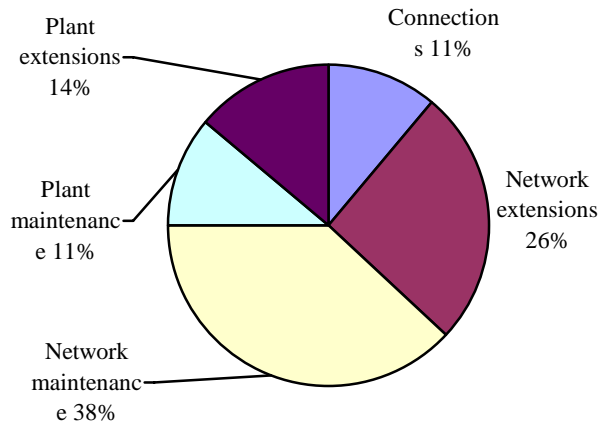
With regard to the Integrated Water Cycle, it saw an overall reduction of operations compared to 2008, due to the significant streamlining of activities and a reduced demand for new connections. The Purification system appeared to increase, by virtue of enhancement and regulatory compliance initiatives.

Waste Management Services saw an overall reduction in operations, compared to 2008, of maintenance and upgrade of the existing plants in the area. Investments in waste-to-energy plants were mainly linked to the completion of the Forlì plant and the construction of the plants of Modena and Rimini.

Other Services experienced an increase in telecommunications networks investments due to the consolidation of Acantho and Satcom, and a reduction in investment in the Public Lighting service.

There was an overall decrease in investments within the Central Structure due to the completion of the restructuring of company information systems and the rationalization of the operating fleet. Investments were up due to the work carried out in the Group offices.

Investments in the integrated water service (2009)



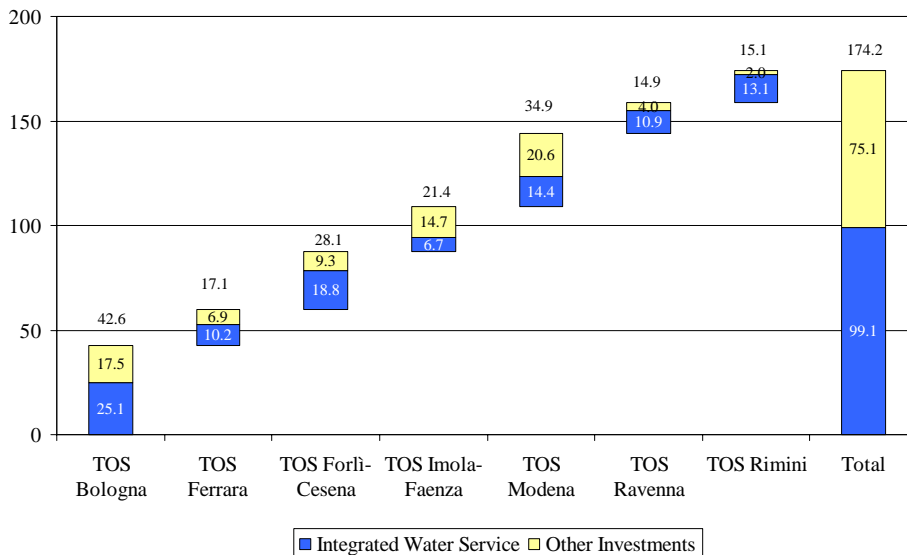
In 2009, 63% of the investments involved extraordinary maintenance of networks and plant maintenance and enhancement. In particular, 38% of the total investments were carried out in order to replace the pipes of the aqueduct service and limit physical non account water.

Financial equity investments and acquisitions

(in millions of €)	2007	2008	2009
Investments	7.8	9.9	36.8

Financial equity investments of Euro 36.8 million were made in 2009. These investments refer to increasing power in the energy sectors through investing in new plants such as the Galsi pipeline and the acquisition of an equity investment in Aimag (a multiutility company operating in Modena).

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



57% of the investments made by the Territorial Operative Companies were for the integrated water services

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 will continue in 2010 with the assessment of the environmental advantages produced by the initiatives that were launched.

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 has been defined as an environmental expense. Taking account of the activities managed by Hera, several characteristic activities carried out by the company such as separated waste collection, the operation of composting plants or the expansion of treatment plants were also taken into consideration.

In relation to energy services, the interventions that were counted involve actions aimed at the extraordinary maintenance of the gas networks, the production of electricity from renewable sources or similar sources (including also the investments for waste-to-energy plants, only insofar as the portion connected to the production of electricity) and the management of district heating systems. The costs for the management of these activities in 2009 amounted to a total of Euro 13.6 million; the investments were equal to Euro 59.6 million.

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. In 2009, operating costs of Euro 26.8 million and investments of Euro 76.4 million were allocated to these interventions.

For the waste management services the activities connected to separate waste collection (management of the service, purchase of bins or “igloo” bins, investments in Equipped Drop-Off Points), the management of the waste selection, separation and composting plants, the reduction of atmospheric emissions from waste-to-energy plants and vehicles with a lower environmental impact (methane or GPL) were considered. Furthermore, the fees paid to Municipalities for the environmental compensations relating to the waste disposal plants were counted. In 2009, operating costs of Euro 112.3 million and investments of Euro 28.2 million were allocated to these interventions.

Finally, the costs involved in the energy savings activity, the environmental management system and the costs for the disposal of waste produced by the company were considered. Overall, these interventions required operating costs of Euro 67.2 million and investments of Euro 8.7 million in 2009.

In total, the operating costs connected to interventions aimed at improving environmental sustainability amounted to Euro 219.9 million in 2009 (5% of the Group’s revenues). The investments amounted to Euro 173 million (44% of the total operating investments made by the Group).

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 2009 amounted to Euro 4,204.2 million. Of this value, the share destined for suppliers of raw materials (methane and electricity destined for sale) amounted to Euro 2,652.9 million.

Production of value added

(in millions of €)	2007	2008	2009
Revenues	2,863.3	3,716.3	4,204.2
Change in inventories of finished products and work in progress	-4.2	2.6	-1.9
Other operating income	46.0	73.1	82.8
Grants received from public institutions	-10.9	-14.0	-15.3
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	-1,613.9	-2,421.4	-2,774.9
Costs for services	-642.4	-624.7	-543.7
Bad debt provisions	-26.4	-22.4	-26.4
Accruals to provisions for contingencies and other provisions	-30.1	-28.3	-25.0
Other operating costs	-12.2	-13.5	-16.2
Capitalised costs	238.2	248.5	80.0
Gross value added	807.4	916.2	963.6
Portion of profit (loss) pertaining to associated companies	1.2	2.1	3.9
Gross overall value added	808.7	918.4	967.5

Gross overall value added generated for stakeholders in 2009 came to Euro 967.5 million, an increase of Euro 49.1 million on the previous year (+5.3%) and of Euro 158.8 million on 2007 (+19.6%).

Distribution of value added to stakeholders

(in millions of €)	2007	2008	2009
Workforce	300.9	331.1	352.0
Shareholders	96.3	98.1	103.1
Company	189.8	209.0	206.4
Financial institutions/Banks	79.3	94.0	105.0
Public Administration	140.7	184.5	198.9
Local community	1.7	1.7	2.1
Gross overall value added	808.7	918.4	967.5

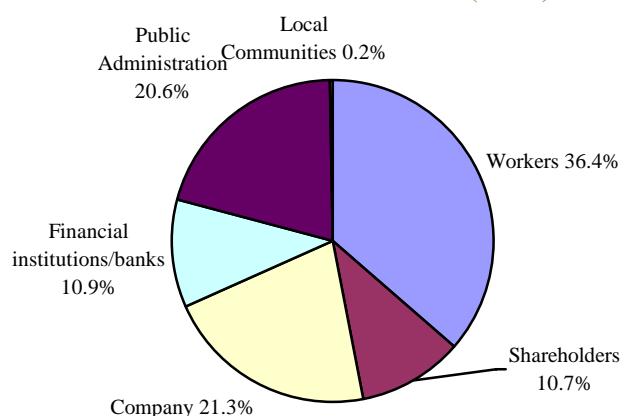
The portion of value added allocated to the **workforce** increased by Euro 20.9 million (+6%) compared to 2008. Compared to the total value added produced, this portion represents 36.4%, and consists in wages and salaries (including employer social security contributions and provision for employee leaving indemnities).

The portion allocated to the **shareholders** of Hera or of subsidiaries rose by Euro 5.0 million (+5%) and is equal to 10.7% of the total. Of this portion, Euro 89.2 million was allocated as dividends distributed to Hera S.p.A. shareholders, and Euro 13.9 million was allocated as dividend for minority shareholders of the subsidiaries of Hera S.p.A. Euro 2.6 million of Hera S.p.A. profit for the year was allocated to reserves and Euro 49.8 million to dividends for shareholders. This dividend was supplemented to the extent of Euro 39.4 million, which was withdrawn from the spin-off surplus reserve generated in 2009, as a result of the extraordinary transaction performed on the Territorial Operative Companies. This reserve, which amounts to Euro 57.4 million and mainly comprises the dividends disbursed by the Territorial Operative Companies to Hera S.p.A. in 2009, were removed from the income statement of Hera S.p.A. as the spin-off transactions rendered their accounting effect retroactive to 1 January 2009.

A portion totalling 21.3% of the value added generated in 2009 was re-invested in the **company**. This portion, substantially stable compared to the previous year, mainly includes amortisation of the investments made by the company.

The portion of value added allocated to **financial institutions** in 2009 came to Euro 105.0 million (10.9% of the total, +12% compared to 2008). This share comprises Euro 128.0 million in financial charges, and Euro 23.0 million in financial income.

Distribution of value added to stakeholders (2009)



The portion distributed to **Public Administration** amounted to Euro 198.9 million, 20.6% of the total (+8% compared to 2008). Duties and taxes amounted to Euro 93.4 million (9.7% of the total value added distributed, -3% compared to 2008). Of the taxes

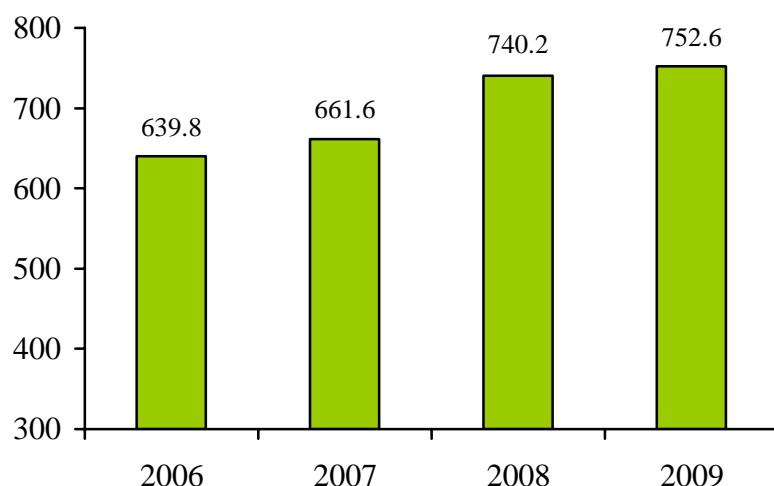
and duties, Euro 53.0 million was allocated to the State, Euro 37.1 million to the Regional authorities and Euro 1.2 million to the Municipal authorities. The portion distributed to Public Administration includes the return of the so-called “state aid” received at the end of the 1990’s by Italian companies 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, Euro12.3 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. Unlike the previous Sustainability Reports, these costs were considered and recognised for the three year period from 2007 to 2009. In 2009 total payments for use of the assets of shareholder municipalities and environmental compensations came to Euro 93.2 million (-9%, also due to the sale of the gas and district heating networks).

Operating grants received amounted to Euro 15.3 million; the most significant share regards grants for separated waste collection. This portion was subtracted from the portion allocated to the public administration.

Lastly, Euro 2.1 million was allocated to **local community** donations (Euro 0.2 million) and **sponsorship** (Euro 1.9 million); details on these items can be found in the section “Local communities”.

Value added distributed to local areas (million €)



In 2009 value added distributed to stakeholders in the local areas amounted to Euro 752.6 million (+2% compared to 2008).

This is composed of:

- employee salaries (47% of the total)
- dividends to local shareholders (8%)
- duties, taxes and fees to local authorities (17%)
- charitable donations and sponsorships (0.3%)
- resources re-invested in the company (27%)

If value added for local suppliers is also considered (which represents 73%, amounting to Euro 876.4 million), the total wealth distributed to local areas in 2009 amounted to Euro 1,629.0 million.

Workforce

Hera had a workforce of 6,711 people as at 31 December. 95% of the workforce has an open-ended contract. This percentage rises to 95.2% if Marche Multiservizi is excluded. In the last 3 years, 508 people were hired on the basis of open-ended employment contracts, 173 of which in 2009 alone.

The third internal climate survey was carried out in 2009: the participation reached 57% and the satisfaction index increased by 5 points to 58 compared to the previous recording in 2007.

Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> • Carry out the third internal climate survey in 2009, aiming to reach a workforce participation level of 50% and a satisfaction index of 55. We shall define an improvement plan aiming to achieve an index of 60 in 2011. • Further improve the accident frequency index: reach an accident frequency index in 2009 lower than the total value for 2008 (38.2). • Obtain the OHSAS 18001 certification for municipal hygiene, district heating, gas and electricity, large plant and energy design in 2009. • Provide 150,000 hours of training in 2009, equal to 24 hours per capita. • Further develop the Scuola dei Mestieri model with the publication of 4 additional trade exercise books and carry out two training events as part of the apprenticeship community project. • Improve internal communications by revamping the corporate intranet. • Begin the Hera Group's Corporate University for management, development and enhancement of knowledge based on a recognised training model provided by an external consultant. • Consolidate the internal mobility instruments supporting human resource enhancement, professional development courses and re-organisation projects. • Start specific initiatives aimed at enhancing the skills and potentials of differently-abled workers of the Hera Group based on the results of the investigations carried out in 2008. • Carry out the procedures for SA8000 certification, once the OHSAS 18001 certification 	<ul style="list-style-type: none"> • The third internal climate survey had a participation level of 57% and a satisfaction index of 58. 15 improvement actions were defined for the 2010-2011 period. (see page 75) • The accident frequency index for 2009 was 32.6 . (see page 68) • OHSAS 18001 certification was obtained for all services foreseen. (see page 68) • Approximately 145,000 hours of training took place in 2009, which corresponds to approximately 23 hours per capita. (see page 64) • In 2009 two new trade exercise books were published, bringing the total exercise books published to 12. Two training courses were held as part of the Apprenticeship Communities project. (see page 64) • The Corporate Intranet was entirely revamped and made available in December 2009. (see page 64) • A feasibility study was carried out with the interuniversity research centre for public utility services on the establishment of a corporate university. (see page 64) • The "job posting" instrument was consolidated through publication in 2009 of 26 internal personnel ads. 15 positions were covered through the use of this instrument in 2009. (see page 53) • In November 2009, four specific actions were implemented for the efficient use of differently-abled workers which are expected to be completed during 2010. (see page 56) • The OHSAS 18001 certification process will be completed in 2010 and following this the

<p>process has been completed.</p> <ul style="list-style-type: none"> • Create the second Hera Group crèche in the municipality of Imola. 	<p>procedures for SA 8000 certification will begin. (see page 32)</p> <ul style="list-style-type: none"> • The Hera Group's second crèche was established and inaugurated in Imola in November 2009. (see page 56)
We shall...	
<ul style="list-style-type: none"> • Carry out the 15 improvement actions aimed at the internal climate that were defined as a result of the Climate study 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, Comunità di pratiche [Apprenticeship Communities], Progetto Laureati [Graduates' Project], Alti potenziali [High Potential] • 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 for the SA8000 certification. • Realize 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. • Extend to the operations staff the possibility of accessing the company intranet through the installation of touch screen stations. 	

Breakdown

Staff figures at the close of the year

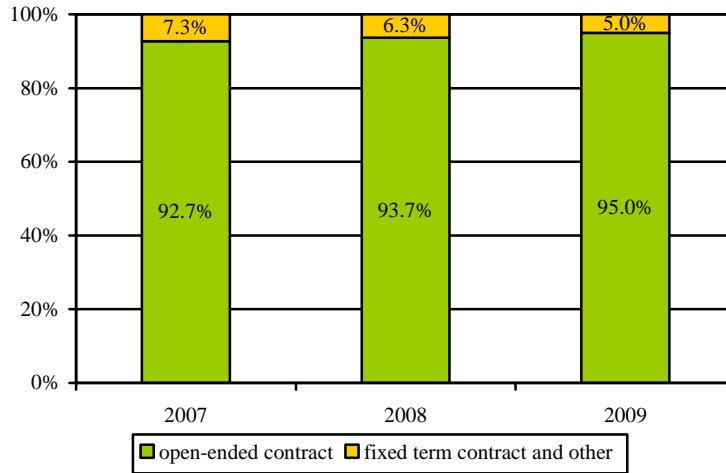
(No.)	2007	2008	2009
Executives	109	115	123
Managers	286	306	328
Administration	2,700	2,980	3,194
Manual	3,019	2,990	2,836
<i>Open-ended contract employees</i>	<i>6,114</i>	<i>6,391</i>	<i>6,481</i>
Fixed-term contract workers	117	116	105
Job training and entrance contracts	108	81	79
Fixed-term contract employees	225	197	184
Staff leasing contracts	70	75	29
Freelance contracts	0	0	0
Project based contract workers	6	6	17
Total	6,415	6,669	6,711

As at 31 December 2009, the total workers with open-ended contracts in Group companies amounted to 6,481. Not including Acantho and Satcom¹ (which had 110 open-ended contract workers of which 93 were employees at the end of 2009) compared to 2008 there is a decrease in open-ended contract workers of 0.3% which is characterized by a decrease in blue collar workers that has partially been offset by an increase in white collar employees.

¹ It is notes that the tables shown in this section include Acantho and Satcom as from 2009, unless otherwise noted.

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, retirement and voluntary resignation.

Workforce numbers (average)



On average, 95.0% of workers have an open-ended contract. This percentage increases slightly to 95.2% if Acantho, Marche Multiservizi and Satcom are not included, compared to 93.4% in 2007 and 94.3% in 2008. 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.

We also confirm that for 2009 the trend of reducing the number of workers with staff leasing contracts which decreased by 58% overall compared to 2008 and by 68% compared to 2007 .

Open-ended contract employees (breakdown by function)

(No.)	2007	2008	2009
Grid services	2,060	2,183	2,149
Waste management services	1,960	1,919	1,889
Other services	505	522	618
Commercial	458	493	602
Coordination activities	1,131	1,274	1,223
Total	6,114	6,391	6,481

The calculation criterion for the prior year data has been aligned with the data for the year underway.

Of the workforce, 29% operate in the waste management sector and 33% in grid services (gas, electricity, district heating, and water service). Of the workforce, 9% are employed in the commercial structure and an additional 10% 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.)	2007	2008	2009
Number of workers	520	562	708
<i>of which resident outside the province of service</i>	236	285	285

Approximately 11% 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). In 2009, 21 managers lived outside the province of service. The number of open-ended contract workers that live outside the local area they serve has remained unchanged compared to last year.

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

(No.)	2007	2008	2009
Bologna TOS area	1,762	1,769	1,763
Ferrara TOS area	549	545	526
Forlì-Cesena TOS area	501	536	570
Imola-Faenza TOS area	454	474	605
Modena TOS area	930	1,117	1,104
Ravenna TOS area	730	685	664
Rimini TOS area	836	728	705
Marche Multiservizi area	335	510	517
Other	17	27	27
Total	6,114	6,391	6,481

The increase in the workers in the Forlì-Cesena area is due mainly to the centralisation of the remote control centre for fluids at the Forlì branch. The Imola-Faenza area saw an increase in personnel due to the addition of Acantho and Satcom and the deployment of the Imola electricity power plant. In the other areas there was a progressive decrease due to the centralization of the remote unit at Forlì (for Ravenna and Rimini).

Open-ended contract employees by educational qualification and position (2009)

(No.)	Executives	Managers	Administration	Manual	Total
Primary education	0	0	13	53	66
Junior secondary education	3	4	594	1,880	2,481
High school diploma	15	120	1,954	898	2,987
University degree	105	204	633	5	947
Total	123	328	3,194	2,836	6,481

The education level has risen compared to 2008 with the percentage of the workforce holding high school and university degrees at 61%.

Average age and average seniority of employees with open-ended contracts by role (2009)

years	Age	Years of service
Executives	50.0	13.2
Managers	47.2	15.3
Administration	44.2	15.3
Manual	47.0	15.8
Total	45.7	15.5

The average age and average years of service of employees with open ended contracts are 45.7 and 15.5 years, respectively. These indicators have progressively increased over the last two years.

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

(hours)	2007	2008	2009
Illness	70.2	65.6	63.0
Maternity	23.0	10.0	12.1
Accidents	13.6	13.0	10.0
Strikes	1.4	3.6	2.2
Union meetings	2.3	2.1	1.3
Union leave	7.0	6.9	6.4
Total absences (h)	117.5	101.2	95.0
Regular hours worked	1,534.2	1,503.8	1,536.3
Overtime hours worked	67.8	62.4	55.6
Total hours worked	1,602.0	1,566.2	1,591.9

The data refer to the following companies: Hera S.p.A., Marche Multiservizi, Famula On-Line, Uniflotte, Hera Comm, Hera Trading, Herambiente, FEA, Acantho (only for 2009), and Satcom (only for 2009). The figures for 2007 refer only to workers with open-ended contracts.

With regard to the hours of absence, there has been a decrease in the hours of absence due to illness (-4%). The minimization of the overtime that continues to represent a low percentage of the total hours worked. The downwards trend continues in the hours of absence due to accidents which have decreased by 23% in the last year.

Turnover

The current personnel policy is to back up the process of integration of companies within Hera with a plan for efficient use of the workforce made available as a result of processes of internal rationalization and further outsourcing of activities that generate low 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.)	2007	2008	2009
Executives	0	3	3
Managers	11	11	8
Administration	86	161	161
Manual	17	19	28
<i>Open-ended contract employees</i>	<i>114</i>	<i>194</i>	<i>200</i>
Fixed-term contract workers	164	124	119
Staff leasing contracts	219	176	130
Job training and entrance contracts	38	38	59
Project based contract workers	27	35	51
Freelance contracts	0	0	9
Seasonal workers and apprentices	12	11	11

In 2009, 200 employees were hired with open-ended contracts, compared to 194 in 2008.

The company confirmed its commitment to use flexible contracts only for temporary needs, concluding 130 new flexible contracts in 2009 compared to 176 in the previous year and 219 in 2007. Excluding Acantho, Marche Multiservizi and Satcom, the staff leasing contracts dropped to 59 in 2009, compared to 139 last year. In the last three years 508 persons with open-ended contracts were hired, of which 331 following a initial hiring through a non-open ended contract with the Group.

Job leaving by open-ended contract workers by reason

(No.)	2007	2008	2009
Resignation	87	83	52
Retirement	92	86	118
Death	5	6	12
Dismissal	6	7	4
Incapability	15	16	20
Transfer to other company	22	36	3
Total	227	234	209

In 2009, there were 209 cases of job leaving (of which 9 in Acantho, Marche Multiservizi and Satcom). 81% of these cases of job leaving were due to retirement and voluntary resignation.

Turnover rate for open-ended contract workers by role

%	2007	2008	2009
Executives	5.5%	6.1%	6.5%
Managers	4.2%	8.5%	3.6%
Administration/white collar	3.0%	3.0%	2.4%
Manual/blue collar	4.2%	3.8%	3.9%
Media	3.7%	3.7%	3.2%

Turnover rate for open-ended contract workers by age

%	2007	2008	2009
Men	3.9%	3.9%	3.7%
Women	2.9%	2.7%	1.7%
Media	3.7%	3.7%	3.2%

Turnover rate for open-ended contract workers by age

%	2007	2008	2009
Under 30	4.2%	0.7%	2.5%
From 30-50 years of age	1.9%	1.9%	0.8%
Over 50	8.9%	8.1%	8.8%
Media	3.7%	3.7%	3.2%

The turnover rate is calculated by dividing the number of leaving employees by the number of employees at the end of the year, thus resulting in the percentage change in staff. Higher than average values are recorded for executives, for men and for workers over 50 years of age.

Career advancement during the year (breakdown by position)

(No.)	2007	2008	2009
Executives	9	3	9
Managers	28	21	22
Administration/white collar	521	513	453
Manual/blue collar	286	368	285
Total	844	905	769

In 2009, 3 executives were hired externally, while 4 executives from Acantho and Satcom were added to the staff. There were 9 promotions from manager to executive in 2009.

Ad interim positions covered

(No.)	2007	2008	2009
Ad interim positions at the beginning of the year	23	10	18
Ad interim positions covered	16	5	5
<i>of which by internal personnel</i>	<i>15</i>	<i>4</i>	<i>4</i>

In the company organisational chart there are several organisational positions for which the manager has been assigned ad interim.

Specific attention was focused on reducing the number of “ad interim” positions in the organisation, by promoting internal resources. With regard to the 18 ad interim or open

positions for executives and managers at the beginning of 2009, during the year, 5 positions were covered, for 4 of which using internal personnel.

Not including the employees left in the Territorial Operating Structures that changed companies due to the entrance of these structures into Hera S.p.A., 966 employees changed companies. This number includes: 517 transferrals to Herambiente, 233 transferrals from the TOS Customer Management to Hera Comm and 123 moved to Central Entities.

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

From July 2008 a job posting area has been available in the company intranet, through which postings for all the positions available within the Group can be seen and applied for (there were 37,000 hits to this page in 2009). The positions posted are also posted on all company bulletin boards, thereby allowing for wider dissemination of the searches underway. The objective of internal mobility is to create an opportunity for Hera employees to grow their knowledge and capacities transversally, while allowing them to continually place themselves in new contexts and develop richer and more complete work skills and strengthening their sense of belonging to the Group.

In July 2009 the flow regulating "internal mobility" was finalized through actions that contributed to the operational improvement of the actual process. Particular focus was dedicated in the relative phase on providing feedback to the candidates, in order to promote greater standardization of the instruments and operating procedures while ensuring maximum transparency. In 2009, 26 job advertisements were published while 15 positions were staffed using this instrument.

At the beginning of 2009, the Hera Imola-Faenza TOS set up a project dedicated to workers that recently retired which aims to use the wealth of the experience they have gained with the company. There are 7 pensioners who, following training and the conclusion of a project-based contract, were employed as guides for 20 tours of the Imola drop-off point, the Castel San Pietro and Imola purifiers and the Rineggio and Bubano basins.

Diversity and equal opportunities

Equal opportunities

The group is fully aware of the issues relating to equal opportunities, and is committed to avoiding all forms of discrimination. In its relations with the workforce, as a part of its personnel management and work organization practices, and in its dealings with all stakeholders, the group is committed to making sure no discrimination takes place in the workplace. In selecting personnel, it 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 by the Sodalitas Foundation, Impronta Etica, Aidda (women managers of companies), Aidaf (family services), Ucid (Christian union of business people and managers) 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. Among other commitments, it identifies the corporate departments to which clear responsibilities in terms of equal opportunities must be given.

Developing resources: 4 actions launched in 2010

To employ the competences and potential of differently-abled persons working in the company, analyze their satisfaction, improve their work and, if necessary, implement work requalification: this is why the “Developing Resources” was developed starting in 2008 with the support of the ASPHI Foundation which promotes the integration of differently-abled persons in schools, the workplace and society through the use of ICT technology. In the initial phase a questionnaire based survey was used to gauge the satisfaction of the differently-abled personnel and an on-line course was provided to their relative direct managers which was followed by a final questionnaire. At the end of 2009 a plan was launched for the second phase of the project, which will be implemented in 2010. 4 actions are planned which were identified on the basis of the results from the first phase: definition of a monitoring plan from initial hiring and throughout the first year of the differently-abled employee's employment, reconnaissance of the work environments with involvement of the differently-abled person, identification of individual cases for which specific actions for the enhancement of professional potential, planning for additional awareness initiatives for managers, tutors for differently-abled personnel, personnel managers, systems experts and information systems can be applied

In 2009 a course was given at the Forlì-Cesena TOS by the Cooperativa Gulliver, which manages several environmental services for Hera. The course was held for approximately fifteen colleagues to whom it provided instruments for managing relations during the course of a differently-abled person's entry into an employment position.

Female staff (breakdown by position)

%	2007	2008	2009
Executives	11.9%	13.0%	13.8%
Managers	28.7%	29.7%	28.9%
<i>Total managers and executives</i>	<i>24.1%</i>	<i>25.2%</i>	<i>24.8%</i>
Administration	38.8%	37.4%	38.8%
Manual	4.9%	5.3%	4.7%
Total	21.1%	21.6%	22.9%

Female staff levels among open-ended contract workers reached 22.9% in 2009, a slight increase on the last few years. Female personnel comprises approximately one fourth of executives and managers. Considering all contractual qualifications that provide for a managerial role (managers, executives and management employees), women comprise 30% (not including Acantho, Marche Multiservizi and Satcom).

Personnel by age group

	2007	2008	2009
%			
Under 30	1.9%	2.3%	2.4%
From 30 to 50	72.4%	69.3%	67.5%
Over 50	25.7%	28.4%	30.1%
Total	100.0%	100.0%	100.0%

There were over 1,900 workers with open-ended contracts aged over 50 (this category increased by 7% compared to 2008).

Part-time contracts

(No.)	2007	2008	2009
Men	39	37	38
Women	172	190	190
Total	211	227	228

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. We note that in 2008, 25% of the women who took maternity or parental leaves took advantage of the opportunity to work part-time following these leaves, out of requests from 29% of these women; in 2009 30% of the women did so, out of requests from 33% of them.

The persons to whom staff members report must consider how viable the contracts the applicants seek are in terms of corporate needs. If it is concluded that the contract is viable, the changes will be made.

Hours of maternity absence

hours	2007	2008	2009
Total hours of absence due to maternity	137,977	62,000	76,776
Hours of absence due to maternity per capita	23.0	10.0	12.1

The data refer to the following companies: Hera S.p.A., Marche Multiservizi, Famula On-Line, Uniflotte, Hera Comm, Hera Trading, Herambiente, FEA, Acantho (only for 2009), and Satcom (only for 2009). The figures for 2007 refer only to workers with open-ended contracts.

We note that in the two year period from 2008 to 2009, there were 50 female employees who were entitled to and made use of parental leave. In the same period, ten men also made use of the parental leave. The average duration of parental leave for women was 150 days (less than the maximum time allowed by the law) while for men this was 90 days (corresponding to the minimum period of three months which, if taken by the husband, allow the couple one additional month of month).

The positive experience of Tirithera, the crèche opened in December 2008 at the Hera branch in Cesena continued. The crechè, which has been constructed according to criteria of environmental sustainability, can house 23 children between 12 and 36

months of age: in 2009, 4 children of employees used the crèche, one more than in 2008.

The first intercompany crèche in Emilia Romagna opens in Imola

The Hera Group, Legacoop and Cna Imola, with the contribution of the Municipality of Bologna, the Fondazione Cassa di Risparmio di Imola and the support of the Municipality of Imola, established the first intercompany crèche in Emilia Romagna. This is housed in an area of 1000 m² and required an investment of Euro 1.5 million, while it has been constructed in compliance with sustainable housing and eco-sustainability rules in order to cover the needs of families. Completed in a record time of 8 months, the crèche houses 69 children aged between 5 and 36 months. 7 places are reserved for the Municipality of Imola while the remaining 62 are allocated to Legacoop, Hera and Cna Imola. The crèche features a photovoltaic plant which the Hera Group helped to design and which makes the crèche self-sufficient in terms of energy: the kWh that are produced are visible on a display, thus providing an educational message on the environment to all users of the crèche.

Persons belonging to protected recruitment quotas

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

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, Acantho (only for 2009), Satcom (only for 2009).

In all areas in which the group is operational, Hera complies with the obligations of Law 68/1999, also by developing a system of special agreements for negotiated solutions between Hera, the Centri Territoriali per l'Impiego (local job placement and career advice agencies), and the workforce. By such means, it is possible to establish preliminary contacts, prior to recruitment, for optimal use of specific personal skills. 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.

Training and professional development

In 2009, approximately 145,000 hours of training were provided, essentially in line with the objectives that had been set, despite a restructuring of the training plan that was decided upon in 2009. A comparison of the 2009 results with those of the previous year 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. 47% of the hours were taught by in-house trainers, which essentially continues the trend recorded in 2008 (59%).

Training hours (total)

hours	2007	2008	2009
Executives	3,559	4,622	2,512
Managers	10,808	15,569	9,032
Administration	85,681	94,116	72,302
Manual	45,517	89,027	60,547
Project based contract workers and workers with staff leasing contracts	4,561	4,226	505
Total	150,126	207,560	144,898

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

Total training hours per area of intervention

(hours)	2007	2008	2009
“Scuola dei Mestieri” and critical skills	26,126	77,714	51,483
Quality, safety, environment	14,343	28,341	38,926
Specialised training (incl. hands-on training)	33,923	15,911	18,648
Institutional and managerial training	39,513	66,859	30,171
Training in support of new IT system	36,221	18,735	5,670
Total	150,126	207,560	144,898

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

The Scuola dei Mestieri model has now become an institution in all the areas served: during 2009 a total of over 51,483 hours of training were provided to over 2,200 employees.

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

hours	2007	2008	2009
Executives	33.9	42.4	21.5
Managers	39.2	52.6	28.6
Administration	30.5	31.5	22.6
Manual	16.0	32.4	23.4
Project based contract workers and workers with staff leasing contracts	32.3	38.4	6.3
Media	24.3	33.2	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 2007 (in 2008, this figure reached 33 hours, due to the dissemination of the Code of Ethics). 42% of the training hours involved operations personnel.

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

	%	2007	2008	2009
Executives		100%	97%	89%
Managers		100%	99%	90%
Administration		97%	96%	90%
Manual		84%	100%	90%
Project based contract workers and workers with staff leasing contracts		100%	92%	67%
Total		92.1%	97.6%	90.2%

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 under review, almost 90% of workers attended at least one training course, regardless of their position, thanks also to the activities involving increasing awareness about safety in the workplace which involved a large percentage of the personnel.

Assessment of training

	%	2007	2008	2009
Degree of satisfaction of trainees (perceived quality)		79%	81%	84%
Outcomes (correspondence with needs)		70%	68%	59%

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 2009 outcomes involves l'85% 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. 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). The decrease in 2009 is also due to the various organisational changes that took place and the resulting mismatch between the managers that required training and those that assessed the result of the initiatives completed.

Total training cost per area of intervention

	(thousands of €)	2007	2008	2009
“Scuola dei Mestieri” and critical skills		125.0	231.0	185.9
Quality, safety, environment		86.5	176.5	128.8
Specialised training (incl. hands-on training)		220.7	155.8	205.1
Institutional and managerial training		321.5	416.8	207.1
Training to support new IT system and basic computing		238.2	53.3	33.1
Other (costs for development and support activities)		91.2	195.0	120.3
Total		1,083.1	1,228.4	880.2

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 880 thousand net of costs for personnel in training and in-house trainers.

Key training programmes

To consolidate the relation between training policies and the strategic objectives pursued at the Group level, Hera has decided to launch a research programme in association with CRISP (*Centro di ricerca interuniversitario per i servizi di pubblica utilità* – Inter-University Research Centre for Public Utility Services), aimed at examining corporate universities and high level managerial training as applied to public utility services. The study conducted by CRISP showed that the Hera Group training system is similar, insofar as hours of training provided and content, to that of corporate university models that are active in the utility sector and in particular those of the management type that are targeted to managers, university graduates and high potential employees.

As part of the institutional projects and in order to support managerial development, further higher learning courses were set up and completed (including the third part of the course taught in association with the Alma Mater Foundation on Regulation and the Market for Public Utility Services) as were individual coaching initiatives. Furthermore, the first 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.

In 2009, the collaboration with the Alma Graduate School also featured two “Fundamentals of Corporate Management” courses for employees that are part of the Graduates’ Project and employees who are university graduates and have been working for the company for two years.

The in-depth training and information program set up in 2008 following the coming into effect of the Consolidated Law on Health and Safety in the Workplace (Legislative Decree 81/2008) featured specific events throughout 2009 that involved various professionals (Managers, Supervisors, Workers’ Health and Safety Representatives).

In the first quarter of 2009 specific training sessions were carried out that were targeted to in-house trainers who were directly involved during the year in training on the risks specific to the various corporate areas.

Furthermore, the training on complying with legal obligations (fire safety, first aid, etc.) continued.

In the commercial area, in addition to the permanent updating of the regulatory and legal aspects and the reference information systems, the training of customer relations staff was completed (in 2008, all the call centre employees received training and from September 2008 the training for all employees at customer service branches began. This was concluded in the first quarter of 2009).

In the initial months of the year a training program for SAT personnel on customer management information systems took place (SAP, ISU, Siebel, etc.).

A specific program of Managerial Development taught in modules involved the Managers of Hera Comm and Hera Trading. The main themes covered were: people management, project management, communication and effective negotiations, problem solving and decision making.

In the second half of the year the training program on the role of the distributor in light of the law on unbundling took place. This involved the managers of the departments most affected by this law.

The Scuola dei Mestieri and its progress

The Scuola dei Mestieri which has now reached its fifth 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.

Including publications completed in 2009, the Scuola dei Mestieri has reached a total of 12 volumes. The latest trade exercise books printed (teaching support instruments for the coaching and apprenticeship courses) were: "Back Office Management of Customer Relations" and "Management of the Telephone Relation with Customers."

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, with the evolution of the apprenticeship communities. Apprenticeship communities are mainly ad hoc and self-regulated social groups which are characterized 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.

After the first workshop, in 2009 another two workshops were carried out which confirmed how the existence of apprenticeship communities can contribute to improving the activity and flow of information between various departments. The two workshops covered customer management (front office, back office and call centre) in the Bologna and Rimini areas and involved colleagues working in these areas throughout the two local areas.

Graduates Project

This project which began in 2004 aims to recruit and hire young high potential graduates. There are currently 93 employees that joined the Group through this project in the four year period from 2004 to 2008.

In 2008, 19 young employees were hired and in 2009 they concluded the basic management course.

Concurrently, the recruitment and selection phase for the new version of the project began in the second half of 2009.

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 2009, 59 young graduates participated in the assessment.

In the initial months of 2010, this phase of selecting candidates from the 59 young graduates will be concluded and about 17 new resources will be hired through 18 month entrance contracts.

The Hera Group Professional System

In 2009, the skills of the Uniflotte personnel were mapped.

The outcome of this exercise provided indications that are useful in defining the development and training initiatives that must be followed.

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 employees from the 2004, 2005 and 2006 Graduate Project participate as do other young employees with similar characteristics.

There is a total of 100 employees who, from February 2008, first underwent a motivational and orientation interview and were then involved for two days of assessment, in which their potential for professional growth was individually evaluated. The individual courses for professional growth were outlined according to the results obtained from the process above.

During 2009, the employees involved were enrolled into training and development initiatives according to an annual plan.

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-monthly 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.

As in previous years, the Hera Group participated in the PIL (Courses on entrance into the workforce) Project of the Università degli Studi di Ferrara, offering to another 4 graduates/graduating students the opportunity to add a work training experience to their university curriculum; these course provide an apprenticeship period of 3 months followed by a 12 month work experience within the company.

Furthermore, the agreement concluded in 2008 with the University of Ferrara which provides for the employment of students and graduates for training and orientation internships of no more than 18 months continued in 2009 as well.

In 2009, 7 persons are currently carrying out internships that are enrolled in the following master's degree programmes: Master's in Organisation and Management of Training, Master's in Project and Worksite Management, Master's in Science, Technology and Management.

Internships

(No.)	2007	2008	2009
Interns hired over the year	186	152	151
<i>of whom aged under 18</i>	39	17	21
Interns recruited following internship	7	9	15

151 persons had an apprenticeship with Hera in 2009. Of these, 15 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 0.6% of average employees in 2009. Employees with staff leasing contracts, amounting to 1% of average workers in 2009, have the same economic

conditions as those provided in the contracts applied to employees with open-ended contracts (including the performance bonus).

Relation between minimum pay and salary conditions according to labour agreements and Hera pay and salary levels (Federgasacqua contract – 2009)

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%	4,031	60%
Administration	1,407	1,407	0%	2,250	60%
Manual	1,407	1,407	0%	2,005	43%

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 45% of Group workers. 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 and in line with the contractual figure for white-collar and blue-collar workers. The average salary, on the other hand, is 60% higher than the minimum labour agreement conditions for managers and white-collar workers and 43% higher for blue-collar workers.

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

Euro	2007
Minimum according to labour agr. (A)	4,231
Hera minimum (B)	4,615
% Gap (B:A)	9%
Average Hera compensation (C)	8,561
% Gap (C:A)	102%
Average market salary for managers	9,431
% difference compared to the market	-9%

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 102% higher than the minimum salary stipulated in the contract, while the minimum salary is 9% higher than the Confservizi contract.

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

Gross average performance bonus (per capita)

Euro	2007	2008	2009
Managers	1,559	1,755	1,755
Administration	1,328	1,495	1,495
Manual	1,232	1,387	1,387
Media	1,290	1,452	1,452

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

Regarding the performance bonus, a standardised system is applied to all Group personnel, based on a bonus of equal amount for all employees, a single system of profitability and productivity indicators and a series of quality indicators which are diversified according to the business segments.

The productivity premium is paid to all employees, including those employed under staff leasing contracts.

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. Among the quality indicators (which affect 20% of the bonus) are included, as an example, the percentage of separated waste collection, the frequency, severity and incidence of accidents, the compliance with commercial quality standards as set by the AEEG and the Service Charters, the percentage of calls to the gas emergency services service with response times of less than sixty minutes, the percentage of investigations for leaks in the aqueduct system, the branch waiting times, the call centre waiting times, and the maintenance of quality and environmental certifications,

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 set 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 connected to the Code of Ethics (for example: personnel management and development).

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

The final assignment of the bonus is weighted according to the results reached insofar as certain Group parameters: financial-economic 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 takes place with the coordination of the Corporate Social Responsibility Department and the personnel departments that govern and ensure coherence of the entire process.

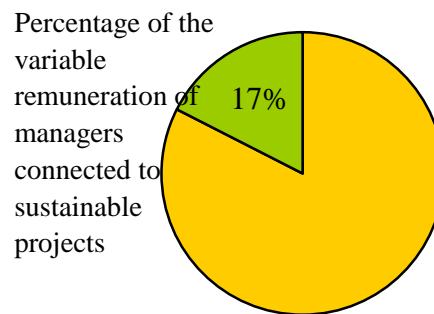
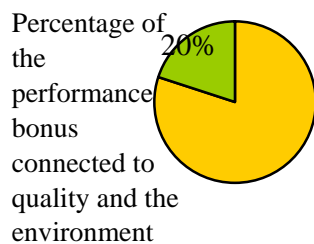
Approximately 51% of the variable remuneration of senior management of the Hera Group is linked to the completion of the projects planned in the balanced scorecard system (the remaining 49% is linked to respect of budget objectives and compliance with specific organisational behaviours).

A total of 354 managers and executives received a bonus linked to the Balanced Scorecard in 2009. This is added to 350 employees who received an incentive bonus in the forms provided by the merit-based policies of the Group in 2009.

Sustainability of incentives and the performance bonus

Aspects that refer to sustainability are present in the incentive system for executives and managers and the systems 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 2009, 17% of the variable remuneration of Group managers was linked to sustainability project objectives (quality improvement, environmental impact, the impact on image and involvement of stakeholders), while 20% of the performance bonus is linked to objectives relating to quality and the environment.

Pension funds

The Hera Group has three main pension funds created through national collective labour agreements: 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.

Yield of the main pension funds (balanced subfund)

%	2007	2008	2009
Pegaso	1.80%	-7.43%	9.11%
Previambiente	0.80%	-8.09%	9.53%

The number of employees participating total 4,572 (including Acantho and Marche Multiservizi), or 73% of total employees.

The table below sets forth the yield of the balanced subfund within the two main pension funds, which comprise 91% of workers participating in the pension funds.

Health and safety

In September 2008, Hera S.p.A. presented, via DNV, to Sincert a project with which to handle parts of the OHSAS 18001 certification process, for the period from 2008 to 2010. The request was approved by Sincert and the certification process was therefore structured into four parts.

In the first months of 2009, the certification for the first part took place; this included management process, environmental services and the district heating management activities.

In the period from September to November 2009, the second part of the certification process which includes the gas, electricity, large plant design and laboratory activities took place.

The inspection conducted by third party entity DNV showed that for both parts, the safety management system is in compliance with the OHSAS 18001 standard, and therefore the certification objective was achieved.

During 2010, the certification process for the third part will take place which includes the management of the integrated water system activities and plants.

As part of the overall certification process, the fourth part is planned for 2011 and includes minor services, such as rat control and cemetery services.

In November, aiming to create a tangible instrument with which to encourage the provision of information from workers and thereby making possible an exchange of information consisting of requests and notifications that would be timely and efficient, a preferential channel of communication between the Health and Safety Representatives (RLS), the Prevention and Protection Office (SPP) and the Employer was set up using electronic email addresses that are specific to each local area.

Accident indices

	2007	2008	2009
Frequency Index	42.4	37.6	32.6
<i>of which for on going accidents</i>	7.5	5.9	4.0
Severity index	1.2	1.2	1.8
Rate Index	6.7	6.0	5.2

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. The accident indices for 2007 and 2008 were updated on the basis of information acquired during the year.

As shown by the data provided in the table, the number of accidents is continually dropping, though the severity index went up in the last year due to a mortal accident that occurred at the Forlì mechanical separation plant while an employee was carrying out waste disposal using his own vehicle. The preliminary investigations are currently underway.

The final figure for the year culminates in an accident frequency for Hera S.p.A. of 32.6, which is lower than the figure for the previous year.

Frequency index (breakdown by area of activity)

	2007	2008	2009
Grid services	33.5	36.5	28.1
Waste management services	69.6	54.5	56.9
Other services	19.6	16.8	14.0
Media	42.4	37.6	32.6

The data refer to Hera S.p.A. The accident indices were updated during the year on the basis of information acquired.

Frequency index (breakdown by area)

	2007	2008	2009
Bologna TOS area	37.5	39.3	29.6
Ferrara TOS area	37.0	31.4	21.1
Forlì-Cesena TOS area	28.2	38.4	17.2
Imola-Faenza TOS area	18.7	20.8	12.5
Modena TOS area	41.9	37.9	43.7
Ravenna TOS area	29.1	21.9	23.8
Rimini TOS area	88.2	59.8	62.3
Avarage	42.4	37.6	32.6

The data refer to Hera S.p.A. The accident indices were updated during the year on the basis of information acquired.

An analysis of the frequency index by local area shows that the accident level for the territory of Modena increased from 37.9 to 43.7. The increase in the accident index is the result of more occurrences especially involving waste management services. Most accidents took place under situations that were not risky and were the result of incorrect actions by operators rather than shortcomings in the plant structures or the lack of or incorrect use of individual or collective protection devices. In the specific case of waste management services, in 2009 an improvement Group was created which aimed to prevent the causes of the most widely-occurring and repetitive accidents and identify the actions required to reduce the number of accidents.

The number of accidents that took place in transit (going to and from work) has continued its decrease with 31 events over 252, though this figure continues to significantly affect the overall data (12.3%); in 2008 the figures were 48 over 306.

Safe driving and the trip to work

The employees of the Ferrara TOS were involved in “safe driving” courses taught by Mitsubishi’s professional racing driver Alex De Angelis. Within the context of the “Safely making the trip between the road and work” initiative offered by the municipality of Ferrara, De Angelis provided certain simple but very valuable tips on the behaviour to adopt when driving a vehicle. The exhibit “Pencils for safety” featuring 62 cartoons by major Italian cartoonists on the issue of roads took place concurrently with the courses. Employees received a kit with informational material on risky behaviour on the road, a one-off alcohol test and a refractive armband for cyclists.

Accident indexes of a number of subsidiaries (2009)

	Marche Multiservizi	Herambiente (2°sem)	Ecologia Ambiente (1° sem.)	Nuova Geovis	FEA	Uniflotte	Hera Luce	Hera Comm
Frequency Index (no.)	68.3	21.2	20.4	22.3	26.0	56.3	36.7	19.0
Severity index (days)	2.2	0.5	0.2	2.5	0.7	1.4	0.6	0.2
Rate Index (no.)	10.8	1.7	1.7	3.7	4.3	8.6	5.9	3.1
Workforce (no.)	536	470	115	27	46	163	85	229

In regard to the accidents of the subsidiaries accounted for above, the only company with an increasing number was Hera Comm, a commercial company involved in sales which cannot be directly compared to the other companies in the list which have a high operating percentage, while all 7 of the accidents (compared to 4 in 2008) occurred during the ride from home to work.

The overall frequency index for all the companies considered (Hera S.p.A. and the main subsidiaries included in the table) amounted to 35.1, showing a decrease compared to the previous year's figure of 42.1.

Operating instructions that define the procedure for the acquisition and treatment of the figure in compliance with applicable legislation have been prepared in order to make the accident data for 2009 uniform. In 2009 the Group also developed an information system for the collection, analysis and standardisation of the data relating to the accidents, which became operational from January 2010 for Hera S.p.A. while in 2010 it will be deployed in the subsidiaries.

Health checks performed

(No.)	2007	2008	2009
Hearing tests	1,252	1,052	907
Respiratory tests	2,150	1,644	2,188
Laboratory tests	1,659	1,395	1,180
Sight and eye tests	1,066	686	1,670
Total check-ups performed	3,641	3,052	3,505
Total workers examined	3,641	3,034	3,505

The data refer to Hera S.p.A.

The activities for the development of the computer application for the management of the safety monitoring services increased in 2009, thereby making it available for application on all territories. The use of a computer application ensures uniformity of treatments, safety services and assessments in comparison to a specific risk profile as provided by a specific employee profile pursuant to applicable legislation.

The application facilitates the operating activities while making instruments and automatic processes available to users. Following complex tests (history, data entry and implementation of the application, training of the personnel that will use the application and the medical structures in charge of using it) that were carried out around the territory of Bologna, the application was readjusted and extended to the territories of Forli-Cesena, Imola-Faenza and Rimini. In 2010, this application is slotted to be applied in other territories as well.

30 employees were declared as inappropriate for the specific duty they carried out following a medical check up in 2009.

Industrial relations

Pursuant to the Group Supplementary Collective Labour Agreement concluded on 22 March 2006, the reporting system was reviewed so that it takes account of the Group's dimension which now exceeds the region, so as to improve its effectiveness.

The trade union dynamics also involved the development and conclusion of a discussion on calls to tender, specifically insofar as the state of the art application of the guidelines throughout the territories in which the Group operates.

It was thus possible to achieve harmonization of the organization insofar as the ability to trace the maintenance carried out in Herambiente plants.

Furthermore, negotiations aimed at reorganising the terms for ensuring uniformity of work shifts at waste to energy plants took place.

The trade union procedures on transferring company personnel to the Herambiente plants were initiated and completed.

The local negotiations with trade union representatives for the purpose of the application of the new organisational model for securing availability in the management of emergency services for networks/grids and fluid networks which aims to guarantee improved, uniform worker, plant and community health and safety were concluded in 2009 in the areas of Bologna, Ravenna and Ferrara, thereby completing the application of the new organisational model in all the areas served.

The discussion with the trade unions also covered issues that significantly affect the organization due to the initiation of the closing of Territorial Operative Company branches. This process was concluded at the end of 2009 and resulted in the transferral to Hera S.p.A., effective 31 December, of all activities carried out by the TOC except for the Customer Management which was transferred on the same date to Hera Comm S.r.l.

The trade union issues mainly involved the effect in terms of organizational placement of all the personnel involved and the regulatory economic conditions applying to the change.

In September the discussion on the renewal of the Group Supplementary Collective Labour Agreement of 22 March 2006 was carried out on the basis of a platform organized by trade unions. Numerous meetings followed which aimed to integrate or review the common rules of the trade relations (Industrial Relations Protocol), training, safety, etc. The discussion is still underway and will result in the definition of a new agreement on the Group's Performance Bonuses.

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

(No.)	2007	2008	2009
CGIL	2,465	2,513	2,415
CISL	605	584	535
UIL	662	719	665
CISAL Federenergia	46	44	34
FIADEL	61	70	61
RDB	32	35	35
UGL and other	5	2	6
COBAS		5	0
ASSOQUADRI		26	24
Total	3,876	3,998	3,775
	64.3%	63.4%	59.6%

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, Acantho (only for 2009) and Satcom (only for 2009).

59.6% of open-ended contract workers are members of a union. When including Acantho and Satcom (which have an overall rate of union membership of 11%), the percentage of workers that are members of a union decreases to 58.8%. The percentage of union membership is higher for blue-collar workers (67%) than for white-collar workers (56%); 33% of executives are members of unions.

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Strikes (hours)

(hours)	2007	2008	2009
Total time on strike (hours)	8,442	21,983	14,148
Time on strike (per capita)	1.4	3.6	2.2

The data refer to the following companies: Hera S.p.A., Marche Multiservizi, Famula On-Line, Uniflotte, Hera Comm, Hera Trading, Herambiente, FEA, Acantho (only for 2009), Satcom (only for 2009). The figures are for 2007 and refer only to workers with open-ended contracts.

Nine new strikes were announced for 2009 of which one did not take place due to the national catastrophe that occurred with the earthquake in Abruzzi. All the strikes were in protest against the policies of the government, except for two which took place in the territory of Forlì that were promoted by the CGIL, CISL and UIL in protest against two serious accidents on the job, one which occurred to an employee of a contracting company and the other to a Hera employee. The strikes in the three cases were announced by independent trade unions and in another three cases by CGIL alone.

Litigation with the workforce

(No.)	2007	2008	2009
Litigation pending at the close of the year	32	40	55

Considering the Hera Group with the sole exclusion of Marche Multiservizi, as at 31 December 2009 44 cases of litigation were pending (of which 18 initiated in 2009), with specific balance sheet provisions made in view of the potential costs. Of these, one

lawsuit in the first instance, and one on appeal at the Court of Cassation were initiated by the company. There were 12 lawsuits which were concluded in 2009.

Generally, the lawsuits regard seniority issues and the alleged failure to apply contractual terms and dismissal due to disciplinary reasons. Two of these, which are collective litigation, relate to the conditions applying to the laundering of work clothing of staff. There are also several cases initiated by 6 former temporary workers, one of which against Acatho and other Group companies.

The Marche Multiservizi Group has 11 ongoing lawsuits with personnel, seven of which with former fixed term employees that were then placed with an external contractor, who were claiming alleged previous wages or the alleged failure to apply practices such as the laundering of clothes by the company.

In 2009, 199 disciplinary measures were taken against Group employees, in compliance with the applicable national labour agreements. They mainly involved oral or written reprimands (98 cases), withholdings on salary (51 cases totalling Euro 1,919) and temporary suspensions from work (46 cases); in four cases, it was necessary to resort to termination.

We hereby inform you that three employees underwent preliminary investigations which are currently ongoing, in regard to the crime of bid rigging. These employees were suspended temporarily from work until the lawsuit against them is concluded.

Internal communication

During 2009, activities aimed at improving instruments of communication with the workforce continued, while new initiatives were launched for the purpose of enhancing cohesion in the name of involvement, integration and transparency.

The House Organ (HO) is continuously updated with improved content to facilitate its use as a source of useful, updated information, announcing news to all colleagues.

In order to quickly bring employees up to date, special issues were published on the corporate restructuring of the Group and the establishment of Herambiente, both of which represented milestones in the development of the company in 2009.

Articles were introduced to announce the Job Posting project (internal company mobility), increase awareness of the excellence of the Group's important plants, structures and projects and highlight Hera's innovation and technologies. In addition, ongoing articles and issues were published on the certifications obtained, privacy, on the job safety, training, improvement of internal services such as the cafeteria and the reports of the meetings between the management and employees. Space was also provided for articles and interviews in order to spotlight Hera's talent in non-work activities (articles on athletes, artists, writers and workers involved in volunteer and solidarity initiatives) to stimulate the cohesion and development of an internal community. The commitment was strengthened to maintain sections and special inserts focusing on free time (articles dedicated to cultural events, events and news from workers' social organisations - CRAL) to create loyalty in readers and make the House Organ increasingly more useful and interesting.

A new intranet serving the internal community

At the end of 2009, a new version of the internal corporate portal was made available. Developing this new portal involved listening to employees through a survey that looked into their needs and expectations and measured, through an on line questionnaire, the appreciation of the instrument (1,000 questionnaires were filled out). In order to better cover the requirements of users, the new portal can be personalised according to personal preferences and professional requirements. Starting from the home page, the initiatives dedicated to the internal community and the information that is of interest to the Group are focal points, in order to increase the sense of belonging and promote the sharing of objectives and corporate values. In 2009, there were approximately 1,300,000 pageviews per month, which is a 17% increase over 2008. An on-line survey will be carried out in 2010 to measure satisfaction with the new portal and identify proposals for further development.

Video Hera, which comprises of TVs placed in the main employee gathering areas, was renewed in June so as to render it more pleasing and functional, with improved graphics that aim to capture viewers' attention and facilitate the reading of news and banners that render Group initiatives more visible and an ANSA online news video twice a day. The instrument has been enriched with new content and more frequent updates on news from Hera and ANSA (over 30 news items per day) and 2 new locations.

The annual meetings of the Chairman and Chief Executive Officer with all employees were re-examined insofar as the presentation content and the meeting room set up, so as to be more inviting and engaging.

On 13 February 2009, on International Energy Saving Day – “Mi Illumino di meno” (Light up Less), the “Positive Energy” campaign was launched to promote energy saving within the company. Also in the area in sustainable actions, in 2009 the CiboAmico campaign was started, which involves donating unused food from the corporate cafeterias to assistance centres and the SaltaSu [jump on] campaign which promotes sustainable mobility through car-pooling within the company.

Also in the area of behaviours promoting sustainability, the Hera₂O campaign was launched in 2009 at the Forlì and Cesena branches which aims to promote the use of tap water in the offices and cafeterias.

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. A new version of the Employee Welcome Kit was developed, which is a brochure containing useful information for the orientation of new arrivals in the first weeks on the job; new graphics and contents were introduced, including numerous photographs from the “La Tua Hera” (Your Hera) internal photography contest.

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 organized. The “Hera Cup”, the Hera Group sailing regatta was organised for the third year in May 2009, with over 200 participants, while the “Trofeo Hera Ski Adventure” – the company giant slalom – was organised for the fourth time, with over 500 participants.

Restructuring of the branches

In 2009, the work connected to the corporate restructuring mainly focused on the compliance with building and equipment codes.

Over Euro 6.5 million was spent on maintenance: During the OHSAS 18001 audit, no non-compliances were found and almost all observations that resulted during the audits were closed.

Further interventions are scheduled for 2010, which involve both safety and workstation improvement, in particular the restructuring of the buildings at the Granarolo (Bologna) branch, which are underway together with the building of the new headquarters, the adoption of access monitoring systems at the Ravenna, Ferrara, Imola and Bologna branches and the finalization of the interventions involving compliance with the building codes.

Cultural 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. Organisationally, the board's actions are based on yearly budgets and programmes. The Group contributes to the activities of the cultural associations by guaranteeing the financial resources envisaged as a part of national collective labour agreements and of locally stipulated agreements and provides space for management of these activities which are also promoted through the internal communications instruments.

In 2009, 4,825 employees were members of the associations. The activities of the associations have been financed with contributions by the company (approximately Euro 586 thousand) and the employees (over Euro 21 thousand).

Excluding Marche Multiservizi, over 13,000 people participated in the activities organised by the cultural associations.

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. Its application began in 2005 within Hera and is carried out every two years in order to implement the actions for improvement and assimilate the effects.

The analysis of the survey results from 2007 led to the definition of 13 improvement actions. These actions were assigned to a person in charge and monitored on a quarterly basis using the balanced scorecard. Of the 13 actions that were planned, 12 were realized in full in the two-year period between 2008-2009 while only one was realized only partially.

Progress to 31 December 2009 of the improvement actions launched as a result of the 2007 internal climate survey

Role in Hera	
Improvement actions	The situation as at 31 December 2009
<ul style="list-style-type: none"> • Effect a meeting point between the demand for and offer of jobs to improve management of internal mobility • Further develop the model of the School of Trades and promote new methods for providing training (e-learning) • Add descriptions of corporate departments and roles to the organisational structure section of the company intranet • Continue the actions previously implemented with further explanation of the items which make up the pay slip, as well as the initiatives already launched for communication to employees and trade unions on the trend in performance bonus indicators and the criteria for determining such bonuses 	<ul style="list-style-type: none"> • The on line Job Posting system was implemented in support of internal mobility in 2008. • In 2008, six new notebooks were published upon conclusion of the “cantieri” [workshops] 2007 once the call centre and back office workshops were completed, and e-learning on privacy, Microsoft Office and the “Developing resources” project was provided in association with the ASPHI Foundation. In 2009, the programme on privacy was continued via e-learning. • The “Organization Manual” section of the corporate intranet were carried out in 2009, with a description of the corporate functions. • A meeting during which the union representatives were informed about the progress of the performance bonus indicators was held.
Workplace	
Improvement actions	The situation as at 31 December 2009
<ul style="list-style-type: none"> • Ensure continuity of the meetings with Senior Management of the various local areas • Improve workspaces (i.e., offices, furniture, cleaning) and communal spaces (i.e. canteen, washrooms) • Improve internal communications tools, specifically regarding the company intranet, also based on the results of the specific study conducted in 2007 • Organise meetings of the Directors of the individual Territorial Operating Structures and Divisions with employees 	<ul style="list-style-type: none"> • In 2008, 17 meetings took place and 16 took place in 2009, which all employees were invited to. A new cycle of meetings is planned for March 2010. • A procedure for managing the moving of the workstations, as the call for tenders for the purchase of furniture with consideration taken of environmental impact was defined, and on 1 April 2009 the management of the canteen was assigned to the company that was awarded the contract following the call for tenders which included social and environmental criteria and attention to perceived value. • After the reorganization which took place in 2008 (in the sections of the home page, with the creation of new sections in the Company and Customers sections and introduction of new services such as “Ansa live” and “Ansa web news”), in 2009 a new portal was designed which was launched in December, with new graphics and reorganized content. • The scheduled meetings in the Services Division of Hera Ferrara and Hera Imola-Faenza took place, while they were replaced by other actions in Hera Bologna and Hera Modena (top down meetings). The Rimini TOS organized a convention on the environment which involved the Rimini TOS and Herambiente managers and stakeholders in the local areas.
Immediate superiors	
Improvement actions	The situation as at 31 December 2009
<ul style="list-style-type: none"> • Extend to the entire organisation the training initiatives which develop managerial skills for 	<ul style="list-style-type: none"> • In 2008 and 2009 respectively, the 2nd and 3rd offering of the high level education course “Regulation of the market

<p>executives, managers and supervisors in charge of organisational units and personnel</p> <ul style="list-style-type: none"> Organise periodic meetings (i.e., quarterly) of the various managers with the personnel in their organisational units for the purpose of sharing and listening 	<p>in public service utility markets,” took place in collaboration with the Alma Mater Foundation for employees involved in the Development of Potential project. The 4th offering is set for 2010.</p> <ul style="list-style-type: none"> The scheduled meetings were held in the Waste Management, the Large Plant Engineering and Electricity Distribution, Fluid Distribution, District Heating Divisions and at the Bologna, Ferrara, Imola-Faenza Modena and Rimini TOS
Corporate culture	
Improvement actions	The situation as at 31 December 2009
<ul style="list-style-type: none"> Consolidate the Improvement Groups in the Territorial Operating Structures and extend them to the Operational Divisions as a tool for involvement and listening, and continue the monitoring and feedback on the implementation of the approved proposals Promote the adoption of conduct consistent with the company Charter of Values and the contents of the Code of Ethics Promote consistent and sustainable conduct through specific projects within the various company locations (i.e. energy savings, separated waste collection, promote drinking tap water in offices) 	<ul style="list-style-type: none"> In the two years between 2008 and 2009, 16 TOS improvement groups were held: 12 in 2008 and 4 in 2009 in the Bologna (2), Modena and Rimini TOS (2). In 2008, the model was introduced in the Environment, Services and Sales and Marketing divisions. The periodic monitoring and feedback collection model was set up. After the top down dissemination of the contents of the Code of Ethics through AlfabEtico which involved 97% of employees in 2008, in 2009 three training sessions were held for 53 employees (new hires and staff which had missed the previous sessions). Energy “waste chase” procedures (analysis of consumption curves, definition of reference models and variation analyses) were applied and adjustments to the air conditioning systems were planned. A separated waste collection model was defined in these branches in 2008 and then extended to all branches. The Hera₂O project (launched in April 2008) for the promotion of tap water, with dispensers in internal canteens and the offices is ongoing.

In September 2009 were distributed 6,193 questionnaires to be filled out anonymously. 3,544 (or 57%) were returned completed, this being a high number which has increased by 11 percent compared to 2007 and by 9 percent compared to 2005.

The overall satisfaction index, composed of several elements relating to personnel satisfaction and motivation, totalled 58 points, compared to 53 in 2007 and 50 in 2005. The increase is quite significant, though it remains below the “attention threshold” (60) defined by the external company that handled the survey and which represents the target to be reached in the next survey.

The survey shows that there is a very low awareness of customer satisfaction: the gap between the satisfaction surveyed through the customer satisfaction surveys and that perceived by the personnel is 17 points on the average, with particularly high differences in Ferrara, Modena and Forli-Cesena. Among the elements of the climate, the major improvements are noted insofar as training and corporate organization and integration. The most significant improvements in the satisfaction index were recorded for workers in Modena, Bologna, Rimini and Imola-Faenza.

The methodology used for the employee satisfaction survey

The internal climate study is conducted with a guarantee of full anonymity for the respondents: the questionnaire is delivered in a pay slip envelope to all employees and returned in a self-addressed sealed envelope within one month. It has been designed to verify the extent to which the improvements made following the previous survey are appreciated by the personnel, generating actual satisfaction and greater involvement in daily work.

The assessments of the results are expressed in numerical scales, with thresholds corresponding to the various levels of satisfaction: under 50 points indicates insufficiency, up to 60 indicates a “minimal” satisfaction area, between 60 and 70 indicates a good level of satisfaction and above 70 indicates “delight.”

Internal climate survey

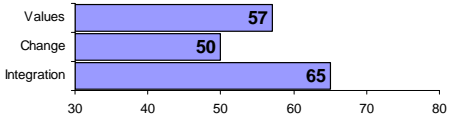


Employee's image of Hera



Analysis of the results produced points for reflection which led to the identification of 15 additional improvement actions to be carried out in the next two years, which will be carefully monitored.

Role in Hera																	
Summary of results...	... new improvement actions																
<table border="1"> <caption>Role in Hera - Summary of results</caption> <thead> <tr> <th>Category</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Role definitions</td> <td>65</td> </tr> <tr> <td>Contents</td> <td>68</td> </tr> <tr> <td>Personal change</td> <td>56</td> </tr> <tr> <td>Listening initiatives</td> <td>62</td> </tr> <tr> <td>Training</td> <td>59</td> </tr> <tr> <td>work loads</td> <td>52</td> </tr> <tr> <td>Remuneration</td> <td>47</td> </tr> </tbody> </table>	Category	Score	Role definitions	65	Contents	68	Personal change	56	Listening initiatives	62	Training	59	work loads	52	Remuneration	47	<ul style="list-style-type: none"> • To further consolidate the Scuola Mestieri by completing the projects begun in 2009 and assessing the activation of new workshops. • To further develop the Apprenticeship Communities in the customer management area as a method for organizational integration and sharing of knowledge. • To review the methods applied for the realization 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. • To realize initiatives aimed at making employees aware of the global economic value of their remuneration, with particular attention to the non-monetary aspects and the current economic framework. • 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.
Category	Score																
Role definitions	65																
Contents	68																
Personal change	56																
Listening initiatives	62																
Training	59																
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Remuneration	47																
Workplace																	
Summary of results...	... new improvement actions																
<table border="1"> <caption>Workplace - Summary of results</caption> <thead> <tr> <th>Category</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Organization</td> <td>51</td> </tr> <tr> <td>Organizational unit</td> <td>60</td> </tr> <tr> <td>Work environment</td> <td>54</td> </tr> <tr> <td>Internal services</td> <td>74</td> </tr> <tr> <td>Working tools</td> <td>59</td> </tr> <tr> <td>Communication</td> <td>56</td> </tr> </tbody> </table>	Category	Score	Organization	51	Organizational unit	60	Work environment	54	Internal services	74	Working tools	59	Communication	56	<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. 		
Category	Score																
Organization	51																
Organizational unit	60																
Work environment	54																
Internal services	74																
Working tools	59																
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Immediate superiors																	
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<table border="1"> <caption>Immediate superiors - Summary of results</caption> <thead> <tr> <th>Category</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Leadership</td> <td>60</td> </tr> <tr> <td>Style</td> <td>63</td> </tr> <tr> <td>Development</td> <td>61</td> </tr> <tr> <td>Confidence</td> <td>65</td> </tr> </tbody> </table>	Category	Score	Leadership	60	Style	63	Development	61	Confidence	65	<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 						
Category	Score																
Leadership	60																
Style	63																
Development	61																
Confidence	65																

Corporate culture									
Summary of results...	... new improvement actions								
 <table border="1"> <caption>Summary of results</caption> <thead> <tr> <th>Category</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>Values</td> <td>57</td> </tr> <tr> <td>Change</td> <td>50</td> </tr> <tr> <td>Integration</td> <td>65</td> </tr> </tbody> </table>	Category	Value	Values	57	Change	50	Integration	65	<ul style="list-style-type: none"> • To carry out Improvement Groups in the structures that are mostly affected by the organizational 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 realize specific communication initiatives aimed at the environmental impacts of the initiatives carried out by the Hera Group (energy savings, Hera₂O, separated waste collection, etc.).
Category	Value								
Values	57								
Change	50								
Integration	65								

The results and improvement actions identified were disclosed to all workers, through the February 2010 House Organ.

Others dialogue and involvement initiatives

Between April and May 2009 and for the fourth consecutive year, the Chairman and Chief Executive Officer presented to the entire workforce the Group’s business plan and main elements of the Sustainability Report; 16 meetings were held: 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 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 2009, 4 new improvement groups were created in response to specific requirements indicated by the departments involved. The Rimini TOS established two groups, one in the network area which aims to optimize the service thereby recovering profitability and a second one in the environmental area aimed at improving the quality of control in the local areas and the services provided as a contribution to improvement of the local tourism model. The Bologna TOS has dedicated a group to the operating flows between the plant management and the special plant maintenance, which focuses on ordinary and extraordinary maintenance. The Modena TOS group focused on the reduction of accidents, analyzing in detail the causes and possible suggestions for the reduction of risks from accidental falls.

The presentation of the respective proposals to the appropriate Department was carried out between the end of 2009 and the beginning of 2010. As is by now an established practice, during 2010 the improvement initiatives approved by the Departments will be specifically monitored in the operating phases of their activation.

As part of the commitments undertaken with the signing of the Group Supplementary Collective Labour Agreement, on 22 March 2006, Corporate Social Responsibility takes on an important role in which employees are recognised as fundamental stakeholders in the company, and the trade unions are recognised as a central player in the dissemination of the principles of CSR in all ordinary company actions. In 2009 Hera involved the latter in initiatives relating to safety as per the new Health and Safety Management System, OHSAS 18001 which is currently being finalized and the system for surveying the internal climate of the company, including with reference to the results found.

Customers

The customer base served by Hera totals more than 3.1 million, spread over the six provinces of the Emilia-Romagna region and several municipalities of the provinces of Florence and of Pesaro and Urbino. Hera also provides services to local businesses, which fall under the category of business customers. Hera is constructing fast track channels for relations with this customer base.

In de-regulated services (gas and electricity), Hera sells gas and electricity to 1.4 million customers throughout Italy, through its sales company Hera Comm.

Starting in 2005, Hera started a survey to check the satisfaction and listen to the requirements of customers. Customer satisfaction surveys are carried out every year and the results are used to define improvement objectives.

Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> • Further reduce waiting times at branches (reach 15 minutes by 2010) differentiating the waiting times for households and businesses. • Restructure the branches in Forlì and Cesena in 2009 and extend the new layout to all major branches of the Group by 2010. • Improve call centre waiting times (reach 40 seconds for residential customers by 2010 and 30 seconds for business customers) • Improve response times to complaints, reaching an average response time of 17 days by 2010 and organise a complaints analysis to define actions for improvement. • Improve the customer satisfaction index by defining and monitoring actions for improvement: reach an index of 68 in 2009 and 70 by 2011. • Further improve compliance with specific commercial quality standards for gas and electricity services, and the standards set forth in the approved Service Charters. • Further develop the HER@ ON-LINE channel for business customers in 2009. • Launch the new Club Hera Insieme, implementing the suggestions provided by residential customers: financial savings and environmental sustainability. • Promote the reliability of tap water also through the publication of the first annual report on the quality of the Hera Group drinking water. 	<ul style="list-style-type: none"> • In 2009 the average waiting time at branches was 14.6 minutes. The average waiting time for small business customers was less than 5 minutes. (see page 107) • The new branches of Imola and Ravenna were inaugurated in June and October, respectively. (see page 107) • Average call centre waiting times were 33 seconds for residential customers and 25 seconds for business customers. (see page 107) • AEEG resolution 164/2008 introduced a new definition of complaint, which had a significant impact on management. As a result, the average response time exceeded 20 days. A new classification of complaints resulted in an improvement in reporting. (see page 107) • The customer satisfaction index for 2009 was 69 (see page 112) • The percentage of compliance to specific standards was 97.9%, compared to 95.8% in 2008 (see page 95) • The development of additional operations at branches was planned, which will be activated in 2010. (see page 82) • The new Club Hera Insieme was launched in June. It offers its members concrete opportunities for savings linked to environmental sustainability. (see page 82) • The first report on the quality of drinking water "In buone acque" (In Good Water) was published - 4,000 copies - in September and presented during

	numerous public events. (see page 97)
We shall...	
<ul style="list-style-type: none"> • Improve the customer satisfaction index by defining and monitoring actions for improvement: reach an index of 70 for residential customers by 2011, and 67 for all business segments by 2013. • Further reduce waiting times at branches: 14 minutes in 2010. • Restructure the branches in Modena and Ferrara in 2010, applying the new Group layout. • Control waiting times at call centres: maintain the average waiting time at the 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. • Promote the quality of drinking water distributed by Hera through the preparation of the second "In buone acque" report. 	

Breakdown

Energy services customers

(thous.)	2007	2008	2009
Gas customers	1,025.1	1,073.1	1,079.0
Electricity customers	273.2	286.9	335.9

Integrated water service customers

(thous.)	2007	2008	2009
Total customers	1,015.0	1,153.9	1,170.6

Urban hygiene services

	2007	2008	2009
Municipalities served (no.)	145	172	173
Citizens served (thous.)	2,443	2,667	2,705

Growth in the number of customers was confirmed in 2009 for all services, both as natural growth and as a result of commercial development activities for electricity and gas. Electricity service showed a sharp increase compared to the previous year: over 50,000 contracts as a result of the intense commercial activities performed. There are over 145,000 non-residential customers of the electricity service.

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

- multiple services 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 customers: 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;
- simplifying 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;
- economic advantage and openness: proposing offers that are always competitive and clear, suited to the needs of all customers (over thirty offers are available, many of which can be further personalised).

The sales policies and customer loyalty building

The sales strategy is organised based on the customers: households, small and medium sized companies, large companies, condominiums and public bodies.

In 2009 the “*Tre per Te*” (Three for You) offer was confirmed for the household segment. This is a dual fuel offer, at a fixed price, decreasing over three years, also offering a twin rate option.

Regarding the sales 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 2009.

In June 2009, “Hera Insieme” was launched, a new community for Group customers. Hera Insieme was also developed based on the suggestions provided by residential customers and the main consumer associations: financial savings, environmental sustainability and greater information. Financial savings and environmental sustainability characterise the agreements in place with approximately 80 partners, providing discounts of 5% to 20%.

In addition, the Hi Card Plus, a prepaid MasterCard credit card issued in partnership with QNFS-Raiffeisenkasse, offers cardholders additional savings by accumulating discounts of 5% to 50% in over 430 businesses in the geographical area covered by Hera, in approximately 5,000 businesses throughout Italy and on 25 website for online purchases. The Card is an actual virtual account, with its own IBAN. The amount of the discount can be credited to the card (which then becomes money that the cardholder can spend). Cardholders can pay their bills through RID bank transfers, credit their salary, withdraw cash and make POS payments all over the world. With the HI Card, cardholders can save an average of over Euro 300 per year (to spend on groceries, eating out and fuel), or approximately 17% of the costs incurred by an average customer for the 4 services provided by Hera. All the information and initiatives linked to Hera Insieme are presented on the site www.herainsieme.it.

Put Your Bill in Your Shopping Cart

From October 2009 Hera bills can be paid at the supermarket and hypermarket branches of Coop Adriatica and Coop Estense, in the provinces of Bologna, Ferrara, Forlì-Cesena, Modena, Ravenna and Rimini. The success of this project, which was launched in a trial phase in March 2009 in Vignola (Modena), resulted in its extension to all local areas served. That's a total of 124 Coop Adriatica and Coop Estense points of sale in Emilia-Romagna where you can make payments, saving time and money: 50 cents for Coop members and Euro 1 for other customers. Simply by using the barcode on the bill, you can pay your balance at the till when you pay for your shopping, in cash or by using Bancomat debit card.

Tariffs and billing

Hera manages regulated services (e.g. the integrated water cycle, urban waste, and gas and electricity distribution) and free market services (e.g. waste disposal and gas and electricity sales). For regulated services, the tariffs applied by Hera are regulated by controlling authorities (AEEG – Italian Authority for Electricity and Natural Gas and ATO – Water and Waste Regulatory Authorities), while for free market services, tariffs are influenced by competition between companies. Also in this case, however, the controlling authorities have a say. To provide protection for consumers, AEEG establishes (every three months) the maximum tariffs that sales companies (e.g. Hera Comm) can apply.

The costs of Hera services for an average customer

Euro	2007	2008	2009	Change In Euro
Gas	860.72	948.60	927.36	-21.24
Electricity	422.33	470.43	453.60	-16.83
Water services	178.22	185.72	187.45	1.73
Waste	196.78	204.17	211.57	7.40
Total	1,658.05	1,808.92	1,779.98	-28.94
<i>of which attributed to Hera</i>	<i>540.03</i>	<i>552.58</i>	<i>592.74</i>	<i>+40.16</i>
<i>of which attributed to raw materials and generation</i>	<i>601.34</i>	<i>735.82</i>	<i>670.92</i>	<i>-64.90</i>
<i>of which taxes, duties and system charges</i>	<i>516.68</i>	<i>520.52</i>	<i>516.32</i>	<i>-4.20</i>

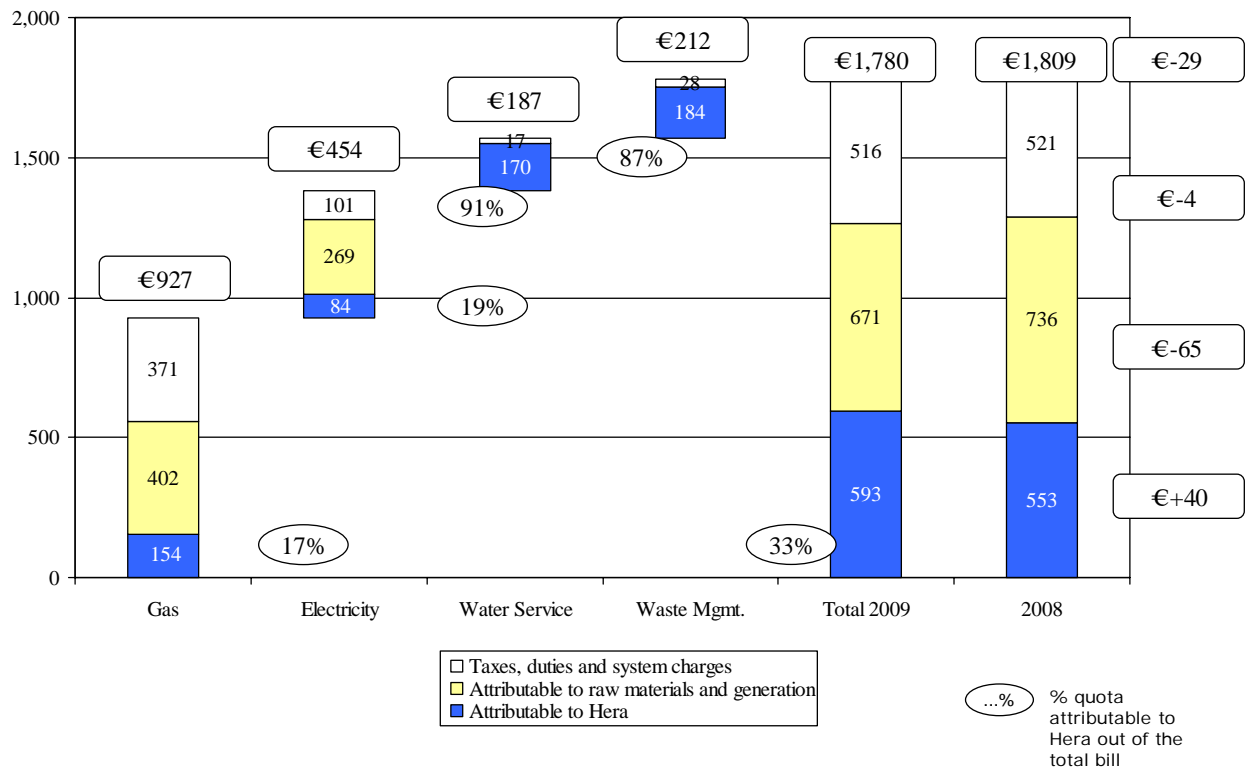
In 2009, an average customer spent Euro 1,780 for Hera's services; of this amount, only 33.3% represents elements of the bills issued by Hera. 2009 recorded a decrease in the total cost of Euro 29 compared to 2008. This reduction was mainly caused by the reduction in the raw materials and generation portion, which decreased by Euro 65.

In percentage terms, the total cost for Hera services decreased by 1.6% compared to 2008.

The Euro 40 addition of Hera's portion correspond to 2.2% of the total amount of Hera bills and mainly concerns the gas service (Euro 23) and the electricity service (Euro 9), following recent resolutions of the Authority for Electricity and Natural Gas. The "Casa Dolce Casa" (Home Sweet Home) package that Hera offers to residential customers

from February 2010 makes it possible to save Euro 24 on the aforementioned electricity bill.

The costs of Hera services for an average customer



The gas bill

Euro	2007	2008	2009	
Raw material component	376.50	446.47	401.88	
Sale quota	26.70	28.08	38.50	Attributable to Hera: 17% out of the total bill
Distribution tariff	102.77	103.00	115.95	
Consumption tax	176.10	185.60	188.10	
Regional tax	35.20	35.70	35.80	
VAT	143.45	149.75	147.13	
Total	860.72	948.60	927.37	

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 customer under former non-eligible market tariff protection conditions was considered. The calculation criteria for the previous years' data were aligned with those of this year. The complete data regarding the gas supply tariffs are available on the Group's internet site.

The gas bill for 2009 was 2.2% lower than that of 2008. This decrease is mainly due to the reduction in the raw materials component (approximately Euro -45). This decrease was partly offset by the increase in the sale quota (Euro +10) and the distribution tariff (Euro +13), while taxes remained substantially unchanged.

Until 2008, the distribution tariffs were calculated on the basis of AEEG resolution no. 53/2007, which defined the distribution tariffs to be applied in thermal years 2005-2006 and 2006-2007 and AEEG resolution no. 261/2007, which defined the distribution tariffs to be applied in the thermal year 2007-2008. With ARG/Gas resolution no. 159/2008, the Italian Authority for Electricity and Natural Gas defined the new calculation method for the distribution tariffs and gas measurement to apply for 2009-2012, establishing the following, among other matters:

- innovative criteria for the definition of coverage of operating costs and return on the capital invested by companies;
- change from using the thermal year to using the calendar year as the reference period for applying tariffs;
- creation of six macro-regional tariff areas, thereby overcoming the fragmented tariffs that exist on a national level.

Concurrently, through the same resolution 159/2008, the AEEG introduced transitory measures for the year 2009 which deferred the entry into force of the macro-regional tariffs to 1/7/2009. For this reason, the 2009 bill was calculated for the first half of the year by applying the tariffs relating to the thermal year 2007-2008 using the previous tariff amounts, and for the second half of the year by applying the tariffs determined based on AEEG resolution no. 159/2008 (approved by the AEEG with resolution no. 79/2009) and calculated by the AEEG according to the criteria of the new tariff method. For the purpose of a homogeneous comparison, the components of the bills for 2007 and 2008 were recalculated based on the calendar year.

On average, the distribution tariff affected the total bill for 2009 by 12.5% and is collected by the company that manages the gas distribution service.

The increase in the distribution tariff recorded in 2009 over 2008 is the result of the previously mentioned new methodology introduced by the Authority, especially in relation to the following effects, which extended to all operators:

- coverage of distributors' operating costs and capital costs irrespective of volumes provided during the year, to the advantage of service quality and safety. This change introduced by the AEEG is particularly clear when comparing 2008 with 2009, where, as 2009 was characterised by volumes distributed lower than the historical average, the AEEG calculated a specific additional tariff component, reserved to national provisions. On the other hand, it is clear that in years where volumes distributed are higher than the average, this tariff component will have a negative sign, taking the form of a discount on the bill;
- a significant inflation dynamic recorded in the tariff updates introduced by the AEEG (equal to 3.2% in the period 2008-2009 according to ISTAT (Italian National Institute of Statistics) data published in March 2009);
- expansion of the scope of activities covered by the distribution tariff to the metering service, which therefore is now under the distributor's responsibility;
- recognition of the investments made in the distribution network based on stricter adherence to the figures recorded in the financial statements, which were not fully remunerated by the old method. In any event, the AEEG has established a step-by-

step implementation in order to attenuate the impacts of the new tariff system on customers.

The sales quota defined by the AEEG within the context of the protection service is regulated by resolution ARG/gas 64/2009. This resolution which replaced the previous provisions 237/2000 and 138/2003 defines in particular:

- the components for coverage of the transport costs, storage and wholesale sales (the total of which represents the raw material component) in effect from 1 October 2009; in particular, the aforementioned resolution modified the algorithm for the updating of the sales component in order to make the price of methane gas more stable, in view of the strong fluctuations in the basket of fuels under consideration.
- 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 not longer be differentiated by tariff area. For the reasons above, this tariff component was changed using a binomial formula differentiated according to the territory (fixed amount of Euro 3.6/customer + variable amount which varies from area to area) and a single binomial formula for the entire country (Euro 36.82/customer + 0.48 Eurocent/m³). 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.

It is noted that the sales quota had remained unchanged for four years, i.e., from thermal year 2003-2004 to 30 September 2007.

The raw material component, updated with resolution 195/2002 and subsequent amendments and integrations, regards the supply of natural gas to customers under former non-eligible market tariff protection conditions, and affected the total bill in 2009 by 43.3%. This component regards the cost of procurement, stocking and transport of gas on the national network.

Lastly, in 2009, taxes account for an average of approx. 40% of the total. These taxes are due to the State and regional local government authorities (revenue tax, additional regional tax and VAT). Taxes are set by specific provisions by the Ministry of the Treasury and the regional government authorities. These taxes vary according to the use of the gas, whether for heating or only for cooking or industrial uses. With Italian Legislative Decree 26/2007 the Ministry of Finance defined the new annual consumption brackets on which to apply revenue tax and additional regional tax, also establishing the VAT rates to apply to said consumption brackets, effective from January 2008: VAT is applied in the amount of 10% up to 480 m³ per year, and beyond that amount, 20% is applied.

The electricity bill

Euro	2007	2008	2009	
Energy quota	182.92	265.93	248.24	
Dispatching quota	41.92	23.42	20.80	
Distribution and sales quota	77.43	75.12	83.91	Attributable to Hera: 18% out of the total bill
System charges	59.31	40.83	37.05	
Income taxes	22.36	22.36	22.36	
VAT (10%)	38.39	42.77	41.24	
Total	422.32	470.42	453.60	

Bill for a residential customer with an installed capacity of 3kW, whose yearly consumption totals 2,700 kWh. The grey areas refer to tariff components not falling under the responsibility of Hera. A customer of the market with the highest protection as from the second half of 2007, with a residential contract was considered.

For electricity bills of residential customers in the most protected category, the total decrease recorded in 2009 compared to the previous year (-3.7%) is the direct result of the approximately Euro 18 decrease in the generation/energy quota (as a result of the trend in the price of oil), which does not represent revenues for Hera, partly offset by the approximately Euro 9 increase in the distribution and sales quota (updated by the AEEG for 2009 based on ARG/elt Resolution no.188/2008). 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 18% of the bill total. This component of the bill had decreased by approximately Euro 4 from 2005 to 2008.

The above bill refers to customers of the market with the highest protection, with a residential contract, which are families that have not adhered to tariff offers in the free market by sales companies and which have been possible from 1 July 2007 as a result of the complete de-regulation of the electricity sector; these customers are guaranteed energy supply at the prices set by the AEEG. To this end, we note the “*Casa Dolce Casa*” (Home Sweet Home) offer that Hera Comm makes available to residential customers from February 2010. By subscribing to this offer, customers receive a 10% discount for at least 12 months on the energy quota, net of the network losses (equal to 10.8% of the energy quota): the effect on the bill shown above for 2009 can be quantified as amounting to approximately Euro 24. Customers who subscribe Hera Comm’s offer as part of the de-regulated market receive a sheet summarising all payments, set up according to the templates provided by AEEG resolution no. 105/2006 (and subsequent amendments and integrations), which provides a comparison of the estimated annual expenses deriving from the offer which the customer adhered to with the estimate of annual expenses deriving from the economic terms and conditions on the most protected market defined by the AEEG.

Integrated water services bill

Euro	2007	2008	2009	
Aqueduct	87.65	89.02	87.55	Attributable to Hera: 91% out of the total bill
Sewage	17.38	18.62	19.26	
Purification	47.47	50.94	52.71	
Fixed quota	9.51	10.26	10.89	
VAT (10%)	16.20	16.88	17.04	
Total	178.22	185.72	187.45	

Arithmetical average of six bills for a household of residents in the municipalities of Bologna, Ferrara, Forli, 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 m³ per year increased from Euro 178 in 2007 to Euro 187 in 2009, an increase of 0.9% over the last year, and 4.2% in the previous year.

In 2005, the tariffs for the water cycle were set by 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 by Hera for 2007 are those resolved by the Waste and Water Regulatory Authorities in accordance with agreements subscribed in 2004 and supplemented in the three-year period 2005-2007. The tariffs applied for the 2008-2009 period are those resolved by the Waste and Water Regulatory Authorities in accordance with agreements subscribed for the five-year period 2008-2012, with the exception of the Modena Water and Waste Regulatory Authority (agreement subscribed up to 2009), in application of the new regional method introduced by the Regional Council President Decree no. 49 of 13 March 2006.

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 2008 bill, in addition to including the costs for management of rainwater for the year, also includes the adjustment of those costs for the three-year period 2005-2007.

The cost of water in Italy and Europe

The Report on the State of Water Services, published in 2009 by the Italian Water Resource Watchdog Committee compares the water tariffs in different countries. "The availability of international data for several large cities outside of Italy shows that, even adjusting the total expense for water services based on different levels of purchasing power, Italian tariffs result in an average expense which is lower than expenses abroad." The average cost of water in other countries is Euro 2 per cubic metre, with values higher than Euro 3 for Berlin, Warsaw, Zurich and Paris.

According to the Report on the Integrated Water Service, drawn up by the "Osservatorio Prezzi&Tariffe" (Prices and Tariffs Observatory) of the Cittadinanzattiva association in 2009, the highest tariffs in Italy (above the national average) are found, in order, in Tuscany (1.72 euro per cubic meter on average), Puglia, Umbria, Emilia-Romagna, Marche, Basilicata and Sicily.

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 Waste and Water Regulatory Authorities, insofar as its own responsibilities, which could affect residential use to a greater or lesser extent.

The trend in tariffs enabled the implementation of considerable investments aimed at improving the quality of the integrated water service, with specific focus on reducing water loss and on the quality of purification of wastewater. In 2008, 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 applicable legislation.

It is worth noting that for 2008, Hera is the company with the highest levels of investment: Euro 444 invested for each 1,000 m³ of water invoiced, Euro 34 greater than Veritas, which is ranked in second place in the classification of several companies controlled by the largest Italian municipalities, such as Rome, Milan, Naples, Venice and Genoa.

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

The environmental hygiene tariffs (Tariffe di Igiene Ambientale – TIA), paid in 2008 by citizens served by Hera, covered 92% of the sums of the costs incurred for provision of this service and for appropriate levels of returns on invested capital.

Insofar as the integrated water service though, 97.3% 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 2009.

Italian Ministerial Decree dated 30 September 2009, implementing Law no. 13 of 27 February 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 is currently working with the Water and Waste Regulatory Authorities to define the methods for fully implementing the above decree and Law 13/2009.

Furthermore, the operator has certain obligations regarding the disclosure of information to users and the Water and Waste Management Authorities which Hera will comply with in 2010.

Only 2.8% of the Hera Group’s customers are connected to non-purified sewers, and for only 0.3% of these are there no adaptation projects that are part of the approved area

planning. In Italy, approximately 17% of customers were in this situation in 2007 (Blue Book I data on the Integrated Water Service in Italy, Utilitatis, 2009).

Billing for waste management

Euro	2007	2008	2009	
Fixed quota	72.91	73.88	73.04	<i>Attributable to Hera: 87% out of the total bill</i>
Variable quota	98.20	103.66	110.93	
Additional province charges	17.11	17.75	18.40	
VAT (10%)	8.56	8.88	9.20	
Total	196.77	204.17	211.56	

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.

In 2009, Hera issued bills for waste management services (above all, sweeping, collection and disposal of waste) in 80 municipalities (46% of municipalities served and 65% of the population served). In the other municipalities, it is the municipal authority itself which issues bills to its residents and receives the TARSU (tax on urban solid waste) solid waste tax.

On average, a household of 3 people, residing in an apartment measuring 80 m² paid approximately Euro 211 in 2009, an increase of 3.6% on 2008. The average increase at national level in costs for waste collection services was 6.6% (national consumer price index for the entire country, waste collection, source: ISTAT).

In all the territories managed, Hera provides incentives for separated waste collection by applying discounts to the users that deliver waste to drop off points: The applied discounts differ in the various local areas and are subject to the approval of the Water and Waste Regulatory Authorities and the Municipalities. Assuming delivery to drop off points of 180 kilograms of waste in a year, a user will receive an average discount of approximately Euro 18, which, added to the savings on VAT and additional province tax, amounts to 10% of the bill above.

In some areas, where there is no public organic waste collection service, and where the separation of this type does not entitle discounts, it is possible to perform domestic composting, which entitles the customer to a further discount, calculated based on a 3-member household. In Ferrara this discount amounts to Euro 20, in Imola the discount is Euro 15, in Modena it is Euro 17, and in Ravenna it amounts to Euro 15. If you consider the total for an averagely responsible citizen who drops off their waste at the Separated Waste Collection Centres and performs domestic composting, this results in an average decrease of 16% on the tariffs of the municipalities considered.

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 separated waste collection, discounts of up to 80% of the tariff are provided.

Waste: Incentives for prevention and reuse

At the end of 2008 the European Council approved the new framework directive on waste, which the EU member states must implement by 12 December 2010, and which defines a clear hierarchy for waste management: a) prevention; b) preparation for reuse; c) recycling; d) other types of recovery, such as energy recovery; e) disposal.

Based on this priority indication, Hera actively collaborates with and participates in initiatives for prevention and re-usage: 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 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.

With judgment no. 238 of 24 July 2009 the Constitutional Court recognised the constitutionality of the section of Art. 1, subsection 1 of Law 248/2005 which assigns jurisdiction over disputes regarding the TIA tariff to the tax commissions. In the opinion of the Court, specifically, these commissions would not constitute a special judge, in violation of Art. 102, subsection 2 of the Constitution, because the TIA have the nature of taxes and not private consideration. As a result, VAT is not applicable.

The Constitutional Court's position on the matter of the TIA opposes that of the Court of Cassation, which deems the TIA to be a consideration, and therefore, recognises the applicability of VAT, with judgements both prior to and following the aforementioned judgment of the Constitutional Court.

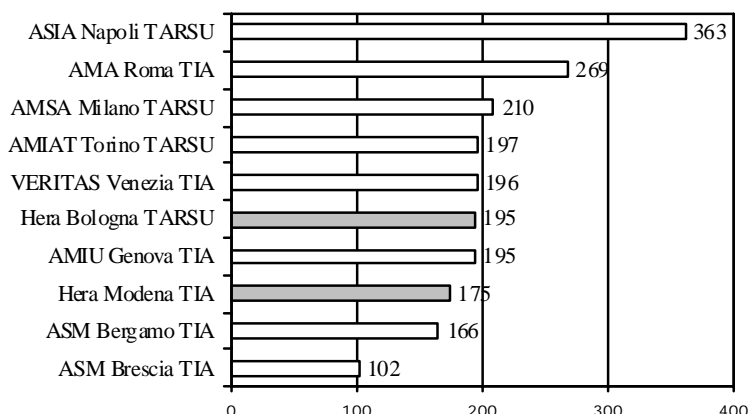
TIA bills have been and are issued with VAT, on the basis of specific provisions of law that Hera will respect until such time as the necessary instructions are handed down by the law, in which case Hera shall promptly align its operations thereto. In this regard, the Hera Group, together with other national sector organisations, has proactively requested a prompt change in the law, in order to protect its business and users of the service.

It is noted that Hera acts as a withholding agent: the VAT does not constitute income for the Group, nor does the Group receive any undue enrichment from said tax, as it must be fully transferred to the Tax Authorities.

The cost of urban hygiene services in several Italian cities

The study published in 2009 by the Mediobanca research department, regarding the companies controlled by the largest Italian municipalities compares the cost of urban hygiene services in the municipality of Modena (TIA) and in the municipality of Bologna (TARSU) for a typical household (2 occupants, 80 m²) with those of ten other Italian municipalities. The table below sets forth the updated figures regarding the municipalities considered in the study, based on the tariffs in effect in 2009, available from the internet sites of the municipal authorities or the companies.

Total cost per user (2 occupants, 80 m², Euro)



The district heating bill

Euro	2007	2008	2009
Meter rental	31.80	24.99	24.99
Variable quota	821.81	879.86	859.78
VAT	100.56	107.28	105.09
Total	954.16	1,012.13	989.86

Arithmetical average of the bills for a household resident in the municipalities of Bologna, Cesena, Ferrara, Imola and Modena, with average consumption of 8,630 kWh (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. In Modena VAT of 20% was applied from 2007 as provided by the Financial Law of 2007. The grey areas refer to tariff components not falling under the responsibility of Hera. The calculation criteria for the previous years' data were aligned with those of this year.

The expenses incurred by a household in 2009 for district heating is 2.2% lower than the previous year due to the reduction in the price of gas in 2009.

The method of calculation considers the average expense incurred in the various areas for a household with average consumption of 1,200 m³ of methane gas.

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%, and are substantially the same in the various areas in which the Group tariff was fully applied during the thermal year 2009. 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 geothermic renewable sources.

This savings is mainly due to the reduction in accessory charges related to the management of the domestic boiler, which can be quantified as Euro 275 per year (the annual quota for the purchase of the boiler and the related ordinary and extraordinary maintenance costs).

Social tariffs

Within the sectors in which Hera is operational, tariff setting is the responsibility of the regulating 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.

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, in partnership with the municipalities. The bonus exclusively applies to methane gas distributed through the network (and not to gas in cylinders or GPL) 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).

For the **water service**, the tariffs set by the Water and Waste Regulatory Authorities of Modena, 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 Water and Waste Regulatory Authorities).

The Water and Waste Regulatory Authorities of Ferrara, Modena and Rimini also provided incentives for disadvantaged families with ISEE income lower than the threshold set forth by the various municipalities.

The Bologna Water and Waste Regulatory Authorities introduced a residential tariff based on the number of members of the household in order to promote water savings and, at the same time, meet the needs of large families. In 2009 the per capita tariff was applied in 33 municipalities in the province of Bologna, and in 2010 it will be extended to the rest of the province.

The Water and Waste Regulatory Authorities of Ferrara, Modena and Rimini also provided incentives for disadvantaged families with ISEE income lower than the threshold set forth by the various municipalities.

For **waste management services**, in the municipalities under the TIA (Environmental Hygiene Tariff) regime managed by Hera, specific agreements and dedicated projects were defined to attribute reductions/exemptions in the bills for users with financial difficulties. Specifically, we highlight the total or partial exemption from payment of the TIA for families undergoing serious social/assistance difficulties through projects which are managed in agreement with the area municipalities which assess the income of resident families based in ISEE indicators and subsequently establish in which cases action should be taken.

The per capita tariff rewards water savings

In 2008, the Bologna Water and Waste Regulatory Authorities tested a per capita tariff in nine municipalities in the province of Bologna. In 2009, this was extended to the rest of the province. With this system, the amount of the bill is calculated by also considering the number of members of the household: 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 Protection Plan of the Emilia – Romagna Region (a base supply of 150 litres per day per inhabitant was set). 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 for different types of households. 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 2009, it was applied in 34 municipalities (equal to 29% of the population served by Hera).

Hera allows customers faced with financial difficulties to pay their bills in instalments (usually three monthly instalments for amounts of less than Euro 2,500; 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% since May 2009), 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 (3% in 2009). The Italian Authority for Electricity and Gas Natural established that for adjustment bills of significant amounts, customers can request to pay in 12 instalments: in this case the interest rate applied is the official reference rate. In 2009 approximately 81,000 customers were permitted to pay their bills in instalments (+26% compared to 2008).

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, which was recently introduced as a specific standard.

Photovoltaic energy coming soon

In 2009 Hera connected 292 new power plants using renewable and similar energy sources in the Modena area, ahead of schedule for photovoltaic plants compared to the timeframe set by the AEEG, in order to guarantee its customers access to the government incentives envisaged for 31 December. 283 requests regarded photovoltaic plants, with installed capacity of about 2.5 MW, equalling savings of over 1.6 tonnes of CO₂/year and 0.5 toe/year. The remaining request regarded five co-generation plants, three hydroelectric plants and one wind plant, for total installed capacity which, when added to the previous figure, exceeds 3.5 MW.

Water and waste management

In the management of the integrated water services and the urban waste management services, for which there are no national laws prescribing quality standards (with the exception of a minimum standard of availability of branches for the general public and technical water quality standards), the protection of quality is entrusted to the Water and Waste Regulatory Authorities that operate on the basis of criteria and parameters that are disseminated through the operator's Services Charter. The Emilia-Romagna Region Law no. 25/1999 assigned to the Water and Waste Regulatory Authorities the responsibility for providing "Services Charter Frameworks" based on a framework developed by the specific local regulatory authority.

At end 2009 the Water Services Charters were approved for the Water and Waste Regulatory Authorities of Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini. The approved service charters were presented to the consumer associations and made available at branches and the internet site, 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 five times due to delays in the fulfilment times.

District heating service

Since 2008 the monitoring and payment of automatic compensation to customers has been in place, also in relation to the District Heating Services Charter approved in 2007. 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 fulfilment times.

Compliance with specific quality standards

%	2007	2008	2009	Number of services provided (2009)
Gas	94.7%	96.0%	97.6%	100,124
Electricity	95.1%	95.4%	96.8%	31,602
Integrated water service	-	95.6%	98.1%	55,638
District Heating	-	99.7%	99.3%	904
Total average	94.8%	95.8%	97.6%	196,548

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 or the services requested by the customer to which Hera responded within the times required by the AEEG or the Service Charters.

For gas and electricity, reference is made to the specific commercial quality standards set forth in AEEG resolutions in force for 2009, for both the part falling under the distributor's responsibility and that under the seller's responsibility. For the integrated water service and district heating service, reference is made to the standards set forth in the Services Charters which entered into force during 2009.

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.

The total figures show a significant improvement: in 97.6% 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 Charter in force (94.8% in 2007). Significant improvements were noted in the last two years in the gas service, where execution times for connection estimates decreased, as well as the times for activating and deactivating supply. Improvements were also noted in the Integrated Water Service in the last year. In the latter case, specifically, the execution times for connecting aqueducts improved.

Quality of drinking water

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

The controls are carried out by the 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 order to guarantee the supply of a product with excellent qualities, in terms of the

chemical, physical and bacteriological characteristics of the water, for the purpose of full compliance with the mandatory legal requirements. Controls and verification of suitability as the water is drawn from the supply source enables timely intervention and, where required, interruption of withdrawal when the chemical and physical characteristics do not comply with the necessary quality requisites.

How much does water cost?

In addition to environmental benefits, drinking tap water instead of mineral water also provides financial 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 1.44. Italy is the highest consumer of mineral water per capita, with 194 litres of mineral water consumed per year in 2006 (Source "Un paese in bottiglia" (A country in the bottle) Legambiente 2008).

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, in a standard format for all local areas. These parameters show the quality of the drinking water in each municipality served and can be compared to the quality of the bottled water available for sale.

It is noted that since January 2009 all drinking water production plants in the Romagna area, with the sole exclusion of a few minor plants in the provinces of Forlì-Cesena and Rimini, have been managed by Romagna Acque - Società delle Fonti. As a result, almost all water distributed in the areas of Forlì-Cesena, Ravenna and Rimini is purchased by Hera wholesale. Hera's actions regarding water quality, therefore, are limited to the management of disinfection stations integrated within the distribution networks.

The first report on the quality of Hera's drinking water

In 2009 Hera published "In buone acque" (In Good Water), the first report in Italy on the quality of drinking water. The report, which will be published annually, 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 the planners, controllers and controlled parties, the processes of treatment, purification and distribution of water, the checks performed by Hera and by public bodies, and the related results. It also describes

the initiatives put in place by Hera in order to raise awareness, reactions and suggestions deriving from the process of engaging representatives of several stakeholders in relation to the document prior to its publication.

Four thousand copies of this report, which is prefaced by Professor Giampaolo Fabris, were distributed at the branches and to all schools within the territory.

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

	Mineral waters (min-max)	Legal limits L.D. 31/2001	TOS Bologna	TOS Ferrara	TOS Forlì-Cesena	TOS Imola-Faenza	TOS Modena	TOS Ravenna	TOS Rimini
pH	5.8-8.34	6.5-9.5	7.8	7.7	7.9	7.5	7.6	7.9	7.6
Hardness (°F)	3-93	50*	30	20	27	32	36	19	27
Fixed solids at 180° (mg/l)	23.1-1,283	1,500	365	271	322	420	538	317	332
Sodium (mg/l)	0.9-74.4	200	21	15	19	29	56	22	25
Fluorides (mg/l)	0.04-1.1	1.5	< 0.10	0.10	0.10	0.11	< 0.10	0.12	< 0.10
Nitrates (mg/l)	1-19.55	50	6	8	6	11	19	5	7
Chlorides (mg/l)	0.3-78.7	250	29	24	26	38	82	30	32

* Recommended values

Comparison effected 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 9,366 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, nitrate and chloride.

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 terms of almost all parameters considered, 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 2009, 44,964 analytic measurements were carried out on these parameters. 99.4% of these analyses had results which were compliant with the legal limits. In cases where even one parameter falls within non-compliant levels, Hera immediately carries out interventions to return to compliant levels (washing of pipes, increasing disinfection, etc.) also based on the indications of the Local Health Authorities.

During 2009 there were no departures from the limits set forth in Legislative Decree no. 31/2001. 9 ordinances referring to unsuitable drinking water were issued by mayors which, in any event, referred to small networks services 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 any hygiene-health consequences for users.

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 of the microbiological analyses is guaranteed in at least 24-48-72 hours. Tools are also available for analysing numerous parameters (including solvents and hydrocarbons) in real time, and emergency management services are set up, through which operations of purification plants can obtain support for analyses 24 hours a day.

In 2009 a total of 436,583 analyses were performed by Group laboratories on drinking water, which amounts to approximately 1,200 per day.

Hera promotes tap water

In April 2008 Hera launched the Hera₂O project, which was consolidated in 2009, to promote the drinking of tap water by Group employees. In partnership with Adriatica Acque (an investee company of the Group), tap water dispensers were installed in the 5 company canteens, in 27 offices and 7 customer service branches. The dispensers do not purify the tap water, but offer chilled still or sparkling tap water, without modifying the water's properties in any way. Hera₂O reduces the production and disposal of plastic bottles and the emissions of the means used to transport bottled water. By drinking approximately 80,000 litres of tap water in 2009 thanks to the seven dispensers installed in the internal canteens, Hera workers avoided the production of 160,000 plastic bottles. Added to the over 200,000 bottles avoided through the use of the over 80 dispensers at the various offices, this resulted in energy savings of approximately 30 toe and the reduction of emissions of 82 t of equivalent CO₂: about 200 fewer bins of waste to be managed. The goal of the Hera₂O project was to change individual habits and behaviours of workers primarily, but also of customers and the entire community: for this reason, in 2009 as well, Hera₂O was present at important local events such as initiatives linked to the Consumable campaign of the Emilia-Romagna region, the Ecomondo Trade Show in Rimini and the Waste, Water and Energy Festival in Ravenna.

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, a common practice in construction as in other industrial sectors up to the end of the 1980's, was definitively banned in 1992. While it has been recognised that the inhalation of asbestos fibres causes serious respiratory illnesses, there is no evidence of toxicity linked to the ingestion of asbestos. In fact, the current law in force regarding the quality of water destined for human consumption does not set limits regarding the presence of asbestos fibres: in particular, the ministerial decree of 14 May 1996, annex 3, cites a WHO (World Health Organization) document which states that

"... There is no serious evidence that the ingestion of asbestos is hazardous to health." The results of controls performed in 2009 show the absence of asbestos fibres in all sampling points, with the exception of a slight presence at only one sampling point in Rimini (1,168 fibres/litre), which, in any event is significantly under the limits indicated by the EPA (US Environmental Protection Agency) of 7,000,000 fibres/litre.

Service security and continuity

Security and continuity of the electricity service

In 2009 the electricity distribution grids managed by Hera Spa served approximately 257,000 customers, in twenty-four municipalities of the Emilia Romagna region, within the provinces of Bologna, Modena and Ravenna, distributing approximately 2,117 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 9,659 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. The losses recorded in the distribution grid stood at approximately 5.8% and no accidents involving citizens occurred in relation to the electricity grids managed by Hera. In 2009, there were 531 cases of service re-activation after it was cut off due to delays in payment.

Polychlorobiphenyl (PCB) is currently present in 94 of the approximately 2,500 power transformers on the grids managed by the Modena Territorial Operating Structure. The management and disposal of this equipment is performed by adopting the necessary precautions in compliance with the current laws in force.

The integrated provisions of the Italian Authority for Electricity and Natural Gas (AEEG) regarding the service quality of distribution, measurement and sales of electricity for the regulatory period 2008-2011, approved with resolution no. 333 of 2007 governs, among other things, the continuity of the distribution of electricity, identifying indicators for measuring outages, monitoring systems and standards of reference.

The integrated provisions include the following general indicators in the incentivising regulations: the total annual duration of long outages without advance notice for low voltage customers and the total annual number of short and long outages without advance notice for low voltage customers originating on medium and low-voltage grids, due to causes under the responsibility of the operator.

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 76/2009, the AEEG amended Resolution 333/2007, requiring, among other obligations, the recalculation of the reference indicators set forth above for 2006, 2007 and 2008. Following the recalculation, with Resolution 151/2009 the AEEG redefined the starting and future levels of continuity for the regulatory period (2008-2011). The following table has been updated with the new values.

Continuity of the electricity service

	2007	2008
Average number of outages per customer in high concentration areas	1.30	0.86
Duration of outages (minutes) per customer in high concentration areas	16.14	11.49
Average number of outages per customer in medium concentration areas	1.86	3.04
Duration of outages (minutes) per customer in medium concentration areas	19.37	44.18
Average number of outages per customer in low concentration areas	5.09	6.08
Duration of outages (minutes) per customer in low concentration areas	58.66	71.41

The figures in the table refer to outages for low voltage service, in areas with high concentration of customers, without advance notice, of duration longer than 3 minutes (only as regards the no. of minutes of the outage), and due to causes under the responsibility of the operator. The values for 2006 and 2007 were recalculated pursuant to AEEG Resolution 333/2007.

As at the approval date of this report, the data relating to 2009 is being compiled and verified as pursuant to part I of Attachment A to ARG/elt 333/07 resolution as it is currently applicable, Hera S.p.A. has moved from an estimated to an actual measurement in regard to low voltage customers involved in the interruptions. This move has resulted in significant developments both insofar as the management procedures for the data and appropriate information solutions that allow for the correlation of the information systems of the companies involved. The data will however be made available in the on line version of the report as soon as possible.

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, and increase or decrease in power.

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 2009 Hera installed about 67,000 electronic metres. At the end of 2009 there were approximately 172,000 electronic metres present in the electricity distribution grids managed by Hera (67% of the total). AEEG Resolution 292/2006 sets forth the obligation to substitute 65% of the metres by the end of 2009, 90% by the end of 2010 and 95% by the end of 2011, laying down sanctions in the event of non-compliance with this obligation.

Gas distribution service safety and continuity

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

Compliance with the strict requirements permitted Hera to voluntarily adhere in 2009 to the incentive/penalty system for gas safety promoted by the AEEG.

In 2009, compliance with strict requirements has allowed Hera to voluntarily participate in the incentive mechanism for Safety Improvements in the distribution service, which will become mandatory in 2010 and which rewards the best performances insofar as the

reduction of the number of leaks notified by third parties and the number of measurements made during the year of the level of gas odorization.

In addition to the usual activities of recognition and technological upgrading of the networks and installation, in adherence also to applicable provisions issued by the Italian Authority for Electricity and Natural Gas, the following activities took place in 2009:

- network inspections for gas leaks were increased further, significantly over and above the requirements of the AEEG;
- the activity for systematic identification continued within Hera's entire operational territory of the areas that are critical on account of hydrogeological and seismic problems, thanks also to a specific collaboration with the Region of Emilia-Romagna;
- the Group's single remote control unit for fluids, located in Forlì, expanded its operations, and now covers the entire Romagna area where it serves as an emergency services call centre (operational for the areas of Forlì-Cesena, Imola-Faenza Ravenna and Rimini).

The consolidated act of the provisions of the Authority for Electricity and Natural Gas on the quality of distribution, measurement and sales of gas, approved with resolution no. 120/2008 (in effect from 1 January 2009), defines the obligations and indicators relating to the safety of the service which distributors must comply with. This resolution, among other things, sets a mandatory percentage rate of emergency call response times which has been set at 60 minutes.

Gas emergency services

	2007	2008	2009
Average call response time (min.)	33.0	31.9	37.1
Calls with arrival time at the call location within 60 minutes (%) (service obligation 90%, general level 95%)	96.8%	96.5%	96.8%

Data do not include Marche Multiservizi.

In 2009, there was an overall improvement of the safety indicators and continuity compared to 2008. In 2009, for 97.4% of the calls received, Hera intervened within 60 minutes, compared to the minimum service obligation required by AEEG of 90% and a general level of 95%.

Inspections and leaks in the gas network

	2007	2008	2009
Percentage of total high and medium pressure network inspected (min. standard 30%. Benchmark level 90%)	57.2%	71.8%	78.8%
Percentage of total low pressure network inspected (min. standard 20%. Benchmark level 70%)	54.5%	63.7%	70.1%
Number of leaks on distribution network located upon inspection per kilometre of network	0.068	0.071	0.076
Number of leaks on distribution network located upon notification by third parties, per kilometre of network (min. standard 0.8, benchmark 0.1)	0.105	0.082	0.078

Data do not include Marche Multiservizi.

The amount of the network inspected increased in 2009, and is much higher than the minimum standard required: 78.8% for the high and medium pressure network, and

70.1% 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.

In 2009 there were 78 leaks on the distribution network located upon notification by third parties, per thousand kilometres of network, compared to 82 recorded in 2008.

Out of the eight companies controlled by the largest Italian municipalities, Hera had the third-lowest rate of leaks notified by third parties (0.08 leaks per kilometre of network in 2008, compared to an average of 0.16), and was in second place in terms of emergency call response times. Hera was also in second place in terms of the percentage of network inspected, for both the high and medium-pressure network and the low pressure network.

The Hera Group's remote centre for fluid networks

The remote centre for fluid plants and networks, inaugurated in May 2008, which operates in areas of the Forlì-Cesena, Ravenna, and Rimini provinces and part of the province of Bologna (Imola area), 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 2011, extending operations to the Territorial Operating Structures of Bologna, Ferrara and Modena. 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	2007	2008	2009
Costs	443	461	614
Investments	752	1,286	1,110

Data do not include Marche Multiservizi.

Investments for the safety of the gas distribution service mainly take the form of extraordinary maintenance of plants and networks: in 2009, Hera invested over Euro 14.8 million for this purpose (-12%), equal to Euro 1,110 per kilometre of the network managed). The increase was more significant in the areas of Bologna and Modena. The increase was more significant in the area of Bologna also as a consequence of the increasing of inspection activity in the low pressure network.

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 8 million (+35%) in 2009, equal to Euro 614 per kilometre of network.

Safety intervention plan for TOS Bologna: status

With regard to the explosion caused by a gas leak from an underground third series pipe laid in the roadway, which occurred on 23 December 2006, in San Benedetto del Quercento, a village in Appennines near Bologna, which resulted in a building collapse and the death of five people, the preliminary investigation phase was concluded in August 2009, and the Public Prosecutor submitted the request to commit several employees of the Hera Group to trial. The preliminary hearing in regard to this request

to resolve this issue in the courts was held on 4 March 2010. The next hearing has been set for April.

As regards the renovation and upgrading of the mountain gas distribution system, in 2009, Hera continued the implementation of the programme of works on critical points identified, and continued monitoring gravitational phenomena which interfere with the gas pipelines. Overall, in the two-year period 2008-2009, works were carried out and monitoring equipment was installed, with expenditure of over Euro 7 million.

In terms of prevention, following the drawing up of guidelines for the management of gas risk within the scope of civil defence actions, various initiatives were developed. Among these, it is worth noting the workshop organised in December 2009 by Hera and the Provincial Command of the Fire Brigade, which saw the participation of all gas operators in the region, who exchanged opinions on the best prevention practices.

Hera and the Fire Brigade: agreement on safety

Improving and sharing operating procedures, permitting the exchange of knowledge and know-how, and favouring synergy between departments: these are the objectives defined in the Memorandum of Understanding signed in 2009 by the Bologna Territorial Operating Structure and the Provincial Command of the Fire Brigade. The agreement specifically focuses on issues regarding the safety of gas networks and plants, defining actions, periodic meetings and training opportunities which will involve Hera workers and firemen in order to guarantee everyone's safety, protection of the environment, and a better modus operandi, for effective, prompt interventions.

Safety downstream of the meter

Resolution 40/2004 of the AEEG 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 thermal year 2008-2009 confirm the significant results achieved by Hera: an additional 14,580 new user plants were activated following inspections with positive results, following 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 thermal year 2007-2008 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.

It is also worth noting that pursuant to AEEG Resolution 152/2003, as amended, each domestic end customer is automatically provided with insurance coverage for accidents, including those suffered by cohabitating family members and employees, fire and third-party liability for damages deriving from the use of the gas provided through the distribution grid. This coverage does not apply to industrial customers whose

consumption of natural gas exceeds 200,000 cubic metres per year, hospital complexes whose consumption of natural gas exceeds 300,000 cubic metres per year, and consumers of methane gas for automotive power.

Continuity of the integrated water services

For a clear, synthetic indication of the status of the water network and the controls performed, two indicators have been identified: The first shows the percentage of the network subject to active search for losses, while the second indicates the number of breakages.

The amount (length) of network subject to search for losses increased over 2009, specifically as regards the Modena and Forlì-Cesena areas. On the whole, almost 4,500 kilometres of network were inspected, comprising 17% of the total water network.

The increase in breakages is attributable to the exceptionally low temperatures recorded in the last ten days of December (breakage due to freezing) which hit the various areas with differing intensity.

Continuity of the integrated water services

	2007	2008	2009
Percentage of network subject to active search for losses	14.9%	16.0%	16.8%
Number of breaks in water system pipes and tanks per km of network	1.36	1.18	1.34

Data do not include Marche Multiservizi.

Hera in the “freeze” emergency

The average temperature recorded in Emilia Romagna on 20 and 21 December was 7-8 degrees below 0°C, with lows of -12. Thus, the water stopped in the pipes and the metres due to low usage during night hours soon froze. Expanding in volume, the water broke the metres and ice blocked the pipes. When the temperature rose again, the water began to leak out, in small streams or in gushes, as in the industrial areas, where the gaskets of the fire prevention system broke.

Water consumption exceeded the peaks of the summer months; hundreds of leaks reduced the network pressure, with the risk of a crisis in the water systems. Thousands of people had leaks or were without water: the Group’s call centre for reporting breakdowns received about 300,000 attempts at contact in only three days, about 1/3 in the first 16 hours. The 160 lines, capable of answering 5-6,000 calls per day, were not sufficient, and many customers found it impossible to contact Hera. In some areas, the Group set up telephone numbers dedicated to the “freeze” emergency” and the offices took emergency calls directly from customers.

Teams of Hera technicians completed over 9,000 interventions in nine days. Taking into account the exceptional weather conditions, the Group, in agreement with the Water and Waste Regulatory Authorities, immediately established the free substitution of metres broken due to the freezing weather.

Information security

Based on the directives issued by the Hera Group Information Security Management Committee, verifications of the level of security of the Group’s IT Systems and

Networks were carried out in 2009, and the necessary measures were implemented to contain information security risks.

The most significant measures include the new definition of a IT Network Security Policy, the implementation of a solution for detecting and recording security events (SIEM) and the development of an Information System Business Continuity strategy for the IT systems supporting the most "critical" business processes.

Customer relations

In 2009, 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 different contact channels: the call centre for residential customers, the call centre for business customers, branches, the internet and mail.

Hera confirms its widespread presence throughout the area: the company has 86 branches located throughout the areas served, including 5 with more than 5 windows and 12 with a number of windows varying from two to four. The remaining branches have only one window and are located in the smaller municipalities. Following the project for standardising the opening hours of main branches, in 2009 10 branches had standardised opening hours set at 33 hours per week from Monday (8:00 a.m. - 3:00 p.m.) to Friday (8:00 a.m. – 1:00 p.m.). In 2009, Hera had 44 branches located on third party premises.

As regards the web, in 2008 Hera activated the new HERA@ ON-LINE channel. At the end of 2009, 70,000 customers were signed up, compared to about 44,000 in 2008.

The services which customers appreciate the most are:

- on-line self-meter reading which, using a convenient calendar, reminds customers of the best time to read their meters in order to receive a bill based on their real consumption;
- on-line payment via credit card;
- viewing of their invoices;
- summary of their meter readings;
- the possibility of managing the supply of several customers through a single account.

During the year, numerous initiatives were proposed to registered customers, both regarding the Hera Insieme community and regarding Group initiatives throughout the local areas. For companies the registration process was simplified, providing a single access even for customers with multiple sites.

Customers requesting not to receive the paper-based bill reached 20,000 (slightly more than 7,000 in 2008).

In 2009 there was substantial improvement of all the parameters involving accessibility and quality of the call centre service. The average waiting time was halved compared to 2008 and achieved the lowest level since 2005. The percentage of calls with satisfactory outcomes (meaning calls answered by operators) for business customers is the only indicator which worsened compared to 2008, due to the considerable number of calls in 2009.

Call centre quality

	2007	2008	2009
Average waiting times at the call centre for residential customers (sec.)	46.2	66.1	33.2
Calls with satisfactory outcomes for residential customers (%)	94.2%	93.2%	94.2%
Number of contact for residential customers	2,375,823	2,489,180	2,428,392
Average waiting times at the call centre for business customers (sec.)	26.8	42.4	25.2
Calls with satisfactory outcomes for business customers (%)	97.6%	95.5%	92.6%
Number of contact for business customers	105,447	115,997	152,046

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 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, the Hera call centre had a performance of 78 seconds for residential customers and 52 seconds for business customers. Both of these figures are significantly lower than the target of 240 seconds indicated by the Italian Authority for Electricity and Natural Gas.

Training the answering personnel and improving the IT systems allowed for the achievement of important results in terms of the ability to solve customers' problems and the clarity of the responses provided.

For the next few years, training for operators will be intensified, related to both technical and professional skills, and operators will be trained specifically to deal with either the household market or the business market.

Hera's call centre service is organised into five main centres located throughout the area served: three in Bologna and the remaining two in Ferrara and Rimini. At the end of 2009, 76 Hera employees worked in three of the five active centres.

Rise in the total score for Hera's call centres

The AEEG survey on call centres for the first half year of 2009, out of a total of 28 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 79.6 points in 2008 to 83.8 points in 2009. Hera Comm ranks 5th after Linea Più, Edison, A2A, and E.ON, specifically increasing its score in relation to satisfaction of customers that contact the call centre: improvement was seen in the factors regarding the clarity of responses provided and the politeness of the operators, as well as the indicator regarding problem-solving abilities.

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.

In relation to the branches, in 2009 the FAST project was implemented with extension of the "differentiation of queues" to all top branches. This made it possible to reach the

objective of 15 minutes average waiting time, lowering the waiting time for customers with a VAT number to less than 5 minutes and maintaining it at 15 minutes for residential customers. The result for 2009 is even better if considered in light of the reduction in differences between the various branches; this confirms the continuous standardisation process for quality going on throughout the entire territory. The Modena branch results are out of line with the above, but even here the waiting times were significantly reduced in 2009 after the worsening that took place in 2007, due to the changes to the information systems for customers that took place in that year.

Waiting times at branches

(min.)	2007	2008	2009
Bologna TOS area	16.9	16.5	13.2
Ferrara TOS area	23.5	20.4	13.8
Forli-Cesena TOS area	18.5	18.1	10.3
Imola-Faenza TOS area	18.8	17.1	13.2
Modena TOS area	40.6	31.5	21.0
Ravenna TOS area	18.4	14.2	13.2
Rimini TOS area	16.4	11.5	8.5
Weighted average	20.7	19.3	14.6

Data do not include Marche Multiservizi.

In 2010 a new project will be implemented involving the engineering of a software program developed based on Hera specifics for the purpose of organising contacts at branches and call centres, optimising available resources and analysing and simulating the changes in the number of customers on a daily basis. The Customer Satisfaction surveys also testify to the soundness of the decision to implement differentiation of queues (small business/residential customers) at the branches. 2010 should further confirm the quality achieved on the average values, with a specific emphasis on reducing the number of cases of waiting time exceeding 40 minutes.

New branches for Imola and Ravenna

Within the project for redesigning the layout of the Group's main branches, following the renovation of the Bologna branch (2007) and the Forlì and Cesena branches (2008), the Imola and Ravenna were inaugurated in June and October 2009, respectively. 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. Also in Imola and Ravenna branch prototype was tested, before being realised, through focus groups of Hera customers and employees, to verify the layout and functionality. An operator at the welcome booth directs customers upon their arrival. The waiting area is equipped with an IT workstation connected to the Hera website and a touchscreen stand. The operators' workstations are designed to 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 Consolidated Regulations on the Quality of the Electricity and Natural Gas Sales Service (TIQV), in force from 1 July 2009, integrates all the amendments and additions introduced by AEEG Resolution no. 164/2008. These Regulations revolutionised the

treatment of complaints, considering requests for information and requests for invoice corrections in the same area, and setting forth rules, management methods and standards to follow. The new definition of complaint set forth in the TIQV extends the concept to cases which were previously considered differently, 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.

The new rules required updating of the objectives, which were reformulated in terms of the calendar year and are in line with an international procedure for the management of complaints. The fact that the resolution entered into effect after the beginning of the year made it necessary to separate the reports into the two semesters of 2009. For the first half of 2009, as in 2007 and 2008, the average response time to complaints was calculated in business days. Given the objective for 2009 to respond to complaints within 17 business days, in 2009 the average response time exceeded the objective of 3 days.

In the second half of 2009, Hera replied to written complaints within 40 calendar days (the standard as defined by the AEEG) in 95.7% of cases, paying an indemnity to customers in the cases where the standard was not complied with for the gas, electricity and integrated water services.

Complaints received

	2007	2008	2009 (first half)	2009 (second half)
Average complaint response time (days)	14.1	19.0	23.9	24.0
Percentage of complaints that were dealt with within the standard timeframe (%)	93.1%	82.0%	76.7%	95.7%
Number of complaints received (n)	3,609	4,136	2,559	5,126

Data do not include Marche Multiservizi. The complain response time for the second half of 2009 is indicated in the number of calendar days. The percentage of complaints that were dealt with within the standard timeframe refers to 20 working days for the first half of 2009 and 40 calendar days for the second half of 2009.

In order to comply with the new regulations, during 2009:

- a new method for classifying correspondence was implemented;
- the Hera Group complaint procedure was rewritten;
- customised software was developed for integrated management of cases;
- the management process was redesigned in order to optimise flows;
- training was provided on the regulations, the new procedure and tools;
- complaint processing methods were standardised in all business units, also regarding IT channels;
- a control plan was defined and implemented in order to guarantee the soundness of the data used for the AEEG declaration;
- reporting was redesigned and standardised, both in terms of final reporting and the management dashboard.

In 2010, additional fine-tuning of the “S.Co.Re.” software is planned, in order to make the reply process smoother. Additional improvements could derive from the classification of cases by complexity/importance, based on a logic of assignment according to responsibility, and a reorganisation of resources.

Mediation

In February 2009, the testing of joint mediation 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.

As at 31 December 2009 a total of 64 requests for mediation were received: 28 regarding the gas service, 9 regarding the electricity service and 27 which could not be accepted for various reasons.

Requests for mediation primarily regard problems relating to objections to consumption totals and to invoicing errors or delays. In terms of outcomes, 14 cases were concluded through settlement, 2 with a waiver of the request, as the problem was solved in the meantime, 16 with failure to reach a settlement, and 5 which are currently pending.

In the first year of application, if compared to the overall number, numerous requests for mediation were received that could not be accepted. Regarding the 27 requests which could not be accepted:

- for 6 requests the deadline for replying to the complaint had not yet passed, or for which a complaint had not been submitted;
- 9 cases regards services to which the mediation procedure does not apply (i.e. water service, district heating);
- 7 cases regards non-domestic customers, or customers which were not entitled to submit such request;
- 5 requests lacking other requisites, such as incorrectly identifying the distributor, the simple request for payment extension, paying by instalments or simple requests for information.

Disputes with customers

At the close of 2009 there were 78 pending disputes with customers (of which 30 initiated during the year) mainly regarding the application of the tariff regime for the services provided or the recovery of payments.

Of these 78 lawsuits, 43 refer to the electricity service, 23 to the water service and 12 to the waste management service.

Confidentiality

The Hera Group continued in its commitment to guaranteeing high levels of protection in processing the personal data of all its stakeholders who the Group interacts with on a daily basis.

In 2009 the Board of Directors of Hera S.p.A. approved the “Hera Group Personal Data Protection Policy”, which is based on the values and principles underlying all company strategies and objectives.

The Policy implements the fundamental principles of Privacy: purpose, necessity, essentiality, pertinence, correctness, completeness, updating, storage, security and

prohibition of illicit processing. The Policy is the basis for a personal data protection Management System, which is integrated and shared at Group level.

The Hera Group chose to implement and respect these commitments by providing the Policy maximum visibility, dissemination and disclosure throughout the entire local area, to all personnel and to all citizens, also through the provision of training and information.

The actions undertaken are aimed at improving and updating the procedures and (pre-operational) instructions published on the Corporate Intranet: a useful point of reference and tool offered to Process Owners in identifying the elements required to guarantee the compliance of company processes and projects to privacy regulations.

Training courses continued, in order to guarantee the training necessary for correct, “secure” processing of personal data, and to increase awareness among personnel. In addition to the traditional “classroom” courses, the “Mentore” training through e-learning, which was successfully launched in 2008, is being additionally developed and improved.

In relation to contacts regarding access rights pursuant to Art. 7 of the Privacy Code, over 15,000 requests from data subjects were recorded, which were replied to on average in less than 4 days. The maximum term for replies according to law is 15 days.

The procedures for managing these operations are undergoing additional fine-tuning.

In 2009, the Italian Privacy Authority did not charge the Hera Group with any violations to the Privacy Code.

Customer satisfaction survey

The overall satisfaction of residential customers reached a rating of 69 in 2009, the highest since the satisfaction of Group customers began to be measured and is an addition to the improvement achieved in 2008. The increase is uniform and disseminated throughout the local areas, in further confirmation of the reliability of the result that was achieved.

Assessment of overall satisfaction of residential customers

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

Service CSI, which summarises the customer satisfaction for the sole aspects of service effectively provided (electricity, gas, water and waste management), remains stable at 72 points.

The main components of the image such as transparency, coverage of customer requirements, professionalism, and attention to ecological and environmental aspects exceeded 70 points. Legibility and clearness of the bills and the capacity of relaying the group’s communication messages also exceeded 70 points. The new contact channel Sportello Her@ ON-LINE was particularly appreciated as was the convenience of the

payment methods offered, the punctuality and frequency of the bills and the simplicity of communicating the self-reading of the meters.

With regard to the bills, the quality of the consumption estimates improved, allowing for greater accuracy of the bills issued for payments on account. Various projects were deployed aiming to improve customer management and relations, with improvement of internal processes and processes involving customers: the Sportello Her@ ON-LINE makes it possible to carry out almost all practices remotely for all customer segments. Hera Insieme instils in customers a sense of belonging to a community including through initiatives and competitions for prizes, and the communications initiatives throughout the local areas strengthen the brand and the image of the group.

Give the significant results described by the residential customer satisfaction survey, the activities aimed at shortening the waiting times at branches will be maintained and further developed as will the initiatives aimed at ensuring the ongoing training of operators, so as to improve their problem resolution capabilities. The electricity and gas bills will be further improved and simplified: in 2010 for the electricity bill. The ability to propose free market offers for gas and electricity will be further strengthened.

The methodology used for the customer satisfaction survey

Monitoring of the satisfaction of Hera customers, which began in 2005, is based on a research methodology that has been fine-tuned, thanks also to studies carried out at the University of Michigan, that involve theorizing and calculating the causal relation between elements of perceived quality and the satisfaction of customers.

The survey of customer satisfaction was conducted by telephone via CATI (Computer Aided Telephone Interviews), a computerized 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 with the nuclear family. Overall, over 2,800 residential customers and approximately 1,300 business customers are interviewed each year, in regard to all the major services offered by Hera. 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 assessments of the results are expressed in numerical scales, with thresholds corresponding to the various levels of satisfaction: under 50 points indicates insufficiency, up to 60 indicates a “minimal” satisfaction area, between 60 and 70 indicates a good level of satisfaction and above 70 indicates the “delight of the customer.”

In regard to the survey of business customers, the global index that represents the entire business segment, from small businesses to large concerns, the improvement trend is continuing as the satisfaction index has increased by 3 points compared to 2008 to reach 65. The upwards trend is uniformly reflected in all the components of the index: global satisfaction (+3), satisfaction compared to expectations (+3), and satisfaction compared to the ideal (+3). The services indicator has remained essentially unchanged. There were increases of over 4 points in the business segment as well compared to 2008 insofar as image, bills and communication. Finally, positive word of mouth communication, the

propensity to remain customers and to purchase other services improved in line with satisfaction and are indicators which, when positive and increasing, contribute to making the customer base more solid.

Assessment of business customer satisfaction

CSI (from 0 to 100)	2007	2008	2009
Overall satisfaction index (CSI)	62	62	65
Service satisfaction index (Services CSI)	69	70	69
Global satisfaction	64	65	68
Satisfaction with respect to expectations	61	61	64
Satisfaction with respect to the ideal	59	59	62

Given the increasing attention of the Group to increasing the service levels of various contact channels and reducing the distance between Hera and its customers, 2009 marked the launch of a project aimed at constant monitoring of the satisfaction of customers that visit branches or that call Hera's call centre. The main objective of the survey is to maintain the weekly monitoring of the service levels provided in order to allow for immediate identification of organisational priorities and/or areas for improvement per channel used and per customer "type". The survey is carried out through an interview with the contact in the subsequent week and also makes it possible to intervene in order to speed up the resolution of any problems encountered and improve the level of interaction between the customer and Hera.

In November 2009, the survey on the satisfaction of residential customers with the district heating service was carried out for the second consecutive year. The difference compared to the 2008 survey is that customers residing in condominiums with centralised heating were included among the interviewees (this is a frequent occurrence, especially in Ferrara). Therefore, 367 interviews took place, compared to 345 in 2008. The overall satisfaction index (CSI) reached 69, in line with the rest of Hera customers. The district heating service has dropped by one point compared to 2008 but has achieved a good score at 72, two points over the high satisfaction level threshold (70). The reliability and advantages of district heating are confirmed as strong points and receive very high scores, close to 80 points. The area in which customers display a greater degree of sensitivity is the quality of the service, i.e., the temperature of the heated premises and the water. District heating is considered an ecological service and, compared to 2008, it has significantly increased the perception of customers insofar as the higher economic value that the service imparts to a building. The satisfaction with other services obtained through Hera is in line with the results of the survey on the Family market and stands at 71 points.

Assessment of the satisfaction of district heating customers

CSI (from 0 to 100)	2008	2009
Overall satisfaction index of the district heating service	73	72
Overall satisfaction index (CSI)	67	69
Global satisfaction	70	71
Satisfaction with respect to expectations	66	68
Satisfaction with respect to the ideal	65	68

Improvement initiatives were defined as a result of the 2009 survey. One of these refers to customers with binomial tariffs (i.e., a tariff consisting of a power rate and a consumption rate) to which will be offered an opportunity to improve the contractual profile composed of the consumption/power relations, reducing the power used. In this way, various positive effects are expected, including a reduction in the average annual expenses, promotion of the use of district heating so as to smooth out the consumption peaks and increase the use of the plants as it will be possible to connect more users to the existing network.

Other customer listening, dialogue and involvement initiatives

A year and a half after the launch of the Her@ ON-LINE portal a questionnaire was created for the 70,000 members aimed at gauging their opinion on the various functions offered. The questionnaire which was combined with a contest had a high level of participation: there were over 7,400 responses. The questionnaire also featured free text areas in which customers could write their proposals or express their opinions. The questionnaires could be filled in until 6 January 2010: currently the data is being analysed in order to summarise the observations and implement improvement or communication actions.

The Territorial Operating Structures hold regular listening and dialogue activities with numerous local consumer associations. In addition to the memorandum of understanding signed by the Forlì-Cesena TOS with several associations, with which meetings were once again held each quarter in 2009, in other territories there was constant dialogue with local consumer association representatives. Daily contact procedures were set up, in certain cases by making available an employee in charge of maintaining the relations with these associations.

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, editorials, news, specials, etc.;
- national events developed in Hera’s territory of reference.

The approach that Hera follows is to satisfy the requests for intervention insofar as communication, dialogue and the resolution of problems. In 2009, 60 trade associations were involved.

Hera participated in work carried out with Confservizi, two other Emilia-Romagna public utility companies and twelve consumer associations which resulted in the application on 1 February 2009 of the protocol signed in 2007 for joint mediation in electricity and gas services. The signatories to the protocol defined a single advertising campaign, with identical promotions on the company internet sites and branches and participating associations and sharing of a single training course for company and consumer mediators. The mediation committee works via web conferencing, with the Hera mediator participating from the Bologna office and the consumer mediator participating from the Hera branch in his/her city. In 2009, a total of 64 requests for mediation were received.

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 activities) and 186 public shareholders (mainly the Municipalities of the Provinces within the local area of reference) and finally 465 professional investors (consisting of legal persons employed in activities of the financial area, such as insurance, banks, trusts, banking foundations, mutual funds, pension funds and hedge funds).

Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> • Increase the number of financial analysts that follow Hera’s stock to enhance the availability of qualified and independent opinions on Group management. • Continue to improve the on-line financial communications. • Maintain the momentum of relations and augment contacts with professional investors, including ethical investors. • Maintain a dialogue with private investors. 	<ul style="list-style-type: none"> • In 2009, coverage was extended with the start of coverage by Unicredit, while 3 independent firms interrupted their coverage of the Hera stock due to restructuring of their analyst staff. (see page 123) • The real-time “accessible” version of the financial statements was published also for the Half-Year Report. Hera rose to second place (from sixth place) in the Hallvarsson&Halvarsson classification which analyses financial communication of the 100 largest Italian listed companies. (see page 123) • The number of contacts with institutional investors during the year increased by 30%. (see page 123) • A weekly chat session was set up, in which investors can dialogue with Investor Relations. This is a first in Italy. (see page 123)
We shall...	
<ul style="list-style-type: none"> • Continue to improve the on-line financial communications. • Further improve instruments for dialogue with 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. 	

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 to significantly limiting 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 following the merger and integration of 11 multiutilities in the Emilia- Romagna region.

Following listing on the Milan Stock Exchange in the Blue Chip segment of the Mercato Telematico Azionario (the electric equity market) in June 2003, Hera has continued its development through additional mergers and integrations with other multiutilities 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 186 in 2009).

Hera's share capital grew from 789 million ordinary shares 2002 to 1,033 million starting from 1 January 2009. From 1 December 2009 the share capital increase of 82.3 million shares took effect. The increase was approved by the Shareholders' Meeting of 21 October 2009, against contribution of the gas and district heating networks by several public shareholders of Hera: thus, Hera's share capital was strengthened, increasing the number of shares to 1,115 million, shoring up the company's capital and strengthening its competitive position in gas distribution.

Hera's shareholder structure consists of public entities, and private and professional investors.

Public institutions are the largest category of investors in Hera, with 62.0% of share capital, and consist mainly of municipalities in the provinces of the Emilia-Romagna region, where the Group operates. Nearly all Hera's public shareholders have signed the "Shareholders' Agreement" which binds them to maintaining 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 is 11% held by public shareholders and the remainder by professional and private investors.

The number of professional investors that have invested in Hera has increased significantly over the years: at the dividend registration date in June 2009, Hera's shareholder base consisted of 30.6% of capital from Italian and foreign professional investors, such as insurance companies, banks, banking foundations, pension funds, investment funds primarily from the U.K. and U.S.A. and 10.5% from Italian and foreign 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 2008, Hera held in portfolio 1.6 million treasury shares, totalling 0.15% of the share capital.

Shareholders

no.	2007	2008	2009
Municipalities and other Entities	183	189	186
Professional investors	368	427	465
Private investors	24,888	21,148	21,916
Total	25,439	21,764	22,567

Data refer to dividend registration date. Data source: Hera processing of data from Servizio Titoli S.p.A.

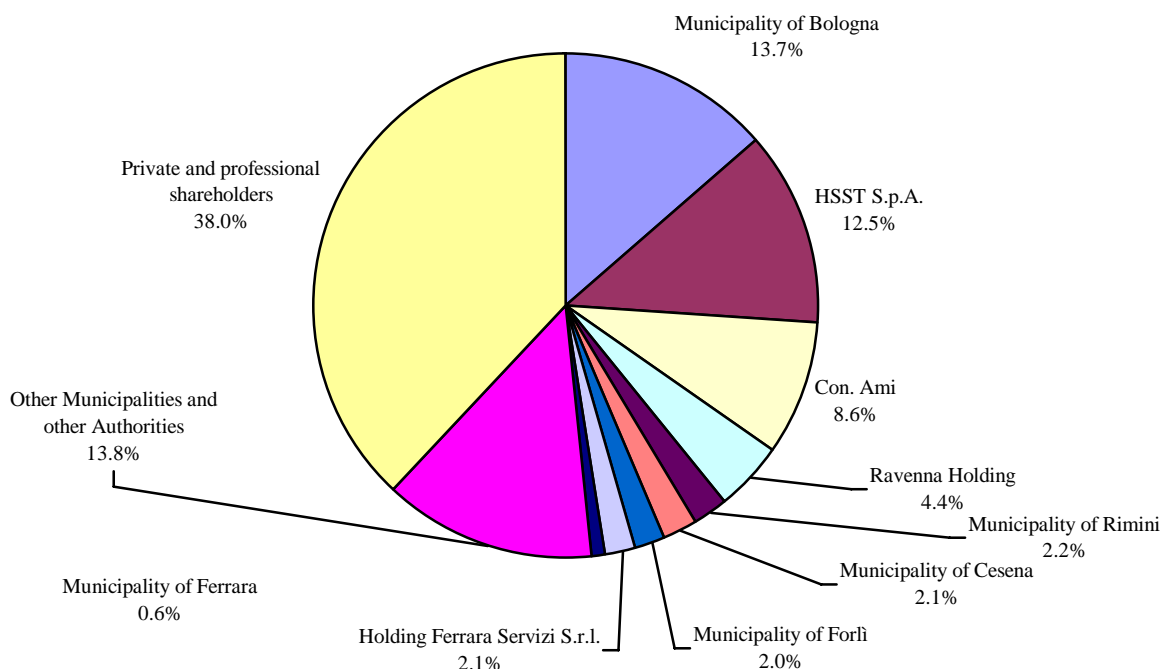
Shares held (breakdown)

%	2007	2008	2009
Municipalities and other Entities	58.2%	58.9%	58.9%
Professional investors	32.4%	30.6%	30.6%
Private investors	9.3%	10.5%	10.5%
Total	100%	100%	100%
Total shares (million)	1,016.4	1,032.7	1,032.7

Data refer to dividend registration date. Data source: Hera processing of data from Servizio Titoli S.p.A.

From 1 December 2009, with the share capital increase reserved to public institutions taking effect, the share held by public institutions in Hera's share capital increased from 58.9% (at the dividend payment date) to 62%.

Shareholder breakdown as at 31 December 2009



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, Solarolo, Bagnara di Romagna, Castel Bolognese, Faenza, Riolo Terme, Brisighella, Casalfiumanese, Borgo Tossignano, Fontanelice, Castel del Rio, Fiorenzuola, Marradi, Palazuolo sul Senio, Casola Valsenio.

Ravenna Holding is fully owned by the Municipality of Ravenna.

Holding Ferrara Servizi S.r.l. is fully owned by the Municipality of Ferrara.

No. of local resident shareholders (as on date of dividend registration)

no.	2007	2008	2009
Bologna TOS area	4,658	4,142	4,086
Ferrara TOS area	430	359	369
Forli-Cesena TOS area	1,546	1,480	1,485
Imola-Faenza TOS area	1,242	1,426	1,438
Modena TOS area	1,321	1,059	1,104
Ravenna TOS area	1,301	1,169	1,163
Rimini TOS area	621	589	590
Total of shareholders resident in areas served	11,119	10,224	10,235
Total private shareholders	24,888	21,148	21,916
% of private shareholders resident in areas served	44.7%	48.3%	46.7%

Data refer to dividend registration date. Data source: Hera processing of data from Servizio Titoli S.p.A.

Corporate Governance and safeguards for shareholders

Since the time of its foundation, 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 objectives defined in 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.

Control and dissemination of information to the outside is critical for the Group, therefore the Investor Relations Department and External Relations Department report directly to the Chairman of the Board of Directors, while the Corporate Social Responsibility Department reports directly to the Chief Executive Officer.

Price sensitive information is communicated in accordance with criteria 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.

The Hera Shareholders' Meetings are generally well attended by shareholders; at the last meeting held 28 April 2009, shareholders representing 64.7% of the capital were present, while at the meeting held on 21 October 2009, shareholders representing 62.8% 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, evolved, timely, symmetrical financial communication have been the basis for over seven years of management without the governance problems which have affected other companies in the sector.

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 inception, and the numerous activities for increasing the efficiency of management, over the years the Group has achieved positive economic-financial results which continue to increase, which allowed the Group to distribute growing dividends to shareholders, demonstrating the soundness and security of their investments.

2009 was an unusual year due to the difficult economic trend of the financial markets and the recession, affecting even 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, reach the set targets and keep the promises made, as in the past.

In 2009, Hera achieved an EBIT that was 7.4% up on 2008 and an operating result that was 3.8% up on 2008, thanks to the results of the growth strategies which more than offset the effects of the crisis. This progress in results was also influenced by the extraordinary, unexpected impact of the “tax moratorium” for Euro 28 million (equal to about 30% of net profits of the previous year) which, therefore, was highly significant.

Despite this, the Hera Group closed the year 2009 with net profit of Euro 85.0 million, substantially in line with 2008, and proposed the distribution of a dividend equal to 8 Eurocents per share, in line with the dividend from the previous year: this is a unique case among multi-utility companies, and provides Hera with prospects for future growth as envisaged in the 2008-2013 Business Plan.

Distribution of dividends

	2007	2008	2009
Earnings per share (Euro cents)	9.5	9.2	8.7
Dividend per share (Euro cents)	8.0	8.0	8.0
Price/earnings	32.3	16.2	18.6

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 tax moratorium effect.

Stock exchange share performance

The global economic crisis which began in 2008 also had serious effects on the global markets and financial system also in the first few months of 2009. Starting from the first few days of March, the markets posted a definitive change of direction, beginning to show a slight upward trend: in this context, the Italian local utility sector followed the

market trend. However, starting from August, it showed worse performance than the market, despite the traditional low risk profile which has always characterised the securities of companies in this sector.

The FTSE Italia All Share index, which includes all shares listed on the Milan stock exchange, closed 2009 with a performance of +19.7% from the beginning of the year, as proof of the recovery of the markets. The index for Italian Local Utilities closed 2009 at +11.0%. On the last stock market session for the year, the Hera share recorded a list price of Euro 1.622, with a performance of +8.9% since the beginning of the year and for most of the year a better performance than those recorded by other companies in the sector, with the exception of Iride and Eni, whose positive performances were sustained by the expected plan for merger between the two companies.

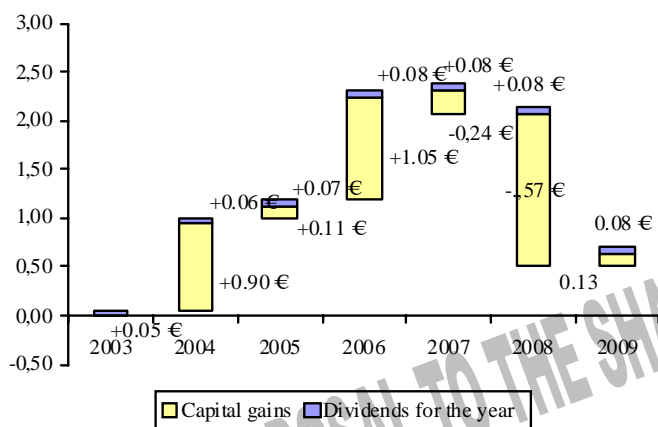
Official share price and average traded quantities in 2009

	Q1	QII	QIII	QIV
Official price at close of period (Euro)	1.242	1.734	1.652	1.622
Average volume traded (thous.)	1,227	2,254	1,264	1,513

The average liquidity level recorded in Hera stock trading remained more or less unchanged over 2009 compared to the last quarter of 2008, with the exception of the second quarter of the year, where the average liquidity of the share significantly increased, also in light of the institutional road show to present the annual results for 2008.

The average value of the daily transactions involving the Hera share in 2009 decreased overall compared to that of 2008, from Euro 5.2 million to Euro 2.6 million, mainly due to the effect of the loss in value of the share.

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 owns Hera shares from the listing as at 31 December 2009, including the dividend for 2009 which will be distributed in 2010. Despite the particularly negative capital loss in 2008, the overall return for shareholders remains positive at 70%.

Stock exchange indices

The Hera share is included in many ethical indices, as evidence of the company's sustainability: 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 available to shareholders to aid in their investment choices.

Hera has widespread coverage, consisting of 12 independent firms, half of which are international: Banca Akros, Banca IMI, Banca Leonardo, Centrobanca, Cheuvreux, Equita, Intermonte, Kepler, Mediobanca, Merrill Lynch, Santander, and Unicredit. Unicredit began covering Hera stock in January 2009.

In 2009, the coverage of Hera decreased from 15 to 12 independent firms which constantly cover the Hera stock, due to the restructuring of several financial institutions. In the first few months of 2010, the start of coverage of Hera by a new international broker is expected, which will bring the number of analysts covering Hera to 13.

Hera is positively judged by analysts, with 11 Buy/Outperform/Hold and only 1 Neutral. The average target price over 12-18 months expressed by the valuations of the analysts is Euro 2 per share, which implies a potential increase in the value of the Hera share of +23% compared to the market price at the year-end.

Relations with investors and financial analysts

The relationship between the company and investors is inevitably based on shareholders' trust in company management, given that it is not possible for shareholders to have access to all information necessary to fully evaluate an investment opportunity. The Hera Group places great importance on trust relationships with shareholders, as an appropriate market valuation of the Group favours opportunities for development and value creation through external growth.

For this reason, the Investor Relations Function (now Department) was established at the time of listing, specifically dedicated to providing information and assistance to shareholders and financial market operators, assistance which has become crucial in a year of crisis such as 2009, which featured extremely volatile financial markets.

Hera's primary communication tool has always been its institutional internet site, which all stakeholders (private and professional investors, bondholders and financial analysts) can easily access.

The Investor Relations section (www.gruppohera.it/gruppo/investor_relations) of the Hera Group site is continuously updated in real time and contains detailed information and analyses on the main issues of interest to shareholders.

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 statements (in HTML), including the half-yearly report, an interactive description of the company's governance, a simple analysis of the historical trend of in the share price and the opinions of independent financial analysts. In order to provide greater and continuative support to stakeholders, a weekly chat session was introduced, in order to answer users' questions in real time.

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 2009 Hera counted 474 contacts with investors, compared to 365 in 2008 (+30%). These contacts comprised direct meetings, company and plant visits, conference calls, and videoconferences (webcasting) which involved Italian and foreign investors (mainly British, American, French and Swiss). This increase was the result of the intention to increase transparency through continuous, frequent dialogue with shareholders, and the intention to respond to the growing sense of uncertainty of the stakeholders at this time of deep systemic discontinuity.

As has become tradition, Hera participated in the Environment Forum which takes place each year in Paris, meeting with over 40 investors in order to present the Group's sustainable profile.

Hera Group's online communication gets the silver

The growing attention focused on improving online communications, the innovations introduced, the clarity in explanation, the simplicity in navigation together with the completeness of information published, won Hera second place in the Webranking 2009 classification, drawn up by Hallvarsson&Halvarsson, out of institutional sites of the top 100 Italian listed companies and first place at European level out of companies in the Electricity sector.

Hera is preceded only by Eni, and followed by Pirelli. "This result," explained the Head of Webranking for Italy, "shows that the ranking positions are not just down to size, but also to the commitment and culture of communications within the company."

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

%	2007	2008	2009
European Investment Bank	31.7%	34.1%	37.7%
Banca Intesa	16.1%	12.9%	21.5%
Unicredit	9.1%	9.2%	9.3%
Dexia Crediop	8.2%	7.4%	6.7%
Cassa depositi e prestiti	4.5%	4.5%	4.3%
Banca delle Marche	1.9%	3.3%	3.5%
Banca Popolare di Milano	3.3%	3.3%	3.2%
Other institutions	22.8%	22.7%	11.5%
Total	100.0%	100.0%	100.0%

Despite the fact that the economic and financial crisis continued to show its effects also over 2009, the Group managed to protect itself from impacts of the general reduction in liquidity and contain the significant general increase in spreads in benchmark rates.

The company's financial policy objectives have remained the same:

- **interest rate risk:** define and apply a hedging strategy for interest rate risk that is precise and coherent with a subsequent almost total fixed-rate hedge of long-term debt and fully compatible with IAS/IFSR3;
- **debt quality:** consolidate short-term debt in favour of long-term;
- **credit lines:** Obtain ample intervals in credit lines, both uncommitted and committed, in order to guarantee sufficient liquidity to cover each financial obligation for at least the next two years;
- **financial charges:** reduce the cost of money.

Net financial indebtedness

(millions of €)	2008	2009
Cash on hand	193.6	350.3
Other current loans	6.8	20.7
Current financial indebtedness	-208.7	-119.1
<i>Net current financial indebtedness</i>	<i>-8.3</i>	<i>251.9</i>
Non-current loans	8.5	10.1
Non-current financial indebtedness	-1,571.7	-2,153.8
<i>Net non-current financial indebtedness</i>	<i>-1,563.2</i>	<i>-2,143.7</i>
Total net financial indebtedness	-1,571.5	-1,891.8

The Net Financial Position increased from Euro 1,571.5 in December 2008 to Euro 1,891.8 million as at 31 December 2009 due to the scheduled investment plan. 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.

During 2009 the following was undertaken:

- **interest rate risk:** all hedging operations to mitigate interest rate risk are completely correlated with the underlying debt and comply with IAS standards. New long-term securities were issued at fixed rates, so that the portion of fixed-rate long-term debt amounts to 91% of the total;
- **debt quality:** the following refinancing transactions were carried out, to maintain the portion of long-term debt at 96% of the total. At the end of July, a bond was issued with a 15-year maturity, for a total of 20 billion Japanese Yen, at the same time hedged for about Euro 150 million to eliminate exchange rate risk. The bond was fully subscribed by a single investor, to be repaid with a six-month, 2.925% coupon. At the end of November 2009, a ten-year bond was successfully launched for Euro 500 million, with demand six times higher than the amount offered, allowing the originally expected margin of 120-125 bps to be reduced to 115 basis points on the ten-year midswap. The bond was placed with a coupon of 4.5% at the price of 99.28. These transactions do not provide for financial covenants either, apart from the corporate rating limit by one rating agency only, that is lower than “Investment Grade” level (BBB-);
- **credit lines:** 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 the total availability;
- **financial charges:** despite the aforementioned marked increase in spreads and in consideration of the consolidation of debt in favour of the long-term portion, Hera has been able to keep the cost of money to an overall average level of 4.2%, well under the market quota.

It is noted that Hera S.p.A. has a bond outstanding which totals Euro 500 million and has a fixed rate coupon of 4.125%, falling due in February 2016, in addition to five puttable bond issues for a total of Euro 600 million. The potential implicit refinancing risk if the put option is not exercised by the lenders is not considered to be risky, since:

- the loans in question may be considered similar to 3- or 5-year loans with bullet repayment;
- their maturity dates are not concurrent, but vary over time;
- the Business Plan approved by the Board of Directors of Hera S.p.A. does not show a worsening of its credit, and therefore shows no difficulty in entering the capital markets over the next few years;
- Hera S.p.A. has at its disposal certain irrevocable and fully available back-up lines of credit totalling Euro 480 million in order to be able to deal with potential due dates.

The portion of value added allocated to financial institutions in 2009 came to Euro 105 million (11% of the total, +12% compared to 2008). This share comprises Euro 82 million in financial charges, and Euro 23 million in financial income.

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 as a result of the generation of cash flows by business.

The Group’s financials are assessed by the two leading international specialised ratings agencies: on 22 July 2009 Moody’s modified its long-term debt rating for Hera, reducing it from A1 to A2, and bringing the outlook from negative to stable, while on

17 April 2009 Standard & Poor's modified its credit rating for Hera, assigning the rating A- (from A) to long-term debt, and the rating A-2 (from A-1) for short-term debt, with a negative outlook.

As at 31 December 2009, Hera's financial exposure was almost fully hedged from risks of interest rate changes, had average maturities which were long-term (the portion maturing in the next few years is fully covered by available credit lines totalling Euro 350 million) and is not burdened by covenants.

Hera's financial leverage, measured by the D/E and D/EBITDA ratios, is among the most conservative in the sector in Italy.

Factoring and sustainability: an achievable target

Hera is participating in the "Sustainable Factoring Project", created by UniCredit Factoring for the purpose of rewarding and supporting socially responsible companies through concrete economic incentives. The project involves the definition of specific technical requirements which confirm the commitment to sustainability taken on by companies which, following an external analysis by TÜV Italia (the partner in the project) economic advantages will be awarded by UniCredit Factoring. Companies will be assessed in terms of health and safety of their employees, environment and energy, their relationship with local communities, respect of workers' human rights, and supply chain. Hera was asked to join the Technical Committee created in order to define the requirements and to carry out the assessments of suppliers of member companies.

Suppliers

Hera does not consider the role of suppliers exclusively that of value chain actors. They are also strategic partners for corporate growth.

There are about 9,300 companies in Hera's pool of suppliers: these suppliers are mainly located in the region served (65%), highlighting the group's positive impact on the local economy. In 2009, the value of the supplies requested from social cooperatives came to Euro 23.6 million: 468 persons facing hardships were hired.

Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> • Begin using the Internet for supply activities (e-procurement) in managing public tenders in 2009. • Extend application of the tender award criteria according to the most economically advantageous bid, including non-public tenders (below the EU threshold). • Further extend purchasing based on environmental sustainability criteria ("green purchases"). • Based on supplier selection guidelines updated in 2008, define a procedure highlighting reference sustainability criteria by purchase type. • Begin monitoring work accidents at major suppliers. 	<ul style="list-style-type: none"> • The low level of use of certified electronic mail and electronic signatures by suppliers, which are necessary tools for managing public tenders, made it impossible to use the internet for this type of tender. (see page 137) • 36% of awards in 2009 (both through public tender and through negotiation procedures without tenders) were performed based on the method of accepting the most economically advantageous bid (see page 133) • All 10 public tenders performed in 2009 included environmental sustainability criteria. Three non-public tenders were also carried out in which "green" elements were considered in evaluating the offer. (see page 133) • An operating instruction was approved which defines sustainability criteria to be used for choosing suppliers for each goods/service category for purchase. (see page 133) • Monitoring was implemented for accidents in the workplace of the main suppliers of services and works (waste collection, sweeping, emergency services and network/grid maintenance). (see page 137)
We shall...	
<ul style="list-style-type: none"> • To involve the trade associations in order to further expand usage of the e-procurement platform by suppliers. • 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. • Consolidate the monitoring of work accidents at major suppliers. 	

Breakdown

Currently, the pool of group suppliers includes around 9,300 businesses that provide goods (components for maintenance of industrial plants, materials, chemicals, vehicles etc.), services (waste management, information technology consultants, organisation consultants, etc.) and job order work (grid and network maintenance work, industrial plant construction, etc.). Most suppliers are included in the pool of suppliers in several goods/services categories.

The data provided in this chapter refer to all Group companies with which the Purchasing and Tender Contracts Department manages supplier relations via the SAP MM and SRM IT system.*

Pool of suppliers

	Number	2007	2008	2009
Goods		9,443	5,617	5,477
Services		10,350	6,024	5,920
Job orders		1,297	899	894
Total		16,780	9,511	9,307
of which suppliers who received at least one order during the year		6,024	5,806	5,369

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 2009, more than 5,300 suppliers received at least one purchase order. Most fall into the goods and services classes.

Also in 2009 the process of rationalisation of the number of suppliers continued, based on verification of qualification status and actual use over the last three years.

During the year, the initial systems for public qualification were also published on the e-procurement platform, which allowed new suppliers to submit their documents and launch the qualification process directly online.

On 5 June 2009 Hera S.p.A. updated the contents of the Memorandum signed in 2004 to renew the collaboration with social cooperatives, declaring the willingness of the Hera Group to extend, where possible, the use of social cooperatives in new sectors, different from waste management services.

The memorandum also restates the Hera Group's commitment to include in the tender conditions, in the case of services which are suitable for the employment of persons facing hardship, the obligation to perform the contract using a specific percentage of personnel made up of persons facing hardship pursuant to Article 4, paragraph 1 of Law 381/1991, in the event of tenders awarded for the largest discount. In the case of tenders awarded using the method of the most advantageous bid, Hera commits to reserving a significant percentage of the point value to projects comprising work placement.

Consistent with the commitment set forth in the Memorandum to define monitoring indicators and instruments with specific regard to the employment of persons facing hardship, in agreement with the representatives of social cooperatives, the Hera Group approved an operating instruction that modifies the monitoring of employment of

* Hera S.p.A., Hera Luce, Famula On-Line, Uniflotte, FEA, and Herambiente.

persons facing hardship in collaboration with social cooperative consortia and individual social cooperatives, through said consortia.

The monitoring regards all Group contracts in which personnel of the social cooperatives work. 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 will be possible to verify compliance of the employment project presented by the supplier during the tender, with a consequent assessment of the same.

Supplies from social cooperatives

	2009
Social cooperatives (number)	36
Value of supplied goods/serv. (in thousands of €)	23,590
Persons facing hardship hired (number)	468

Among the persons facing hardship hired, workers employed for less than one year were also counted. In 2009, the system for monitoring supplies from social cooperatives was modified. Data relating to Hera S.p.A., Uniflotte and Herambiente.

In 2009, the value of the supplies regarding types of work or services requested from social cooperatives came to about Euro 23.6 million. Of this amount, about Euro 20.9 million was assigned for the execution of waste management services, equal to 20.3% of the total awards made by the Group for these services.

Supplies from social cooperatives involved a total of 36 cooperatives and resulted in the employment of 468 persons facing hardship. The highest number of persons facing hardship employed was recorded by the Territorial Operating Structure of Modena (143 people), the TOS of Forlì-Cesena (102 people) and the TOS of Rimini (90 people).

Together we can make a difference: Hera and craftsmen against the crisis

In order to deal with the economic crisis, a permanent joint workgroup has been established by Hera and craftsmen's trade associations CNA and Federimpresa-Confartigianato in the province of Forlì-Cesena. The goal is to create added value for companies and local communities through service innovation, exploring possible partnerships on issues inherent in Hera's business, and among the specific skills of craftsman companies: renewable energy sources, consumption remote reading systems, technologies with a low environmental impact, and new waste management models.

Raw material supplies

The natural gas sold by the Hera Group in 2009 in the areas in which it operates was mainly purchased from Eni Gas & Power (40%). Approximately 22% was purchased from Edison, 2% from other minor national operators and 36% via Hera Trading (which, in turn, mainly purchased gas from VNG, Eni, Edison and Econgas).

With regard to the electricity market, 23% 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); 41% was covered by bilateral purchases from other operators. The remaining 36% 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 production from thermoelectric power stations in which Hera holds investments and imports, green certificates for 44 GWh were acquired, so as to comply with the obligations envisaged by the Bersani Decree.

During 2009, 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 table). 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, from 1 January 2009, manages all the main water production plants in the Romagna area, and supplied 92% of the volume purchased in the Forlì-Cesena, Ravenna and Rimini provinces.

Organising procurement at Hera

Hera Group has adopted a structure for procuring goods, services and work, excluding raw materials, divided up over two organisational levels: Procurement and Tender Contracts Management Central Division (Hera SpA) and various Procurement and Tender Contracts Management Business Units established in each Territorial Operating Structure. The top level engages in qualification and assessment of suppliers for Hera S.p.A., guidance and coordination, procurement planning and management via Group agreements, tender bids for the assignment of goods, services and works above the EU threshold and for the most significant goods/services categories (Class A), procurement for the Sector Divisions and for the Group companies which use the SAP computer system, as well as providing an internal advisory service for the Group and subsidiaries, guaranteeing operations on a consistent basis with the economic and financial strategies and objectives. The lower level, by contrast, engages in minor procurement for the Territorial Operating Structures. It coordinates its action on the basis of requisites laid down by the Procurement and Tender Contract Management Division, and deals with identification of needs and stock management.

With regard to supplier qualification, the Supplier Qualification Department:

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

Operations within local communities

Once again in 2009 we note the positive impact of the Hera Group procurement processes on the areas in which the group is operational, and on local communities. One positive indicator consists in the locations of supplier businesses: About 65% of Hera suppliers were made up of businesses with commercial headquarters in the area covered by Hera.

In 2009, Hera commissioned purchases worth more than Euro 507 million, equating to 73.4% of the total, to businesses based in the same area as that covered by Hera. The

proportion of the number of suppliers with commercial headquarters in the area covered by the Group remained substantially unchanged also for 2009.

Suppliers (breakdown by geographic area)

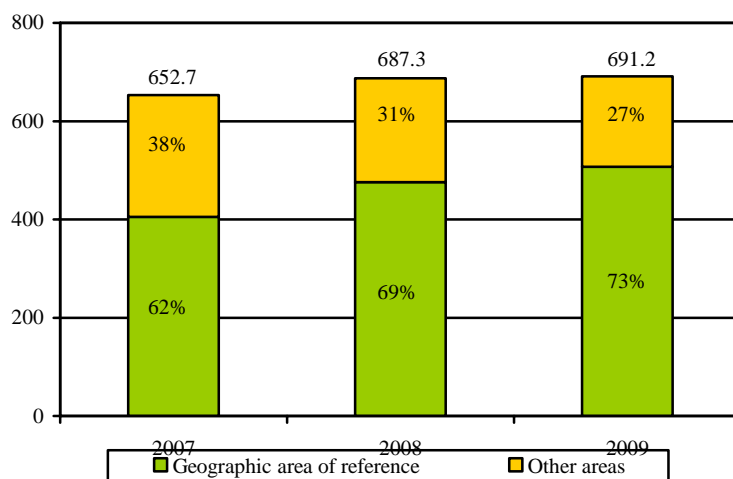
no.	2007	2008	2009	% on 2009
Bologna TOS area	3,224	1,377	1,333	14.3%
Ferrara TOS area	878	442	436	4.7%
Forli-Cesena TOS area	1,647	762	771	8.3%
Imola-Faenza TOS area	851	527	528	5.7%
Modena TOS area	1,805	1,691	1,613	17.3%
Ravenna TOS area	994	652	616	6.6%
Rimini TOS area	1,665	705	705	7.6%
Total area	11,064	6,156	6,002	64.5%
Other provinces of Emilia-Romagna	484	357	353	3.8%
Other Italian regions (Regioni)	5,063	2,900	2,850	30.6%
Other European Union nations	122	71	60	0.6%
Other	47	27	42	0.5%
Total	16,780	9,511	9,307	100.0%

Data refer to the Group companies whose suppliers are handled via the SAP computer system: Hera S.p.A., Hera Luce, Famula On-Line, Uniflotte, FEA, and Herambiente.

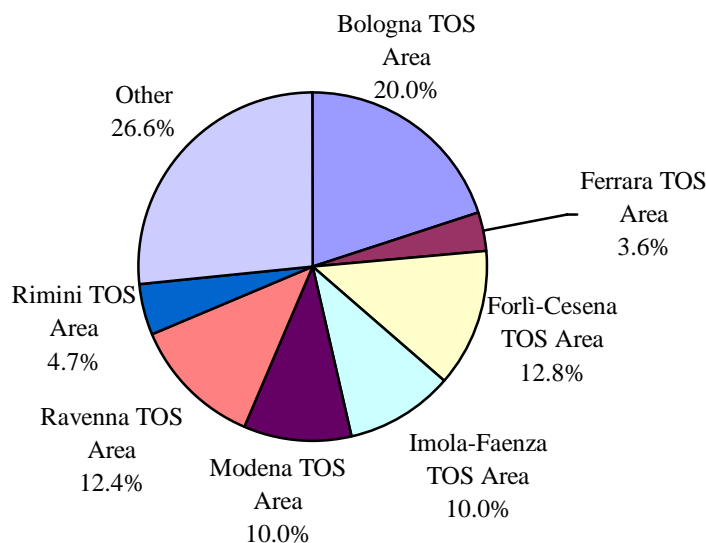
The countries outside the European Union to which purchases were commissioned are Switzerland, the Republic of San Marino, and the United States.

There is a single supplier list for all Group companies, for which a “service” purchased by the Procurement and Tender Contract Management Division is active: for suppliers, this means expansion of their possible business for all goods/services categories associated to them.

Value of supplies (breakdown by geographic area) – millions of euro



Value of supplies (breakdown by geographic area)



Qualification and selection of suppliers

Supplier qualification and assessment is handled at the Group level and continues to be 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.

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 with the aid of a table which considers 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 2009, internal audits were performed in order to check the new procedure adopted. Also in 2009, inspections were carried out at the premises of suppliers of goods and waste transportation services. In some cases, conduct which was not fully compliant was found, which was promptly highlighted and corrected in a short time, working closely with the supplier. Subsequently, the effectiveness of the corrective action required was checked.

Qualified suppliers (breakdown by type of certification)

no.	2007	2008	2009
Quality certification (ISO 9001)	1,744	1,781	2,043
Qualification by certificate on execution of public works (SOA)	532	543	570
Environmental certification (ISO 14001-EMAS)	230	273	371
Lab analysis quality certification (SINAL)	34	37	41
Measurement instrument calibration quality certification (SIT)	30	30	32
Occupational safety (OHSAS 18001)	36	43	73
Social certification (SA 8000)	8	12	21

Data refer to the Group companies whose suppliers are handled via the SAP computer system: Hera S.p.A., Hera Luce, Famula On-Line, Uniflotte, FEA, and Herambiente.

There has been a significant increase in the number of suppliers with quality (17%) and environmental (61%) certification since 2007.

The requirements matrix for each goods/service class to apply also to public invitations for tenders for the supply of goods, services and work is constantly updated.

During 2009, 10 inspection visits were carried out at suppliers in order to assess the compliance of the supply production processes with ISO 9001, ISO 14001 and OHSAS 18001 standards. Over the three years considered, the number of suppliers with occupational safety certification has doubled, and those with social certification have almost tripled.

Procurement from qualified suppliers (value breakdown by type of certification) - % of total supplies

%	2007	2008	2009
Quality certification (ISO 9001)	68.3%	71.3%	73.7%
Qualification by certificate on execution of public works (SOA)	28.5%	38.5%	38.0%
Environmental certification (ISO 14001-EMAS)	18.2%	26.6%	37.1%
Occupational safety (OHSAS 18001)	5.4%	4.1%	6.1%
Lab analysis quality certification (SINAL)	1.3%	2.2%	2.4%
Social certification (SA 8000)	0.5%	1.6%	2.2%
Measurement instrument calibration quality certification (SIT)	0.1%	0.0%	0.1%
Total supplies	652,744	687,299	691,201

Data refer to the Group companies whose suppliers are handled via the SAP computer system: Hera S.p.A., Hera Luce, Famula On-Line, Uniflotte, FEA, and Herambiente.

Also in 2009 there was a constant increase in the value of supplies commissioned 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.

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 threshold, 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.

“Green purchases” continue

Sustainable purchasing continues within the Hera Group. The tender for stationery supplies resulted in the assignment of 15 points, out of the 30 points in the technical component, out of the “green purchases” scale (articles produced using recycled raw materials, realised without the use of toxic chemical substances, by companies that are ISO 14001-certified, contained in biodegradable packaging bearing the specific environmental quality trademark). Two tenders for the supply and installation of centrifuge hydro extractors (used for sludge purification) included, among other elements, requirements relating to the assessment of the electric power absorbed, energy recovery, hourly polyelectrolyte consumption, and the dehydration yield.

Public tenders for contracts adopting the economically most advantageous bid method

	2007	2008	2009
Value of the public invitations for tenders published (in millions of €)	36.8	184.6	47.4
% of total value of public invitations for tenders published	50%	89%	100%
No. of public invitations for tenders published	8	18	10

Data regarding the Procurement and Tender Contract Management Central Division

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.

In 2009, a total of 10 public invitations for tenders were announced, for a total starting price of Euro 47.4 million, all to be awarded based on the criteria of the most economically advantageous bid.

16 public tenders for qualification systems were also 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.

Among the tenders awarded in 2009, we highlight, based on the importance assigned to sustainability criteria in assessing the bids, the tender for the manual and mechanical sweeping service for the Modena area for July 2009-April 2010, with a starting price of Euro 3.6 million; the tender for the sweeping service in the municipalities in the surrounding areas of Bologna for March 2009-December 2011, with a total starting price of about Euro 9 million; and the tender for services related to maintenance cleaning of piping, septic tanks, sewer lifting and waste transport to be performed at the purification plants in the area of the Forlì-Cesena TOS, for October 2009-September 2010, for a starting price of Euro 1.2 million.

In the tender for sweeping services in Modena, out of the 45 points assigned to the technical component of the bid, 27 points were attributed to the employment of persons facing hardship, 11 points to the organisation of the tender contract (with specific attention to the existence of internal procedures of the supplier for managing the service in relation to environmental protection and suitable equipment maintenance services) and 7 points to the structuring of the tender contract in terms of the equipment used (requesting the specification of the number and type of vehicles powered by electricity, methane, hybrid and/or the use of equipment/technologies for noise and dust reduction). In the tender for the assignment of the manual and mechanical sweeping service in the geographical areas surrounding the municipality of Bologna, in three distinct lots, out of the 30 points assigned to the technical component of the bid, 10 points were attributed to the organisation of the tender contract (with specific attention to the existence of procedures which guarantee that the service will be performed with a view to environmental protection) and 7 points to the sizing of tender contract (requesting the specification of the number and type of vehicles powered by electricity, methane, hybrid and/or the use of equipment/technologies for noise and dust reduction).

In the tender for services at the purification plants in the area of the Forlì-Cesena TOS, 30 points out of the total 100 were assigned to the organisation of the company and the service. Of these, 10 points were assigned to technical/functional improvement features and the amount and type of equipment with low environmental impact and noise levels. Lastly, it is important to mention the negotiation procedures, following the Public Qualification System, for the supply and installation of furnishing and accessory components for offices in the local headquarters of the Hera Group, for the five-year period 2010-2014. In these procedures, out of the 55 points assigned to the technical component of the bid, 10 points were attributed to environmental protection, with specific attention to:

- waste prevention (such as the possibility for refuse or recycling upon termination of the life cycle of the furnishings, the possibility of substituting individual pieces, the use of recycled/recyclable/FSC/PEFC materials, limited use of packaging and/or use of reusable packaging);

- reduction of the dangerousness of substances used (specifically primers and preservatives, with specific regard to the risk of emissions of formaldehyde and volatile organic compounds, for plastics, the presence of dangerous additives and the use of organic foams and solvents in production processes, and for metals, the products used for surface treatments);
- reduction of the impact on traffic of the means of transportation used.

Considering that in 2009 almost 80% of purchases to which the method of awarding the tender to the most economically advantageous bid is applicable were managed by the Procurement and Tender Contracts Management Division, and the remaining 20% were managed by the Procurement and Tender Contracts Departments of the TOS, it is noted that 36% of the awards managed by the Procurement and Tender Contracts Management Division of Hera S.p.A. (both through public tender and through negotiation procedures without tenders) were conducted according to the method of awarding the tender to the most economically advantageous bid, in place of the largest discount.

Green purchases for Rimini schools

As part of its environmental education projects, working with Punto 3 of Ferrara and the Millepiedi Cooperative, Hera proposed a project for incentivising green purchases in Rimini schools. The goal of the project, which, in its initial phase, involved 12 schools in the province, is to favour the use of ecocompatible products within schools in alternative to traditional stationery and toiletry products.

Contract management

In 2009, as a result of the control and assessment of the suppliers of the Hera Group, it was necessary to revise several documents attached to the Group's tender specifications, such as the forms listing the documentation that contractor companies must deliver to the works manager or to the company contact prior to the start of the contracted work, and the form used by the companies for the self-certification of the completed training. The importance of these forms is mainly represented by the support they provide to those in charge of managing tender contracts, as these documents summarise the main documents to be requested from the contractor companies in order to oversee essential aspects of worksite safety.

For 2010, two years from the approval of the Hera Group's tender contract management manual, a revision is planned, which has also been shown to be an important tool, in the certification audit phase, for verifying the control activities performed by the works managers and company contacts on the tenders assigned in the phase of supervision of suppliers.

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.

In the first phase of monitoring, suppliers of Hera S.p.A. were selected relating to waste management services, emergency services and network/grid maintenance services, network emergency and maintenance services, sewage network clearing, as well as the management of the global maintenance services. Out of the 1,240 suppliers in these categories, the top 38 were identified based on the value of goods/services ordered during the year. For 2009, the amount of goods/services ordered from these 38 suppliers totalled Euro 188.2 million, equal to 45% of the total amount ordered during the year.

At the date of approval of this report, forms were collected from 24 suppliers, equal to an amount of Euro 117.1 million ordered in 2009, or 28% of the total of the suppliers above. For these suppliers, the analysis and processing of data was therefore initiated. For 2010 we expect to consolidate data collection through increased engagement of and awareness in suppliers, and to extend the scope of analysis in relation to said suppliers. Moreover, informational/training meetings will be held with company contacts in charge of contracts in order to improve this specific aspect of tender management.

e-procurement

In 2009 the e-procurement platform was improved in terms of functionalities and ease of use, and was further consolidated. The number of negotiations exceeded 1,000, for a value of over Euro 88 million, thanks to the extensive use of the tool by all Hera purchasing departments.

In addition, the process of migration to the platform is almost completed: 98% of suppliers of the Group are on the system.

In May 2009, a Helpdesk department was established to support suppliers, in order to provide assistance in using the IT platform. From July to December 2009, the Supplier Helpdesk managed 3,200 tickets activated via telephone calls from suppliers.

In 2009 it was not possible to hold public tenders through the e-procurement platform due to the low level of use of certified electronic mail and electronic signatures by suppliers, which are necessary tools for managing public tenders. In 2010, we intend to check with the trade associations regarding the effective availability of certified electronic mail and electronic signature among suppliers.

In 2010, the platform will be further consolidated in terms of functions and ease of use, along with the increasingly vast acquisition of know-how by all users, both internal and external.

Also as part of the action to consolidate e-Procurement, from March to May 2009 numerous training sessions were held for key users (expert users) and buyers (equipped with specific user manuals). These sessions illustrated the steps for suppliers to access the platform and submit bids. Simple and complex tenders were launched with the assistance of the company providing the platform, which assisted the buyers in all essential steps of the process. This activity was implemented in order to provide each key user and buyer with a sufficient level of knowledge to be able to autonomously manage the platform and the connected suppliers.

Tender contract management manual

In 2009 the new supplier assessment model was fully applied, which involves all company services concerned with the process of assigning services and works: the Purchasing and Tender Management Departments, the Works Managers and company contacts, the Quality, Safety and Environment Managers, and the Supplier Qualification and Assessment Department.

This model comprises 114 control checklists for goods, services and work purchased (including elements of assessment regarding compliance with the contract, occupational safety, correct management of environmental impacts and working conditions) and a quarterly assignment of a qualitative score to the suppliers, including the drawing up and management of any non-compliance. Out of these 114 checklists, 85 concern materials and 29 services and works.

The system was consolidated at the end of 2008, through a series of actions including updating organisational procedures for supplier assessment and management of non-compliance, specific training for the company departments involved in the procedure, the setting up of the IT system for managing non-compliance and for the automatic calculation of supplier scores.

With regard to Hera S.p.A. suppliers, in 2009 753 cases of non-compliance were detected, of which 530 were closed by year-end.

Times of payment as per contract

Consistent with the financial stability objectives of Hera Group as well as Group guidelines, the times of payment as per contract are fixed at 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 consideration of the dissemination of the e-Procurement platform, which allows suppliers to interact with the Hera Group through the SAP SRM system, a new support structure able to assist them in all the phases of qualification and negotiation (initial registration, negotiation and submission of an offer, etc.) was defined. This is the Helpdesk department for suppliers (4 initial operators) that are able to offer an initial level of support for almost any type of problem. Telephone contact with the Helpdesk was added to the offer request, in addition to the buyer contact details. In the period from July to December 2009, the Helpdesk handled 3,200 requests for assistance. Suppliers were also provided with a quick guide and how-to videos on the Group's intranet to help them in their use of the platform,

At the end of 2009, of 9,307 suppliers on record, 9,158 can use the SRM, 5,197 of which in on-line mode (which can be contacted either via fax or via email), 3,506 in

offline mode (which can be contacted only via fax) and 455 without a contact person (the Help Desk is currently attempting to said contact information).

In addition, on the SRM 12 tenders concerning Qualification Systems in accordance with art. 232 of the Public Contracts Code were announced, aimed at pre-emptive supplier selection based on possession of the technical and economic requirements set forth in the public notice. In 2009, a total of 16 tenders regarding Qualification Systems were published, of which 75% (12 out of 16) were managed on the e-procurement platform.

In the first half of 2009 meetings took place with the regional associations of the social cooperatives in order to update the Memorandum of Understanding signed in 2004: the reviewed Protocol was signed on 5 June 2009 by Hera S.p.A., Legacoop Emilia-Romagna and Confcooperative Emilia-Romagna, and in July 2009 AGCI, *Associazione Generale Cooperative Italiane Emilia-Romagna* also joined. The main additions involve the commitment of the cooperatives to guarantee that the customised job opportunity projects are carried out with a focus on the relations with the organisations recommending workers in the local areas and that the projects are monitored, updated and developed according to a schedule defined between the parties and inserted in Hera's procedure for execution of the protocol itself. Furthermore, the obligation of the signatories to the protocol to establish a technical schedule was added, and all the issues comprising the agreement will be developed insofar as their technical-legal profile.

The representatives of the seven local consortia the social cooperatives belong to which provide services to the Hera Group participated in the work which resulted in the redefinition at the beginning of 2009 of the procedures for monitoring and collecting the data on the number of workers facing hardship that are employed in activities carried out for Hera. At the beginning of 2010, based on an analysis of the data collected, the work group validated the procedures that were defined (the data is presented in the section "Suppliers"), confirming the validity of the information inducing in support of the assessment of the issues such as Hera's commitment to increase the volume of contracts to social cooperatives, the capacity of businesses to increase their efficiency, the new difficulties that the social cooperatives encounter in offering job opportunities to persons facing hardship.

Litigation with suppliers

In December 2009, there were 58 pending disputes with suppliers, including 8 initiated in 2009, mainly concerning tender issues.

Public Administration

Breakdown

Hera is a service provider for 240 municipalities (nearly all 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 (ATO) 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 and CNR, public bodies, other companies). These activities are conducted via partnerships or quite simply through sponsorship.

Corporate crime prevention

Hera is committed to guaranteeing the highest levels of integrity and honesty in relationships with the 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 Legislative Decree 231/2001.

Currently the organisation model includes twenty-two 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, and donations and gifts. In 2009, two new protocols were issued: "Personnel Recruitment and Hiring" and "Disciplinary System and Dispute Management". In addition, the following protocols were also revised: "Mandate Management", "Management of Relations with Shareholders, Statutory Auditors and Independent Auditors", "Hera S.p.A. Separate Financial Statements and Group Consolidated Financial Statements", "System of Reporting and Management of Notifications, Sanctions and Warnings" and "Disposal of Vehicles".

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.

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 as well as, increasingly, individually, by direct involvement with the public administration and regulatory and legal entities.

These discussions essentially take place through exchanges of opinions, position documents and targeted communications, participation in formalised debates (public consultations) and the promotion of a bilateral dialogue through meetings with the stakeholders. The Group's positions are also disseminated through participation in discussions on research issues promoted by academic institutions and independent entities, as well as through associations operating on an international level (EUREAU, EURELECTRIC, CEEP, and CEDEC).

As the reference regulations for mature utilities (electricity and gas) have been substantially established, in 2009 most communications and positioning efforts were concentrated on the reform of local economically significant public services. We are proud of the evolution of regulations and the progress in the political debate, which now tends to overcome "ideological obstacles" to reforming services (public vs. private, local vs. national) in favour of greater consideration of the authentic important issues in the development of the sector (regulation, tariff structures aligned with costs, incentivising investments).

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. This results in an appreciable increase in the attention paid by institutional stakeholders and a definitive increase in the credibility of proposals submitted, which, while they have the objective of pursuing corporate interests, take on a systemic scope.

Hera representatives are regularly invited to conventions, public events and seminars, and institutional discussions, as proof of the importance achieved and the interest in the positions expressed. Dialogue with parties responsible for primary legislation and legislation deriving therefrom on the issue of local public services is expanding and shows the potential for development. The stated goals of a "second phase" of institutional communication in this field is to formalise modern, effective legislation for the services, specifically the water service, based on the experience acquired in the energy sector.

In 2010, an institutional communications strategy is also being developed for the necessary reinforcement of the reference framework for incentives for renewable energies and district heating and co-generation technologies. Specific interventions in these areas, taking the shape of numerous position papers and amendments to regulations being drafted were realised during 2009. These interventions resulted in a more favourable incentive framework for the production of energy from waste and for district heating through co-generation.

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 2009 the Bologna TOS met with the Committee of Municipalities in the Bologna Area every six months, while the Forli-Cesena TOS met with the local Mayors' Committee on a quarterly basis. The Imola-Faenza TOS met quarterly, often together with the Con. AMI top management, with all the Mayors of the region. The Modena TOS met on a monthly/bimonthly 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 the relative decentralised offices in order to examine issues relating to the services managed in the area. In 2009 it held eleven meetings. The Local Shareholders' Committee in the Rimini area met 3 times in 2009. These meetings specifically examined the new waste collection method named e-Gate and the issue of rainwater.

In 2009 the Municipality of Bellaria launched a "Committee for Local Services Performed by Hera", which also includes the main trade associations, with the objective of joint oversight of the efficiency and quality of the waste management services provided by Hera. In 2009 as well, the Municipality of Riccione started a "Technical Roundtable for Integrity and Safety" in which Hera participates along with other service operators and trade associations. In 2009, the Users' Representation Council of Ferrara (CRU) held seven meetings in which it examined issues regarding the quality of services provided by Hera.

The "Bologna – Civilised City" Award

Highlighting small acts by normal people who, through effort and dedication, make Bologna a welcoming, friendly city: this is the concept which Centro Antartide, Hera and the Il Resto del Carlino newspaper used to give life to this award. A recognition that rewards civil virtues which have been forgotten: cleaning the pavement in front of your home, helping immigrant children to learn your language, making the riverbanks liveable. Il Resto del Carlino requested notifications and self-nominations: the jury selected one winner and assigned many honourable mentions. The spokesperson for the initiative, and a member of the jury, was Giorgio Comaschi, an actor, comic, observer of habits, but especially, a lover of Bologna.

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 2009 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 Region 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 act 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. 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 Legislative Decree 152/06.

According to the rules for issuing the Regional Waste Management Plan and in full application of Legislative Decree 152/06, 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 (ATO) 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.

A drop-off point in the city's gathering place

In September 2009, the first underground drop-off point in Ravenna began operating. This point was created by Hera in Piazza Andrea Costa, one of the most popular gathering places in the city. Residents in the town's historic centre can drop off their separated waste, 24 hours a day, in the external chutes at street level, which take up much less space than the traditional bins, and are more harmoniously integrated into the urban and architectural context of the square. The waste dropped off in the chutes ends up in underground bins, one for each type of waste, equipped with an automatic sanitation system, a fire-prevention system and a system for measuring the filling levels. Each chute has an optical reader which recognises the barcode on the TIA bill, so that residents can obtain the envisaged discount of 0.15 euro/kg for each drop off of waste.

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 region, the Pesaro and Urbino Authorities and the Toscana Centro ATO. 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.

Hera in the management of the Po River emergency

The possible effects of the spill of a considerable amount of gas-oil on 23 February 2010, which reached first the Lambro and then the Po River, set off alarms also in Ferrara, given that the city's aqueduct is supplied by water withdrawn from the Po.

Hera's technicians constantly monitored the situation, coordinating with the technical roundtable set up at the Ferrara Prefecture. During the emergency, samples of raw water and water introduced into the network were withdrawn every two hours, for a total of over 100 samples, on which a total of approximately 2,000 tests were performed on the parameters useful in defining the suitability for drinking and the quality of the water: all the tests were negative.

The technicians who worked 24-hours a day in the Hera laboratory of Sasso Marconi, which provides extremely high quality control, provided the best management of the event and facilitated the duties of those who, at the Prefecture's roundtable, were called to make significantly important strategic decisions in a short time. The quality of the work performed by Hera was officially recognised by all the Authorities involved.

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 Legislative Decree 31/2001 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 2009 Hera received 39 warnings, compared to 30 in 2008, which were followed by the fulfilments required by the supervisory bodies. Only one warning was challenged before the Emilia-Romagna Regional Court Administration, as part of the appeal regarding the Ferrara waste-to-energy plant, which is discussed in the section on Local Communities.

In 2009, 31 administrative sanctions were paid, issued for primarily environmental violations, for a total of Euro 79,779.

The qualitative analysis of the notifications, sanctions and warnings highlights the following: purification services 59%, waste management services 9%, claims 3%, and other types 29%.

Accords, agreements and memorandums

In order to jointly define the methods for the realisation and management of Hera plants and services, Hera develops accords with local authorities, and economic and citizens' associations. The subscription of these accords formally binds the parties to respect the regulations and schedules. These signed accords then take the form of agreements or memorandums of understanding, depending on 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:

- Voluntary Agreement between CNH Italia, the Municipality of Modena – Environmental Policy Inspectorate Office and Hera Modena, for the realisation of actions aimed at favouring separated collection of waste similar to urban waste produced in CNH's Modena plants (signed on 15 May 2009). A voluntary agreement is considered the most efficient instrument for achieving the goals defined in the Local Agenda 21 Plan of Action, a process in which all the signatories participated.
- Memorandum of Understanding between the Provincial Command of the Fire Brigade of Bologna and Hera Bologna, aimed at developing measures suitable to guarantee the best emergency services to users, and greater safety for operators, starting from the common, in-depth knowledge of respective skills and operating methods (signed on 17 March 2009).

- Memorandum of intent between the Province of Bologna, the Municipalities of Bologna, Castenaso and Granarolo of Emilia, Arpa, the Local Health Authorities and the University of Bologna, Frullo Energia Ambiente s.r.l. (the company which is 51% owned by Herambiente to which the management of the Frullo waste to energy plant has been assigned) signed on December 2009 for the implementation of permanent environmental monitoring in the area surrounding the waste incineration plant in via del Frullo, in Granarolo dell'Emilia. The memorandum provides for the placement of two detection devices for the monitoring of fine particulates, PAH and metals: any need to implement further parameters to be monitored by the detection devices will be examined as part of the regional Monitor project. Concurrently with environmental monitoring, there is also a plan for the realization of studies and investigations that will become necessary during the lifetime of the plant.
- Programme Agreement on the Ferrara Industrial and Technological Complex for the construction and maintenance of the optimal co-existence between environmental protection and the strengthening of the production plants and services, signed in 2001 and renewed on 9 December 2008 between the Ministry of Economic Development, the Region of Emilia-Romagna, the Province and Municipality of Ferrara, industrial associations, unions, companies operating in the chemical sectors and companies operating in bordering areas including Hera. Through its own plants dedicated among other things to the production of energy through the conversion of waste to energy and district heating for the city, Hera, as provided by the Agreement, is active in the application of best available techniques (BAT) in implementing the monitoring network for the air and in its relations with the university for research activities.

The R.A.E.E. (waste from electrical and electronic appliances) project in prisons grows

After Bologna and Ferrara, in 2009 the "RAEE in Prison" project for the pre-treatment of waste from electrical and electronic appliances was extended to Forlì. Launched around the end of 2007 and the beginning of 2008, this project was conceived, developed and coordinated by Hera and Techne. Among other partners, the project involves the Emilia-Romagna region, the Prison Superintendent's Office, the Provinces and Municipalities of Forlì-Cesena, Bologna and Ferrara, the Ecolight and Ecodom RAEE consortia, professional training agencies and social cooperatives: This is the leading national inter-prison project for prison 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 Hera Group separated 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. It is estimated that the operation contributes to saving 2 million kWh of electricity, recycling more than 660 t of iron, 10 t of copper, 5 t of aluminium, and 25 t of plastic.

Relations with authorities

The Italian regulatory authorities

The Italian regulatory authorities that mainly affect the Group's activities are the 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 (antitrust, authorizations for mergers and acquisitions, protection of consumers and monitoring of the correctness of commercial policies).

In its relations with the regulatory authorities, Hera is guided by the principles of correctness, loyalty and transparency within its own Code of Ethics; the information requested by public administrations with regulatory functions is submitted regularly and in complete form. Any criticalities or potential problems in the collection of information are notified beforehand and then submitted for an opinion or interpretation, while avoiding excessive use of interpellation on issues that can be resolved to a reasonable extent through an in-depth study of the laws or a discussion and exchange of experience with other companies.

Relations with the Authority for Electricity and Natural Gas (AEEG) are specifically structured, due to the impact the latter's decisions have on regulated and market activities: Hera participates either directly or through associations it belongs to in the mandatory consultations the AEEG holds in view of the adoption of provisions. Hera's management is regularly represented in the high level delegations: dedicated meetings, including of an informal nature, are organised with specific departments of various Authorities for discussion on technical issues.

In 2009, as part of the intensification of AEEG's monitoring activity, Hera was involved in a series of formal investigations aimed at ascertaining compliance with applicable regulations. The Authorities' verifications involved:

- the distribution of electricity (VIS 73/2009) with particular attention to compliance with the terms concerning processing of the hourly consumptions and communication to the sellers of the relative information;
- the distribution of gas (resolution VIS 92/2009 and resolution VIS 100/2009) relating to the verification of compliance with service obligations inherent in the replacement of the cast iron pipes / pipelines and the application of the volume correction coefficient (k);
- the sale of electricity (VIS 93/2009) in relation to compliance with the applicable rules on transparency of invoices.

In regard to the aforementioned proceedings. Hera fully cooperated with the regulatory authority by providing all the information that was requested and placing its activities in line with the regulations, where irregularities were found. The aforementioned proceedings, which carry a potential risk of sanctions or penalties, have not yet been concluded at the date of approval of this report.

It is noted that, in relation to the inevitable increase in the complexity of the regulations and the new customer protections introduced following the complete freeing of the market, Hera is setting up structured internal processes for the monitoring of parameters and the procedures that determine regulatory compliance.

For example, there is intense dialogue and interaction with customers in regard to complaints regarding service quality, which the AEEG is continually updated on. Internal instruments of control “analogous” to those the Authority would adopt in the course of an inspection are now operational and have been set up so as to detect any criticalities early, report any regulatory risks to management and disseminate the best practices along the decision making and management chain.

Reports and dialogue were also intensified with the Italian Antitrust Authority (AGCM), in relation to the increasing attention it has been paying to issues involving consumer protection, transparency and correctness of commercial offers and the communication with customers in general. In particular, during 2009 Hera was involved in the proceedings initiated by the Italian Antitrust Authority following an accusation by a seller against the Group and other operators involved in the distribution of electricity and gas to investigate any abuses of dominant position creating the alleged obstacles encountered by the sellers in serving customers connected to the network managed by a lawful monopoly. To prevent the risk of sanctions or penalties and notwithstanding the belief that it acted according to the law, fully correctly and transparently, Hera presented its commitment to remove the situations which were contested. The proceedings are still ongoing and their conclusion, which could result in the acceptance of these commitments (which at the date of approval of this report are being assessed by interested third parties) is expected in 2010.

Hera and the police department working together to prevent scams

In 2009 the citizens of Bologna, Ferrara and Ravenna received advice on how to avoid scams and swindles together with their gas bills. This campaign was not targeted exclusively to senior citizens, who are the preferred targets of con artists, but also to their relatives, neighbours, bank and post office employees: all persons who can play an important role in reporting or, better still, avoiding a swindle. The Police and Hera work together to recognize, avoid and report those who prey upon loneliness and insecurity. This is an instrument that ensures more peaceful living while making the city a friendlier place.

Waste and Water Regulatory Agencies

One of the pivotal points of the evolutionary process that has been of interest to 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, exceeding the current fragmentation.

The laws that have introduced this concept for water services and urban waste management are Law 36/1994 (Galli Law) and Legislative Decree 22/1997 (Ronchi decree), respectively. The Emilia-Romagna Region, 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. The Water and Waste Regulatory Authorities have assumed the function of regulation and inspection of

services, formerly performed by the municipalities, and introduced a wider reference point to guarantee higher efficiency, effectiveness and economy in management. As a result, a debate was initiated on the proper regional dimensions for regulation and inspection agencies, in consideration of the system's evolution.

In brief, the functions of the Water and Waste Regulatory Authorities include:

- planning: specific planning activities for services and preparation and approval of investment programmes;
- regulation: this function is concerned with defining procedures for granting services, defining relationships with operators, drafting regulation 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.

The region of Emilia-Romagna issued Law 10 on 30 June 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* [Territorial Authority] and the relative competences. Their role insofar as tariffs remains unchanged.

Hera₂O for Public Administration and the local community in Modena

After the project was launched at the branches, Hera₂O was launched at public administrations in Modena while it was presented to the local communities. Upon request of the local administrations, Adriatica Acque (a company that belongs to the Hera Group) installed water dispensers in the main branches of the province and municipality of Modena. In 2009, the Hera₂O campaign was in the spotlight of many local events: the events organised by the UISP (Unione Italiana Sport per Tutti), the running event "Modena di corsa con l'Accademia" and, in the Appenines, the Champions' Camp summer youth sports camps and the gourmet event "Parmigiano Reggiano da Gustare" (Tasting Parmigiano Reggiano Cheese)

Research projects

Hera Group's research activities in 2009 chiefly concerned the development of environmental monitoring and control technologies, energy efficiency, optimisation of the network management, and the technological development of renewable resources. Particular focus was placed on applied research on systems for the production of energy from renewable resources through the finalisation of the Laboratory for Energy design.

Leading research projects were:

- **The Laboratory for Energy.** In 2009, the design of the Laboratory for Energy was completed. This is an experimental centre for applied research on the production of energy from renewable and alternative resources, which will be built in Forlì (near the Regional Network Remote Control Hub and the laboratories at which solid waste, sludge, dioxins and atmospheric emissions are analysed). The Laboratory for Energy makes it possible to evaluate different technologies starting from those that are available on the market up to those that are still at the prototype stage, thanks to an advanced

network for the measurement and acquisition of information. The management of the experimental activities will take place in collaboration with the University of Bologna.

- **CO₂ Project.** This project, which was started in 2005, aims to reduce purification sludge and the emission of greenhouse gases. It consists of experimenting with an innovative technology for the capture of the CO₂ contained in the gaseous emissions of the combustion processes and the uses of the anaerobic digestion process of purification sludge and the resulting reduction of sewage. In 2006 and 2007, a series of experimental activities were carried out on a pilot plant created for this purpose: the tests carried out showed that there is a good capacity for the capturing of CO₂ and a significant increase in the specific production of biogas. In 2008, the experimental activities aimed at improving the anaerobic process continued, with an initial project involving the industrial application of the process to a plant in actual scale in order to assess its return. In 2009, certain aspects relating to the usage of new process adjuvants aiming at further increasing the production of biogas were examined in greater depth. Furthermore, an initial assessment of the industrial application of the sludge from the Bologna purification plant was conducted which showed that the returns from the initiative were not appropriate mainly on account of the existing logistics and plants. Similar assessments of this technology are being conducted at the Ravenna purification plant.

- **Emerging Pollutants Project.** The term “Emerging Pollutants” (EP) refers to various biologically active substances of anthropic origin such personal care products, medicines, psychoactive substances associated with drug addiction and their metabolites. One particular category that is transversal compared to the foregoing categories is endocrine disruptors. The presence of these substances in water is considered one of the major environmental problems of the last decade. The problem is present in Europe as well as the United States of America. These pollutants are present in water systems through the residue of human or animal metabolism or through their direct use in industry and agriculture. In 2007, Hera began a research project designed to identify the primary EPs in water systems (with particular attention to natural water for drinking water), to improve analytical methods for quantitative determination, carry out investigations on the presence of these substances in the water systems in question and evaluate the effectiveness of removal from the current treatment systems (treatment and purification). Hera takes an active part in the study group “Endocrine disruptors and water intended for human consumption” (www.edinwater.com) promoted by the AMGA Foundation of Genoa (www.fondazioneamga.it). Other Italian multiutilities, various university departments and the Italian Institute of Health are members of the study group. In 2008, a collaboration was started with the Centro Ferrara Ricerche and the Istituto Mario Negri, in order to carry out studies on micropollutants of a pharmaceutical origin in wastewater. During 2009, several analytical methods were acquired and tested by the laboratories belonging to the Group while some analyses were carried out on natural drinking water. Other analyses were carried out on samples of wastewater in collaboration with the Istituto Mario Negri.

- **Environmental Catalysis Project.** The project, started in 2007 with the collaboration of the University of Bologna and with the participation of the Italian Institute of Health, involves checking the use of traditional catalytic converters used for the abatement of NO_x emissions and dioxins. 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. The sampling began in 2009 at the new waste-to-energy plant in Forlì and the results will be available in the first half of 2010.

- **Automatic Leakage Detection Project.** 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 on the MatLab® platform and the design of a device that simulates water leaks. The device was finalized in 2009 and installed with actual users together with the acquisition instruments developed the prior year. The significant mass of information allowed for improved characterisation of the physical phenomenon compared to the past. In 2010, the aspects relating to the industrialisation of the device will be studied in greater depth.

- **Bio-Hydro Project.** This project aims to develop a cycle of disposal of organic waste from the agricultural and livestock sector which consists of the fermentation using hydrogen of a least one type of agricultural-livestock waste and the co-digestion using methane of the remainder 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.

- **Energy Efficiency Benchmarking Project.** The aim of the project is to supply tools to improve the energy efficiency of integrated water service systems. Through benchmarking and an appropriate schematisation of the plant processes, it will be possible to measure and monitor the energy efficiency of each plant. The activity initially regards the purification plants. The project is coordinated by the Water Research Centre of Swindon (UK) and various European multiutilities are involved. The activity which began in 2007 continued in 2008 with the characterisation of the energy consumption at the purification plant of Cervia (Ravenna), the definition of measurement points for the verification of real streamlining activities and the installation of the required equipment. In 2009, this activity involved the setting up of the pilot energy model for the plant. Concurrently, the Group's Energy Management Unit studies the economic aspects in depth, taking account also of the bonus systems provided by applicable laws.

- **Fuel-Cell Project.** The project aims to evaluate the efficiency of plants for distributed production of electricity and heat through combustion cells fuelled by methane or hydrogen. A cell prototype with a polymeric membrane powered by methane was built in 2006. In 2007, the cell was transferred to ENEA laboratories in Bologna. In 2008, the functionality tests were carried out and the possibility of upgrading the cell was assessed with its manufacturer. In 2009, the cell was upgraded in light of its potential use in the Laboratory for Energy.

- **Automatic Plant Management Project.** 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). The objective is to guarantee the quality of the final product and

reduce the energy consumption. 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.

- **Water Cycle Plant Modelling Project.** The project provides for the development of mathematical models for the simulation, both hydraulic and process, of the treatment plants. The objective consists of acquiring the instruments and the know how necessary to launch the coordination of the mathematical modelling of the integrated water cycle plants. This activity which will be added to the already ongoing activities involving network models, is required in order to support the management, enhancement and streamlining of the plants. The project is carried out in collaboration with ENEA. 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.

Hera invests in innovation and research

An agreement was signed in September 2009 by Hera, the University of Modena and Reggio Emilia and the Alma Mater Foundation of Bologna, with a 4 year loan of Euro 248 thousand granted by the Group. Through awards, a doctoral allowance and financing for new research, high level technical and scientific skills are fostered as is the development of applied research at the Modena Faculty of Engineering. The study activities are aimed at improving the operation of electricity and thermal energy plants, purification systems for waste-to-energy plants and the quality and safety of the electricity distribution networks.

This agreement is added to those already implement with DIEM (Dipartimento di Ingegneria delle Costruzioni Meccaniche Nucleari Aeronautiche e di Metallurgia – Department of Engineering of Mechanical, Nuclear, Aeronautical and Metallurgical Constructions) of the University of Bologna and ENEA. The first 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 thousand for Hera. The second involves a commitment of Euro 160 thousand 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.

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. Furthermore, in 2009, three consulting committees consisting of citizens that live close to Hera plants are active and aim to ensure the Group's commitment of transparent management of its plants.

Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> • Bring on stream the activities of the Rimini RAB. • Increase the number of students involved in the activity of environmental education promoted by the Hera Group (Tuttigiùperterra, Itinherario invisibile, Un pozzo di scienza), compared to 2008. • Renew the section of the website targeted to young people, by introducing new ways to use the contents. • Verify the contents of the Sustainability Report (materiality, response capacity), through the involvement of workers and other stakeholders. • Complete the design and initiate the construction of a renewable energy laboratory in Forlì in 2010. 	<ul style="list-style-type: none"> • The RAB activities were temporarily suspended in 2009 due to the administrative elections in the three municipalities involved. The activities started again in December. (see page 167) • The students involved in the environmental education activity have decreased compared to 2008 (39,901 compared to 45,617). This decrease is mainly due to the fact that the “Un pozzo di scienza’ (Science Well) initiative was targeted only to high schools in 2009. (see page 159) • The new area dedicated to schools was designed and the prototype has been constructed. The publication of the new section was postponed to 2010. (see page 155) • The opinions of 35 stakeholder representatives were recorded during the 5 events at which the Report was presented to the public. Furthermore, an analysis of the information requests from the survey was carried out for the Dow Jones Sustainability Index. (see page 36) • In 2009, the design of the Laboratory for Energy was completed. (see page 150)
We shall...	
<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. • Develop further initiatives for the promotion of tap water use. 	

Breakdown

In Hera's service area, there are nearly 3.1 million inhabitants. The provinces in which the company is operational host approx. 14,000 non-profit organisations.

Every year, Hera works together with approx. 700 schools (involving approx. 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 2009 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, site with 24-hour on-line services), the communication objectives connected to environmental sustainability were also forcefully pursued, promoting the quality of the relations between Hera and its areas of operation.

A big party for the Imola plant

Approximately 4,000 Imola residents participated in the inauguration of the new co-generation plant on 3 October 2009. Throughout the afternoon music was alternated with shows and test rides on one of the electric vehicles that Hera provided to the Municipality of Imola as part of the agreement for the construction of the plant. Over 1,500 people visited the new plant, accompanied by Hera technical staff. Exhibition areas dedicated to alternative energy were set up in collaboration with Consorzio Opera, Elettronica Santerno, Energifera and Micro-Vett.

Communication on the quality of the tap water was central to the activities in 2009. Hera guarantees the quality, goodness and safety of its tap water based on over 1,200 checks per day and invited citizens to prefer it over bottled water. It did not limit itself to providing information on the high amount of savings deriving from the use of the "Mayor's water," but also communicated to the public at large the issue of environmental impact by helping the environment through reduction of plastic bottles used. Since the best practice is one that is implemented by the entity that promotes it, Hera continued to personally commit to its Hera₂O project by implementing it in its own cafeterias and offices, where tap water is consumed as a matter of course and practices aimed at saving energy and carrying out separated waste collection are by now daily, consolidated practices. In 2009, Hera participated in World Water Day with information booths and tap water dispensers.

Virtual water in food

Television host Sveva Sagramola and a well known chef, Cesare Marretti, presented the first Italian exhibition that indicates how much water is required for the most commonly consumed foods. As an example: a 300 gram t-bone steak contains over 4,600 litres of “virtual water!” Taking its lead from a UNESCO study on the quantity of water used in the productive cycle of a product, the Bologna TOS commissioned Professor Arjen Hoekstra, the scientific director of Water Footprint Network and inventor of the “water footprint” concept, to carry out research aimed at quantifying the amount of water contained in two typical Italian products: pasta and pizza. This is a new outlook from which to look at water consumption and the water used to obtain mass consumed goods. This is one step forward towards responsible consumption of water resources.

Hera aimed to base its communication on the transparency and truthfulness of the numbers: we note the “0.0015” campaign and the cost in Euro of one litre of tap water and the campaign on the widespread presence on 86 consumer branches of the Group throughout the local areas. These numbers make clear the commitment and results of the Group in the various sectors of its operation, witnessing the daily work which is mainly aimed at constantly improving everyone’s life, guaranteeing the quality of the water while also promoting separated waste collection, reducing call centre waiting times and facilitating as much as possible the contact and interaction between the company and citizens.

The campaign for the promotion of separated waste collection, carried out through television commercials on local television networks that explain about the waste cycle, was aimed at communicating and guaranteeing for residents that their responsible behaviour is a treasure that Hera protects and enhances, which ensures the appropriate recovery of correctly collected waste.

At the beginning of 2009, a tour of the new laboratory hub at Forlì was launched. In order to become better acquainted with this complex entity that represents excellence on a national scale, organized tours are available upon request to communities and students within the region. Specifically designed visual communication has been designed to accompany the tour, which makes it easier for visitors to understand the processes used for analysis and the peculiarities of the system.

Taking part in exhibitions and trade fairs

In June 2009, the Hera Group participated in “FutureSource,” one of the major international conferences and exhibitions in the waste sector which has been held in the United Kingdom for over 30 years now. The exhibition is organized by CIWM (Chartered Institution of Waste Management), a British organization with over 7,000 members that are professionals and companies that operate in the waste sector, together with ESA (Environmental Services Association). Hera presented its high level of skills and know-how, lengthy experience in the management of the integrated waste cycle and its planning, realization and management of treatment plants, particularly those using waste for the production of energy.

Hera once again participated in Ecomondo, the international exhibition for the recovery of waste and energy and sustainable development, which is the Group's primary exhibition. This year the presentation of Herambiente, the Group’s new company which arose from the transformation of Hera Group’s Waste management Division, played the

main role. Hera was also present with a stand at the Consumabile campaign of Reggio Emilia with a report on the quality of the drinking water.

In September, the Group participated in Sana, *Salone Internazionale del Naturale* [Exhibition of Natural Products] which is held in Bologna every year.

Discovering waste with the Open University

In cooperation with the Imola-Faenza TOS, Open University held a five lesson free of charge course on waste. The national laws, priority actions according to European Directives (prevention, re-use, recovery and disposal), efficiency in urban waste management, the role of scientific research and Italy's position compared to other countries were the issues covered. The course also included a visit to the ecological station and one to the landfill, in order to provide a hands-on experience with the complex organisation underlying waste management

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. Local events, educational initiatives, plant inaugurations, company laboratories and branches, awareness raising campaigns on water and energy savings, separated waste collection, prevention of scams, mediation, information on the emissions of waste-to-energy plants updated on the half hour, company performance and business outlook: all this is communicated on line. the traffic to the Group's site has increased: there was a +16% increase in pageviews in 2009.

Particular attention has been paid to the enhancement and responsible consumption of water, thanks to the AcquaVirtuale site, published on the occasion of World Water Day and the publication of the first report on drinking water, which were added to the on line information on the chemical and physical parameters of the water in Hera's network. The section on the quality of water had approximately 23,000 pageviews in 2009. The Sustainability Report mini-site was updated with new graphics and support tools with which to analyse the results of the Group: over 40,200 pageviews were recorded. Furthermore, the success of the section presenting the on line emissions of the waste-to-energy plants updated every 30 minutes had almost 10,000 pageviews in 2009.

VedoHera, The Hera Group newsletter on sustainability, grows

VedoHera, the online newsletter on sustainability which is published quarterly, was launched in May 2008 and had gained 8,700 members by December 2009, with approximately 7,500 visitors to the site and over 16,600 pageviews. 6 issues were published from May 2008 to February 2010. The newsletter is dedicated to sustainability and the issues of quality, Health & Safety (H&S) and the environment. VedoHera handled many issues over the past year and a half, including the Group's commitment to transparently manage its plants through the Residential Advisory Board (RAB), its quality policy on Health & Safety (H&S) and the environment, the training

activities on its Code of Ethics and the various environmental management systems such as the control system for the emissions of waste-to-energy plants and the authorisation procedure to be followed in order to construct a new incinerator and presentation of innovative plants belonging to the Group. And many other issues connected to the projects carried out in the local areas in which the Group operates and in which its commitment to sustainable development is put into action.

An important confirmation of the quality of the institutional and financial communication arrived from the Group's move up in the Italian web ranking by Hallvarsson&Halvarsson. Among the institutional sites of 100 listed Italian companies, Hera won silver, with the gold going to Eni. At the European level, Hera is sixth among the companies of the energy sector.

The new area dedicated to the world of school was designed, the prototype of which was suspended thereby postponing publication to 2010, in order to allow for the necessary adjustments following the corporate reorganisation which the Hera Group went through at the end of 2009.

Website hits

(No.)	2007	2008	2009
Pageviews (monthly)	446,962	408,636	472,534
Unique visits (monthly)	41,553	48,702	64,662

What is Hera's reputation on the web?

The on line word of mouth is continuing, while 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 monitoring is focused on blogs, forums and newsgroups, all of which are virtual places in which it is easy to collect spontaneous views, as most of the content is placed there by users themselves.

In 2009, 2,294 posts that referred to Hera were analyzed, most of which were on blogs (64.5%). There was a lesser presence in forums (34%) but still significant. Over one-half of the posts analysed had Hera as the main issue (this number has almost doubled compared to 600 in 2008). The profile of the image that ensues is quite defined and most of the areas examined are associated with positive assessments. Positive visibility for the numerous initiatives aims at raising the awareness of citizens in regard to the environment and energy savings has contributed to communicating the image of a group that cares about social issues and is committed to informing its customers about environmental issues. Critical areas emerged in regard to incinerators, the privatisation of water services, tariffs and relations with politics. Given the increasing importance of these "virtual meeting points," monitoring has been intensified: the two half-yearly surveys in 2008 have developed into a system of weekly reports in 2009. In 2010, further attention will be paid to opinions expressed on line, extending the monitoring to social networks such as Facebook and YouTube.

Environmental education

Hera Group has developed for some time now an intensive collaborative relation with schools in order to disseminate to new generations a culture of respecting the environment and responsible use of resources.

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 repropounded in addition to the education provided at the local level: “Un pozzo di scienze “ (the “Science Well”, which ran for the third year and the “Itinerario Invisibile (the “Invisibile Itinerary” promoted for the second year.

Environmental education projects

(No.)	2007	2008	2009
Schools involved	553	699	694
Participating students	36,014	45,617	39,901
Teachers involved	2,513	2,899	1,803

The data refer to the activities planned and concern Hera S.p.A.

In regard to the projects managed by the Territorial Operating Structures, the 2009 results confirm the success of prior versions. The number of students and teachers involved has dropped since 2008, due to organizational difficulties within the schools. In regard to the projects managed by Hera’s central structure, there was an overall drop in the participants due to organizational changes in the structure of the projects and the fact that the “Science Well” was targeted only to high schools.

Separated waste collection in Cesena schools

A study was launched within the schools of Cesena which involves strengthening the commitment of students, teachers and operators to the environment with the introduction of separated waste collection of the organic wastes in kitchens and cafeterias. A total of 67 schools (9 crèches , 27 kindergartens, 22 elementary schools and 9 junior high schools) and 22 municipal kitchens, for a total of 654,000 means annually. 9,000 guides to separated waste collection were distributed to Cesena schools through the initiative of the Forlì-Cesena TOS.

In 2009, Hera promoted and organized the third version 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 5,500 students and 220 teachers were involved in 41 meetings in 9 major cities of the Emilia Romagna region. 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 Region, the Regional Academic Office, the Provinces and the Municipalities served. This initiative is slotted to take place in 2010 as well.

Eco box for appropriate disposal of mobile phones

In association with Eco-Recuperi of Solarolo (Ra), in May 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. Since inception, this project has involved over 400 schools of every level throughout the local area served by Hera.

In 2009, 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 represents an evolution of the classic plant visits was extended in 2008/09 to six of the seven territories in which the company is present with its own plants, involving 54 schools, 3,331 students, 89 teachers - all numbers that are three times higher than the ones achieved in 2008. The third "Invisible Itinerary" has been planned for 2010.

In order to renew and enrich the traditional educational offer, Hera has set up a new educational project named “Open Mind,” which is targeted to 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. “Open Mind” aims to train students while also providing teachers who themselves are trained through using the CD, with an indispensable educational medium: dissemination to all schools in the local areas served by Hera is expected for 2010.

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 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)

%	2007	2008	2009
Favourable or highly favourable articles	86.0%	87.7%	92.2%
Neutral articles	13.0%	11.7%	6.6%
Critical or extremely critical articles	1.0%	0.6%	1.2%
Total articles (no.)	576	618	268

Data do not include Marche Multiservizi.

Hera news items (local press review)

%	2007	2008	2009
Favourable or highly favourable articles	60.8%	64.9%	70.5%
Neutral articles	20.0%	21.7%	14.1%
Critical or extremely critical articles	19.2%	13.4%	15.4%
Total articles (no.)	5,213	5,792	5,083

Data do not include Marche Multiservizi.

In 2009 the Hera Group maintained a positive presence in the national media, thanks to the good economic results it achieved as well as the success of managerial and plant initiatives undertaken. Among the main issues that were covered in daily and weekly publications were the inauguration of the co-generation plant in Imola and the numerous social responsibility initiatives. In regard to the regional press, we confirm the significant interest expressed in the company, with over 5,000 pieces published in the local daily press alone. Among the items with the most visibility were those in which the customers played a major role, in terms of the services (such as the inauguration of new branches and the launching of the call centre) or initiatives targeted to them such as sponsoring of sports and cultural events and support of educational efforts. A good deal of space was dedicated to the inaugurations of the new state of the art structures and plants (the Remote Control Unit for Fluids in Forlì, the District Heating Sector in Ferrara and the Forlì laboratory).

The improvement of the attitude of the local daily newspapers towards the company was noteworthy: journalists spoke well of the Hera Group in over 70% of the cases, compared to 65% in 2008.

The decrease in the articles in 2009 both in the local and the national press is due to the end of the negotiations on the possible merger with Iride and Enia, an issue which received broad coverage in previous years.

Hera's presence in the press is the result of daily relations with journalists that work for newspapers and weekly publications on a local and national scale, and are conducted according to principles of availability and transparency, while they are based on the exchange of information through press releases and press 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.

In 2010, the quality and frequency of the relations with local TV stations will be developed even further, as it is a significant medium in the area in which Hera operates through which to promote the company's image and the information on the services so that our presence throughout the area is even more widespread.

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.

Hera awards “The Energy of Writing”

In 2009 the Group launched the “Energy of Writing” competition as part of the national Subway literary competition, for writers who live within the local areas serviced by the company. The work which best describes and interprets the social and cultural transformation that came about in the urban area of reference as a result of the services provided will be the recipient of the award. The prize consists of the publication and distribution of the work within the Subway circuit which involves major Italian cities, with an overall circulation of 4,350,000 copies printed on 100% recycled paper. In the provinces served by Hera, the free of charge distribution of the books also took place through Hera stands positioned near branches.

Hera supported the Bologna Cinetheque by identifying and sponsoring the major dates in the programme for 2009 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 initiatives are added “Slow Food on Film,” an international festival featuring the cinema, culture and gastronomy promoted in association with Slow Food.

Hera renewed its association with the “BilBolBul” international cartoon festival of Bologna, by sponsoring the third festival and it has decided to sponsor the “Future Film Festival,” which is the main Italian event dedicated to animation and special effects in movies.

Hera was determined not to miss the major events of the Emilia-Romagna artistic season by sponsoring the Antonio Canova exhibition in Forlì and the “Otium Ludens,” an exhibit which was held in the San Nicolò complex in Ravenna, with 170 findings from Roman villas struck by the Vesuvius. Hera sponsored the “Arte Cortesa” international exhibit which was held in the Biblioteca Malatestiana and which focused on reconstructing the adventures that surrounded the artistic treasures that were found during Napoleonic times. Hera signed agreements with the organizers of all the above mentioned exhibits for its employees.

Hera also sponsored the “Internazionale a Ferrara” festival featuring debates and discussion with journalists from around the world and the “Premio Riccione 1947 e Italo Calvino.” Furthermore, we sponsored the Modena musical show “Suoniamo,” which many important Italian artists participated in as well as the “Notte Rosa” of Rimini.

Hera Supports Missionary Field Work

Hera has been a partner of the Field Work carried out by the Dioceses of Rimini insofar as financing their humanitarian missionary projects throughout the world. The initiative, which involves approximately 11,000 families in the province of Rimini, is able to finance the solidarity projects in developing countries thanks to a special activity of collecting and selling materials and objects that were recovered. Hera supports this effort and collaborates in the organisation and communication of the field activities. The revenues from the sale of iron, paper, glass, various metals and used clothing finance projects for the construction of housing projects, tanks of potable water, the purchase of sanitation equipment and the provision of professional training courses in Brazil, New Guinea, Zimbabwe and Albania.

The collaborations in the area of cycling continue with the sponsoring of the "Coppi-Bartali," the "Giro dell' Emilia," the "Coppa Pantani," and the portion of the Giro d'Italia which in 2009 passed through Faenza, as well as the Tricolore Week in Imola, Italian cycling championship races.

Hera supported the Associazione degli Amici di Luca and the "Casa dei Risvegli," an innovative centre for rehabilitation and research that has been active in Bologna since 2004, which is dedicated to people that have recovered from comas and vegetative states. Finally, during the Christmas holidays, Hera supported the Save the Children initiatives by purchasing its greeting cards.

In 2007, Hera adopted a policy pursuant to Legislative Decree 231/2001 and its own Code of Ethics, which prohibits making contributions to political parties, candidates for election to office or the support of initiatives with strong political undertones.

Sponsorship

(thousands of €)	2007	2008	2009
Recreational activities	109	120	90
Culture	845	798	882
Sport	245	222	301
Social	149	192	184
Environmental	135	110	123
Other	41	134	287
Total	1,524	1,576	1,867
<i>of which to local communities</i>	<i>1,441</i>	<i>1,527</i>	<i>1,779</i>
<i>of which to areas not served by Hera</i>	<i>83</i>	<i>49</i>	<i>88</i>

Donations

(thousands of €)	2007	2008	2009
Recreational activities	11	4	4
Culture	75	30	29
Sport	1	4	4
Social	41	70	144
Environmental	26	14	13
Other	28	7	17
Total	182	129	211
<i>of which to local communities</i>	<i>157</i>	<i>103</i>	<i>183</i>
<i>of which to areas not served by Hera</i>	<i>25</i>	<i>26</i>	<i>28</i>

Environmental regulations and compensations relating to new Hera plants

Expansion of the waste-to-energy plant in Ferrara Memorandum of Understanding between the Province of Ferrara, Municipality of Ferrara, Circostrizione Nord-Ovest, Hera (then Agea) of 25 June 2003 Integrated Environmental Authorization of Ferrara of 11 March 2008, Ref. 21823	
<ul style="list-style-type: none"> • Commissioning of only two new lines and the 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 the district heating to the outlying areas of Cassana, Mezzana, Porotto and Arginane, with a discount of 25% on connection 	<ul style="list-style-type: none"> • Line 1 was decommissioned in January 2009 and only the 2 new lines are operational. • From January 2008 the environmental monitoring of the air component by the CNR of Rome began, ahead of certain investigations. Again in 2009, the residents on the RAB worked with Hera, Arpa and CNR to identify the 3 environmental monitoring points of the environmental impact of the waste-to-energy plant. Approval from the Province is currently being awaited. • Completed • Completed • Completed • Completed • The project involving the placement of the main heat distribution network was completed in the time that was set. 10 connections to public and private structures were made, 8 of which are already active while 2 are in the activation phase. In 2010 there will be a concentration on the commercial action focusing on potential users in the areas served by the main network

Construction of the new waste-to-energy plant in Forlì

Assessment of the Environmental Impact Province of Forlì-Cesena 2 September 2004 no. 323

Authorization by the Province of Forlì-Cesena del 27 September 2005 no. 339

Integrated Environmental Authorization Province of Forlì-Cesena 29 April 2008 no. 237 as amended

DGP screening procedure of 21 July 2009 no. 326

<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 preselection plant to the waste-to-energy plant	<ul style="list-style-type: none">• 7 hectares of woods were completed by the deadline set for 31 March 2009, as the Municipality of Forlì was unable to provide the additional hectare which had been indicated in the Integrated Environmental Authorization. In October 2009 a new area (via Calamandrei) was identified as the last hectare: a public park based on the project presented on 30 October 2009 will be constructed, pending approval by the Municipality• 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 2009 is 3% and will increase in subsequent years. There were 59 methane/electric vehicles used by the Forlì-Cesena TOS as at 31 December 2009 (57 methane, 2 electric) which correspond to 23% of the total (there were 53 in 2008, 45 in 2007). The launching of the use of automatic waste compactors that run on methane in the Municipality of Forlì was temporarily suspended pending the probable redefinition of the city's waste collection system.• 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 work was placed under a screening procedure which excluded the need for a VIA. Construction of the district heating and the power plant are underway; furthermore, the essential change of the Integrated Environmental Authorization is in its final stages, this being necessary for the management of the plant.• Decommissioning completed in October 2009.• The monitoring detection device was tested in March 2009 and assigned via lease free-of-charge to ARPA. The information gathered by the device are validated by the Arpa Territorial Service and published on www.arpa.emr.it• The two touch screens are operational and can be consulted for the values of the atmospheric emissions as an average over the previous half hour and the average for the day.• Installation is provided for in an amendment to the Integrated Environmental Authorization, which will take place among the activities scheduled for 2010 and 2011.
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<p>Construction of new cogeneration plant in Imola Decree of the Ministry for the Environment and Protection of Local Areas “Pronouncement of environmental compatibility” n. 142 of 15 February 2006 Agreement between the Municipality of Imola, Hera S.p.A. and Hera Imola-Faenza concluded on 21 December 2006 Integral Environmental Authorization Province of Bologna 11 April 2007 General Protocol No. 124043</p>	
<ul style="list-style-type: none"> • Introduction of TSP (Total Suspended Particles) and PM10 limits of 1 mg/Nmc, sole turbo gas plant in Italy • Pre-operational environmental monitoring with two new detection devices meeting ARPA specifications • Acoustic monitoring pre-operational and during construction • 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 quarter • 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/Mnc, 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"> • Emissions 2009 PTS: 0.004 mg/Mnc; PM₁₀ 0.07 mg/Mnc • The two new detection devices have been operational since May 2007 and a comparison of the data for the 4th quarter of 2009 shows that the operation of the plant has had no effect on the data collected. • Monitoring prior to the start of operations and during the construction has been concluded, and the monitoring for 2010 on the now operational plant has been scheduled. • The project was re-defined with the Municipality of Imola. The scheduled recharging stations have been installed and 10 of the 20 electric devices have been delivered, while the remainder has been ordered and delivery is expected in the initial months of 2010. • Completed. • The area is being purchased by the Municipality and the landscaping will be handled by Hera. • The abatement systems that have been installed ensure emission levels lower than the maximum limits. Emissions 2009 for nitrogen oxide: 8.7 mg/Mnc; carbon monoxide 2.1 mg/Mnc • Winter water consumption below the limits • Contracts for over 8,500 KW have been executed in 2009, compared to discounts of over Euro 750,000.
<p>Expansion of the waste-to-energy plant in Modena Assessment of the Environmental Impact for the Province of Modena 26 October 2004 no. 429 Integrated Environmental Authorization for the Province of Modena of 29 June 2009, no. 311</p>	
<ul style="list-style-type: none"> • Decommissioning of older lines 1 and 2 and operation of line 3 and new line 4 only • 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 micropollutants emitted (dioxins and furans). • Environmental monitoring • Planning and implementation of a district heating network for the use of the thermal energy generated 	<ul style="list-style-type: none"> • The new line 4 will become operational by 30 April 2010 and following this the activities for the decommissioning of lines 1 and 2 and the revamping of line 3 will begin. • Systems active on the new line 4 and scheduled for line 3. • Active since 2004 • The definitive project was transmitted to the province and municipality in November 2008. The work relating to the former cattle market , an urban recovery zone in which district heating will initially be powered through a methane powered heating installation , to then be connected to the energy plant in a subsequent phase, is currently underway.
<p>Expansion of the waste-to-energy plant in Rimini Assessment of the Environmental Impact for the Province of Rimini of 28 December 2006 no. 259 Province of Rimini screening no. 200 of 23 October 2007 Authorization for construction from the Province of Rimini no. 105 of 13 May 2008 Integrated Environmental Authorization for the Province of Rimini of 28 January 2009, no. 13</p>	

<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 continual monitoring system for mercury in emissions, continuous sampling systems for analysis over the long term (up to 30 days) of micropollutants 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"> • Only line 3 is operational, the new line 4 is under construction. • Systems established on the new line 4, the launch of which is slotted for the upcoming months; systems have already been added to the upgrading project for line 3. • Active since 1997 • The executive project was presented to the Province of Rimini on 21 December 2009. • The screen installed and operational at the RAB and is visible from the outside 24 hours daily.
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Associations and Hera membership

Here is present at the highest levels of organizations that are representative of the system of local public services (it appoints the vice-chairmen of Federutility and Federambiente), participates actively in the development thereof and supports their recent reorganization.

The Group is also a member of AIRU (the Italian association for Municipal Heating) CIG (the Italian Gas Committee), APCE (a technical organization that monitors issues involving gas safety, particularly insofar as the protection of cathodes in the pipelines), Impronta Etica (an ethics association), the Nimby Forum and the World Energy Forum (Italian chapter). It contributes to research activities regarding the public services sector conducted by leading institutions (IEFE, AREL, the local public services forum of Nomisma and the Florence School of Regulation). Hera is also a member of the ASPHI Foundation.

Hera is a member of the club of Modena businesses for social responsibility

In 2009 Hera joined the Club of Modena Businesses for Social Responsibility, which was created on the initiative of 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, by proposing the installation of tap water dispensers in the offices of the member companies.

Dialogue with the Local Communities

In article 57 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 new Territorial Operating Structures (TOSs) were defined in 2009, as part of the Group's corporate restructuring process. From 31 December 2009, a Territory Committee for each TOS operates as a point of reference and connection between the Hera Group and the local community, in order to promote better service standards for customers in terms of quality, efficiency and safety, with an ongoing commitment in regard to protecting the environment and its resources.

The Group's commitment is more significant in the territories in which it builds or expands waste treatment or electricity production plants. In 2009 the activity of the RABs of Ferrara, Imola and Raibano (Rimini) continued, albeit with some delay due to the changing of the municipal councils and the replacement of some contacts and members.

What is an RAB?

RABs (Residential Advisory Boards) are a way companies and the public at large can get together and exchange information and monitor environmental indicators.

An 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 Holland 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.

It is composed of six members elected by citizens of the neighbourhoods in question, three representatives of the neighbourhood in which the plant is located and three 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 2009), the RAB met approximately 100 times, twice a month on the 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 separated 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 2009 a new means of periodic communication of information on the operation and emissions of the waste to energy plant was set up: this was defined by the RAB in cooperation with Hera technicians in charge of the plant. Quarterly reporting on the waste disposed of and the atmospheric emissions recorded is provided. The two reports will initially be presented to the RAB, with a detailed illustration that allows full understanding by the citizens of the RAB and therefore makes it possible to verify the more effective means of presenting the information, so as to promote reading and comprehension thereof by all citizens. The reports are then made available on the RAB site, which provides additional documentation, the RAB newsletter and updated information on planned initiatives.

Again in 2009, the residents on the RAB worked with Hera, Arpa and CNR to identify the 3 environmental monitoring points of the environmental impact of the waste-to-energy plant.

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.”

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 2009, the RAB met publicly 34 times, 1 time per month on the average, while visiting the plant several times during the course of the year for on site inspections, in the construction and the operating phase of the plant. The minutes of the meetings and the on site inspection reports are all available on the RAB site at www.rabimola.it. Furthermore, it has organized and promoted a public meeting for all citizens in order to present its work.

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 insofar as the transparency of the information regarding 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.

2008 featured a close examination of district heating service costs, with particular attention paid to the contributions paid for connections and the various tariff options. In 2009, in addition to continuing the monitoring of the worksite and the plant, there was a focus on the promotion of a study of air quality and the relative impact on the health of the population of Imola: 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. The members of the RAB participated with an information point and several initiatives open to the public throughout the city to inform the citizens about the Board's activities.

The RAB at Raibano

The RAB at Raibano was established in July 2008 to facilitate the exchange of information between the citizens residing in parts of the Municipalities of Coriano, Riccione and Misano Adriatico and the Hera Group, in relation to the expansion of the local waste to energy plant. The Raibano Committee consists of six citizens appointed by public assemblies that were held in two parts of the areas, three representatives of the municipalities in question, two representatives of the 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 operations coordination of the activity. 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 2009, following the renewal of the municipal councils and the change of several contacts and members and the need to share with the new arrivals the objectives and work plans, the RAB activity was paused until December, at which time the meeting started again following the identification of the new contacts in the local administrations involved.

Other initiatives for engaging local communities

For the purpose of systematic engagement of residents in regard to the expansion of the Modena waste-to-energy plant, an Environmental Observatory was formed in 2006, which includes the Municipality of Modena, Circonscrizione 2, the Province of Modena, the Local Health Authorities and Arpa Modena, the *Agenzia per l'Energia e lo Sviluppo Sostenibile*, Hera and representatives of residents. In 2009, the observatory examined issues such as the district heating project connected to the waste to energy plant, the sanitary monitoring of the area surrounding the plant, the incineration waste recovery plant. Relative issues were then addressed (the impact of a small fire that took place at the end of September 2009, the management of a vibrations problem in an area close to the plant) and, in response to a request for information from residents of the area surrounding the plant, new procedures for visiting the plant and the opening of an information office at the District were set up (for further detail please visit the site www.comune.modena.it/ambiente/documenti/documentazione/osservatorio-termovalorizzatore).

Dialoguing with and listening to the Districts of the Municipality of Ferrara

Following the administrative elections that took place in June 2009, the Ferrara TOS began relations with the newly elected District Boards. The project involved the establishment of a permanent board composed of District Chairmen and subsequent meetings with the District Boards of the Municipality of Ferrara in order to present

Hera's activities and listen to the requirements and expectations of the various territories. Several requirements and requests were set forth and a commitment made to plan other meetings on more specific issues so as to handle the various services provided appropriately. The local institutions that are closer to the community are considered as fundamental stakeholders in order to more closely match the services to the requirements and expectations of the citizens.

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 2009 there were another 156 pending legal proceedings involving various issues concerning claims for compensation connected to the management of the services provided by Hera.

At the end of 2009, there were also 101 criminal law proceedings pending, 27 of which were started in 2009. Most of these proceedings regard non-compliance with environmental requisites or regulations, without significant damage to the environment. There are some disputes relating to the waste-to-energy plants.

In regard to the Ferrara plant, three appeals to the Emilia Romagna Regional Court Administration by Hera S.p.A. are pending. Hera S.p.A. has opposed certain laws which it considers to be damaging to it. Specifically:

- The Integrated Environmental Authorization (A.I.A.) issued by the Province of Ferrara in 2008 in regard to the limits on the quantity of the waste that can be processed and the quantity and origin of the special processed waste;
- The modification to the Provincial Waste Management Plan adopted in April 2009, in regard to the prioritization of the processing of urban waste, compared to the possibility of processing the 30,000 tonnes set by the A.I.A. of special waste that now becomes 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.

The aforementioned appeals are still pending and awaiting the setting of the date and the negotiation hearing is set for next June.

A fourth appeal made by the WWF and various environmental associations aims at completely annulling 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 Court Administration.

In regard to the limits to the quantities of special waste, it is noted that Hera is fully compliant with the agreements set forth in the Memorandum of Understanding signed in 2003 by Agea (which was integrated into the Hera Group in 2004), the Province of Ferrara, the Municipality of Ferrara and Circonscrizione Nord-Ovest. This Protocol did not modify the quantities that can be processed by the already authorized plant, but only covered the limitation, which was accepted by the company, regarding the possibility of special waste arriving from outside the province, notwithstanding the fact that Italian law does not provide for any limitation in their movement.

In regard to the atmospheric emissions, Hera has accepted the limits set by the Province upon the re-examination of the A.I.A., despite that they were notably more restrictive than those authorized by the Environmental Impact Assessment issued in 2002.

Through the Residential Advisory Board, the advisory committee of the local community as provided by the aforementioned memorandum of intent which is active since 2005, Hera provides a quarterly report on the plant emissions compared to the limits set by the law and the A.I.A. and a report on the quantity of waste processed by type and origin.

In regard to the Rimini plant, a lawsuit is pending with extraordinary appeal to the President of the Republic has been made by WWF Italia against the province of Rimini and Hera S.p.A. for the cancellation, following suspension, of the resolution of the Regional Council of Rimini no. 13 of 28 January 2009 on 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. 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 lack of foundation and inadmissibility of the reasons set forth. To date, the ruling has not been issued.

A lawsuit is pending at the Penal Court of Forlì which involves a manager of Herambiente S.r.l. and others. This lawsuit, which involves Herambiente as the owner and operator of the Forlì waste-to-energy plant, refers to alleged personal harm 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 course of the proceedings, who is alleged to have contracted a disease on account of the plant emissions. The lawsuit is currently in the findings phase and on the one hand the technical appraisals are underway focusing on the construction and management of the plant, while on the other medical assessments are underway to determine whether there exists a causal link between the illness contracted by the child and the emissions of the waste-to-energy plant. The appraisal submitted by the Court Assessor concluded that no causal link is identifiable between the illness contracted by the child and the environmental exposure to pollutants issued by the waste-to-energy plant.

The Environment and Future Generations

The area in which Hera is operational is not merely a geographic entity. Above all else, it is the principal source of wealth, socially and environmentally, to be respected and protected for the future.

Accordingly, Hera is committed to responsibly manage the natural resources, improve its results and adopt increasingly efficient technologies with a low environmental impact.

Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> • Reduce use of landfills as a means of disposal for urban waste, while increasing separated waste collection and waste-to-energy treatment. The objective is to reduce the share of urban waste directly disposed of via landfills to 15% by 2010. • Further increase separated waste collection: reach 45% in 2009 and pass the 50% level by 2011. • Triple the 2008 level of energy generated from renewable and similar sources by 2010. • Achieve validation by the external certifying agency for EMAS registration for 5 more plant engineering sites in 2009 (Il Pago – FI landfill, Bentivoglio -BO landfill, chemical-physical plant in Lugo - RA, Bellaria - RN transshipment plant and Piangipane – RA landfill). • Extend district heating via the use of renewable and similar sources: increase the volume served by 30% by 2011. • Continue the implementation of the water loss detection and reduction plan (real and procedural): achieve 23% by 2011. • Further increase the number of vehicles with low environmental impact (methane, GPL, or electric), aiming for at least 70% of new company vehicle purchases, and define a feasibility analysis for the progressive substitution of side-loading automatic waste compactors with methane vehicles. • Start up the Cesena composting plant, aimed at producing electricity, by 2009. • Define a project to recover the organic 	<ul style="list-style-type: none"> • In 2009, urban waste treated via landfills without pre-treatment amounted to 22.4%, compared to 27.5% in 2008. (see page 213) • Separated waste collection reached 44.8% in 2009. The final figure for 2008 was 42.0%. (see page 216) • The level of energy generated from renewable and similar sources increased by 60% compared to 2008. The investments that will make it possible to reach the objective for 2010 have been made. (see page 176) • In 2009, 5 plant engineering sites received positive verification by the external certifying agency for EMAS registration. (see page 32) • In 2009, the volume served increased 6% compared to 2008. (see page 176) • Losses on the water network during 2009 came to 25.0% (provisional figure), in line with 2008 and less than 2007 (25.3%). (see page 189) • 81% of new vehicles purchased in 2009 had low environmental impact (methane or GPL). A study was also performed on alternative fuels, identifying standard solutions for automobiles and heavy vehicles. (see page 198) • In 2009 the Cesena composting plant was launched, which came on stream in August with the filling of the biocells, and in December with the generation of electricity. (see page 220) • The “Biomass” project was presented to the

component of waste both as an agricultural fertiliser as well as a raw material in energy production, by 2009.	Region and Province in which Hera manages waste management services: once on stream, the project will provide around a 10% contribution to the goal of electricity generated from biomass, defined by the Regional Energy Plan. (see page 220)
We shall...	
<ul style="list-style-type: none"> • Reduce use of landfills as a means of disposal for urban waste, while increasing separated 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 separated waste collection: reach 48% in 2010. • Further increase the energy generated from renewable and similar sources: +50% in 2010 compared to 2009. • Achieve validation by the external certifying agency for EMAS registration for 4 more plant engineering sites in 2010 (via Baiona (RA) site comprising 4 disposal plants; Forlì waste-to-energy plant; Cà Baldacci (RN) composting plant and the Civitella (FC) 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. 	

Environmental impact of the activities managed by Hera

In this section, the main environmental issues related to our operations are described, along with the results achieved with the development of the environmental management system.

For the energy services, the main environmental issues are:

- efficiency of gas, electricity and heat distribution networks;
- production of electricity and thermal energy from renewable sources (photovoltaic energy, use of landfill and wastewater treatment and digestion of biogas), from similar sources (co-generation plants and turboexpanders) and waste-to-energy transformation.

For the water services, the main environmental issues are:

- limiting subsidence;
- efficiency of water network and of drinking water purification plants;
- reintroduction of water into the environment following collection by sewage systems and required purification.

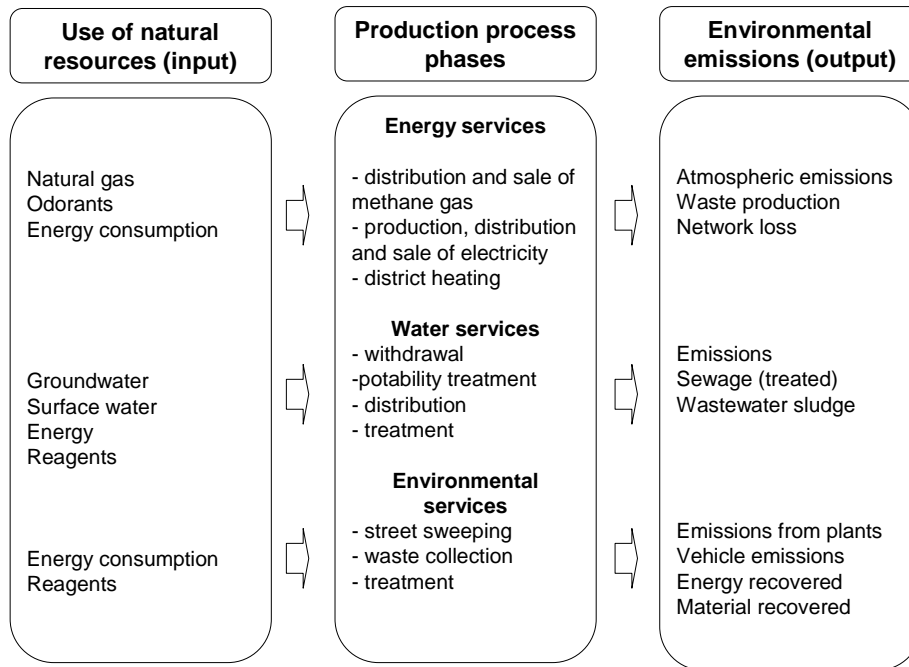
With regard to subsidence, Hera applies the water supply policy defined the local authorities, and works toward reducing groundwater collection by using plants fed by surface water as frequently as possible.

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 to be transferred to treatment plants.

The main purification plants are equipped with odour treatment systems using bio filters. All plants are equipped with 24-hour a day 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 reintroduction into the environment on the basis of a plan specifying 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 reuse of products;
- increasing separated waste collection and the consequent recovery of materials;
- reducing waste sent to landfills, consistent with European and Italian regulations;
- recovering of energy from waste (via waste-to-energy transformation processes and biogas recovery).

The prevention of waste eliminates the waste of resources and reduces the quantity of waste to be managed. Increased separated waste collection enhances the efficiency of downstream waste treatment and recovery of material and energy, as well as the reduction in landfill volumes.

The environmental management system

The commitment to protect the environment is one of the founding elements of Hera's mission, which is sanctioned, along with respect for applicable regulations and continuous improvement of environmental performance, as the basic principles of the Hera Group's Quality, Safety and Environment Policy.

A significant commitment is required to extend the integrated management system and develop a culture focused on the environment, but also allows:

- organisation and implementation of improvement processes through systematic analysis of strengths and weaknesses (i.e., preparing action plans, defining training activities, defining investment based on highlighted needs);
- final performance measurement and monitoring over time;

- greater adherence to regulations.

The process of development of certification of the environmental management system for the entire Group, which began in 2006 when the Group obtained its first environmental certification, has led to the need to harmonise the environmental analysis criteria in order to set up standardised assessment systems.

To this end, in 2009, an overall review of the management system was launched, which allowed:

- updating of the process and operating procedure for managing the process of identifying and assessing environmental aspects;
- updating the operating instructions useful in the management of significant environmental aspects;
- identifying a new tool for analysing the status of regulatory compliance in relation to law applicable to environmental aspects;
- aggregating the overall results of the process of identifying and assessing the significance of the environmental aspects of Hera S.p.A and the Territorial Operating Structures, in order to define the main projects for improving the environmental performance of the Hera Group.

An example of environmental operating instructions which were revised regards the management of equipment containing substances damaging to the ozone layer or greenhouse gases, some of which may be present in common refrigeration devices. The applicable environmental regulations, continuously evolving, require that all equipment containing substances damaging to the atmosphere be surveyed and subject to 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.

The process of developing the environmental management system was verified in 2009 by the certification authority, with a positive outcome, thus renewing the certification of the environmental management system in compliance with the UNI EN ISO 14001 standard for Hera S.p.A. and for the seven Territorial Operating Structures.

In December 2009, a plan for EMAS registration of the new co-generation plant in Casalegno di Imola was submitted to the Italian Institute for Environmental Protection and Research, and obtained complete approval from the public institution. Working on this front will start in 2010.

Energy production

In 2009, the Group's commitment to meeting the target of growth in the use of renewable and similar energy sources continued.

With the expansion of existing plants and the building of new production plants, we have built a solid foundation on which to reach the objective of tripling, in comparison to 2008, energy production from renewable and similar sources by 2010, an objective that, consistent with the planning, will be achievable when the large new plants, which were launched or being tested during 2009, are operational. The start up of the co-generation plant in Imola and the fourth waste-to-energy treatment line in Modena were some of the highlights of 2009.

Different to the previous report, the sustainability report 2009 also considers 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.

While in the 2008 report, the data regarding gross energy produced was shown, this year it was decided to present the data regarding net production, which is obtained by subtracting the portion of energy consumed by the operation of production plant. By way of further clarification, it should be added that that share of energy 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)	2007	2008	2009
Waste-to-energy plants (51% renewable)	135,637	162,751	197,906
Combustion of landfill biogas	20,967	24,921	34,155
Combustion of landfill biogas in third party plants	n.a.	40,876	42,259
Combustion of digester biogas	1,936	1,438	1,867
Combustion of wastewater purification biogas	7,914	8,596	6,710
Photovoltaic energy	313	339	498
Hydroelectricity	521	74	271
<i>Total renewable sources</i>	<i>167,288</i>	<i>238,995</i>	<i>283,666</i>
Co-generation	77,799	75,487	311,805
Co-generation in service	17,297	35,673	42,084
Turboexpanders	11,171	11,555	10,200
<i>Total similar sources</i>	<i>106,267</i>	<i>122,715</i>	<i>364,089</i>
Combustion of methane in purification plants	28	0	13
Waste-to-energy plants (49% non-renewable)	152,091	174,120	208,824
<i>Total traditional sources</i>	<i>152,119</i>	<i>174,120</i>	<i>208,837</i>
Total	425,674	535,830	856,591

The data regarding the Group's net electricity production show an increase of 60% in 2009 compared to 2008, reaching 857 GWh. Net electricity produced from renewable sources increased by 19%, specifically due to the increase in the production from waste-to-energy plants and combustion of landfill biogas. Electricity produced by waste-to-energy plants increased by 21%, following the gradual start up and coming on stream of the plants in the new configurations. The production from combustion of landfill biogas rose by 37%, primarily as a result of the coming on stream of the plant at the Galliera (BO) landfill, which was started up in 2008. Though still slightly significant in absolute terms, the production from photovoltaic and hydroelectric sources increased sharply, especially due to the first year of full operation of the plants in Ravenna and Verghereto (FC), respectively.

Production from similar sources tripled, as a result of the significant contribution of the new Imola plant, which in 2009 contributed approximately 240 GWh to production from similar sources, despite it being under testing in the first nine months of the year.

The average efficiency of the electricity and thermal production plants (meaning the ratio of incoming energy and net outgoing energy of the plant) is between 25% and 30% for the waste-to-energy plants connected to district heating network, between 20% and 25% for the new waste-to-energy plants and between 64% and 83% for the co-generation plants.

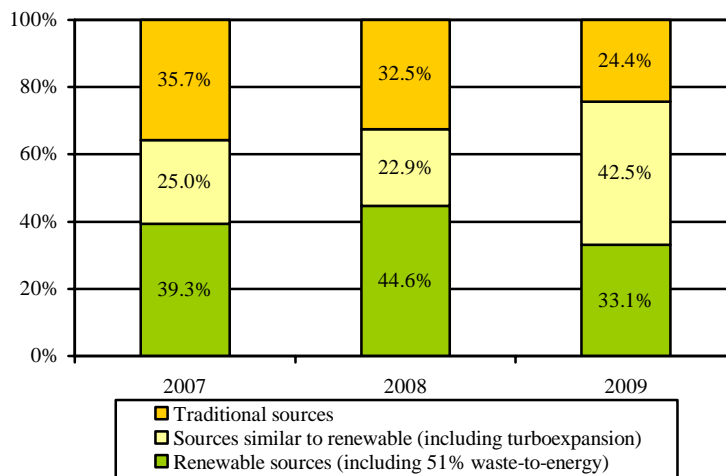
The electricity produced in 2009 by companies in which the Group holds investments pertaining to Hera, came to around 1,520 GWh. The companies involved are SET, Tirreno Power and Calenia Energia, in which Hera has an equity investment. SET and Calenia Energia respectively run two power stations in Teverola (CE) and Sparanise (CE); these are two combined-cycle plants (CCGT) which guarantee higher performances and improved environmental compatibility with respect to the traditional oil or coal-fuelled power stations. In 2009 carbon dioxide emissions from the two plants were 399 g/kWh (Teverola) and 396 g/kWh (Sparanise); the nitric oxide emissions were 46 g/MWh and 163 g/MWh.

Tirreno Power plants comprise combined-cycle plants (70%), coal-fuelled plants (19%), traditional power stations (9%) and hydroelectric plants (2%).

The major interventions regarding energy production plants in 2009 were:

- new waste-to-energy transformation lines at Modena (the new line became operational with electricity production in July 2009);
- new co-generation plant at Imola, launched in December 2008 and on stream since October 2009, following the positive outcome of all operational tests, as well as, last August, the test of operation in isolation from the Imola electricity distribution grid;
- new 20 kW photovoltaic plant at the Cesena location;
- new generation plant using biogas recovered from the aerobic digestion of sludge at the Forlì wastewater purification plant;
- new Romagna Compost generation plant using biogas recovered from the dry anaerobic digestion of biomass, in Cesena.

Net total electricity produced



Despite the increase in absolute terms in the energy produced from renewable sources, its weight on total production dropped from 45% to 33% as a result of the sharp increase in production from similar sources. 76% of the electricity produced derives from renewable and similar sources. The remaining electricity production had 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 for co-generation plants

with high performance 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, while in the case of non-agricultural biomass with a short supply chain, the multiplication coefficient is 1.3. For co-generation 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 co-generated 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 calculation method of 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 separated 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 standardised comparison terms and was defined consistent with 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, is considered non-renewable, because it originates from industrial processes.

Cities lit up with “Verdennergia” Green Energy

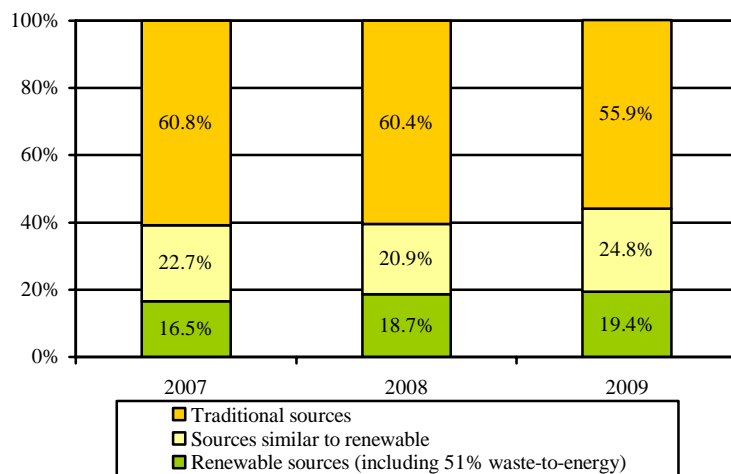
In 2009 the Hera Group took on two important public customers: the Municipalities of Bologna and Casalecchio di Reno chose “Verdennergia” electricity. Schools, cultural and institutional centres, sports venues: in total 192 supply points are powered by electricity from renewable sources sold by Hera Comm, reducing atmospheric emissions. The annual consumption of the two Municipalities, if based on the current mix of energy sources used in Italy, would produce 9,200 tonnes of CO₂: it would be necessary to plant 1,300,000 trees to compensate for such emissions. This brings to three the number of “virtuous” Municipalities within Hera, in terms of energy: the first, three years ago, was Pavullo (MO), which renewed its supply contract also in 2010.

Thermal energy produced

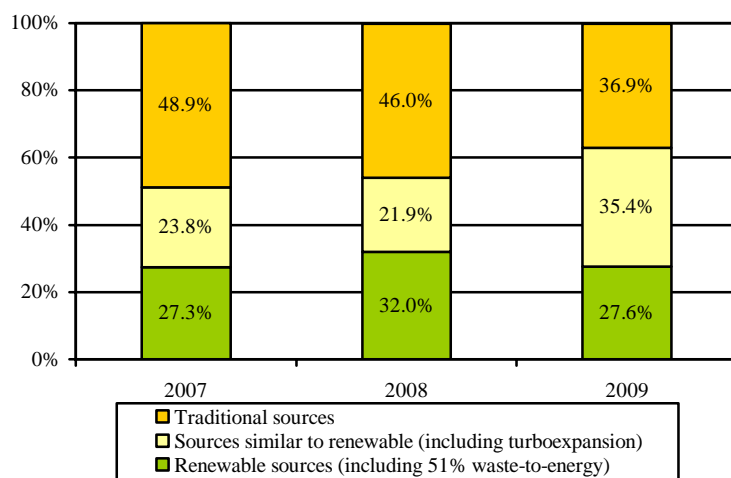
(MWh)	2007	2008	2009
Waste-to-energy plants (51% renewable)	20,651	28,226	35,927
Geothermics	57,261	66,544	74,369
<i>Total renewable sources</i>	<i>77,912</i>	<i>94,770</i>	<i>110,296</i>
Co-generation	96,776	85,693	115,892
Co-generation in service	10,625	20,168	25,006
<i>Total similar sources</i>	<i>107,401</i>	<i>105,861</i>	<i>140,898</i>
Thermoelectric power stations	267,794	278,576	283,340
Waste-to-energy plants (49% non-renewable)	19,842	27,120	34,519
<i>Total traditional sources</i>	<i>287,636</i>	<i>305,696</i>	<i>317,859</i>
Total	472,949	506,327	569,053

Heat produced from renewable sources increased 12%, positively affecting the total (+23% considering renewable and similar sources). These results are linked to the start up of the co-generation plant in Imola and to the expansion of waste-to-energy plants and the contribution from geothermics to the Ferrara district heating network.

Total thermal energy produced



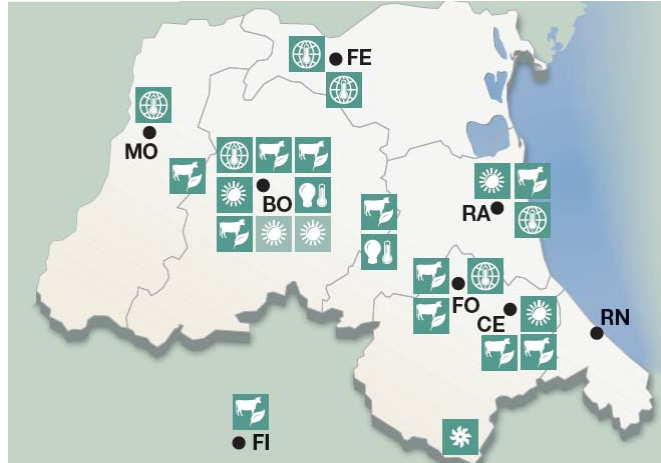
Total energy produced



The share of total energy produced from renewable and similar sources grew in the last year, from 53.9% to 63.0%. Excluding Marche Multiservizi, the share of total energy produced from renewable sources is 27.4% and the share of total energy produced from renewable and similar sources is 62.9%.

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 202 kW plant at the Bentivoglio Interport (BO), 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 hot water collection plant for districting heating in Ferrara (geothermics) and five



turboexpanders, in Bologna, Ferrara, Forlì, Modena 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 and Ravenna, a plant producing biogas from livestock spoils in Spilamberto (MO) and a plant producing biogas from dry anaerobic digestion of organic waste in Cesena.

Among the plants generating energy from sources similar to renewable sources, we highlight the 80 MW co-generation plant in Imola, and the other twelve smaller co-generation plants, for an additional total installed capacity of approximately 24 MW. Lastly, the Group manages a 143 kW hydroelectric plant in Verghereto (FC).

Hera's biomasse project: + energy, – greenhouse gas

The project provides for the production of fertilizers, electricity and thermal energy from renewable sources and the elimination of greenhouse gases from landfills through the reduction of the quantity of the organic waste placed therein.

To this end, biomasse of a differing nature and origin present in the waste is taken into consideration:

- the organic portion of the separated waste collection and the mechanical selection of undifferentiated urban waste;
- the purification sludge from municipal wastewater;
- the green and the ligneous cellulose waste (residues, pruning, etc.).

Provides for integrated use of the plants which the Group owns, composting plants, anaerobic digestors (which exist alongside wastewater purifiers) and waste-to-energy plants, to achieve, through saturation of the production capacity existing in the latter, energy recovery that is environmentally more efficient compared to "dedicated" plants, with particular reference to smaller plants.

In summary, the project presented by Hera makes it possible to avoid disposing of over 770 thousand tonnes of waste in landfills, which would instead be used to produce

115,000 tonnes of fertilizers and 200 GWh of electricity, while it would make it possible to prevent the emission of 210 thousand tonnes of CO₂.

On 28 March 2008 Hera Energie Rinnovabili was established, for the purpose of overseeing the Group's activities in developing renewable energy. This company is 100%-owned by Hera S.p.A. Through the involvement of the various expert departments of the Group, the company ensures the development, realisation and operation of electric power plants.

Hera Energie Rinnovabili owns the photovoltaic plant at the Bologna Interport and the hydroelectric plant in Verghereto. Based on the Group's positive experience of these first small plants, the company has launched the new works at the Bologna Interport, which will result in the construction, started in January 2010, of two photovoltaic plants for a total capacity of about 2 MW. This will allow for annual generation of approximately 2,400 MWh, equal to the energy consumption of about 1,000 apartments. This initiative constitutes a unique combination of two different technologies, multi-crystalline silicon and cadmium telluride, which will enable the long term study of the main differences in the energy yields of the two types of photovoltaic modules.

Co-generation in the Hera Group

The term co-generation 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. Specifically, thermoelectric plants are built, which recover the heat from the exhaust produced by an engine fuelled by any type of fuel: therefore, significant energy savings are achieved (approximately 40%) over 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 the 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.

Thanks to the connection with district heating networks the Hera Group's co-generation plants also contribute to improving the quality of the air in the urban areas where 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 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: continuous control is performed, both of the combustion processes and the atmospheric emissions.

The Group manages 14 co-generation plants, for a total installed capacity of 123.1 MW.

Plant	Location	Nominal installed electric power (MW)	Net electricity produced per plant in 2009 (MWh)	Thermal electricity produced per plant in 2009 (MWh)
Casalegno	Imola	84.5	239,751	37,099
Montericco	Imola	14.9	10,455	14,426
Cogen Barca	Bologna	6.4	19,975	26,994
Registered office	Bologna	4.8	16,111	9,546
Ecocity	Casalecchio di Reno (BO)	4.0	8,866	7,944
Fossolo	Bologna	2.2	3,593	4,985
Ippodromo	Cesena	1.7	6,072	6,940
Aranova	Ferrara	1.1	2,761	3,498
Other minor plants	Bologna and Forlì-Cesena	3.5	4,221	4,460
Total		123.1	311,805	115,892

The new cogeneration plant in Imola

The idea to build a new, modern cogeneration plant to substitute the plant in Montericco, which was obsolete and insufficient in terms of power for the urban development plan set forth dates back to 2003. The goal of the project was to guarantee the demand for thermal energy of the existing grid, and at the same time provide an answer to the increase in demand resulting from the development plan for district heating in Imola.

The new plant has better performance and long-term safety standards compared to the old Montericco plant: in relation to a 200% increase in the amount of heat produced, there is a reduction of 34% of nitric oxides emitted (72 tonnes less compared to the previous 110) and 54% lower CO₂ emissions (from 104 to 48 tonnes per year), due to sophisticated, third-generation technology used.

It is also possible for the plant to work in "isolation": in the event of a blackout in the national grid, it is possible to immediately disconnect the plant, which will continue to operate, guaranteeing the provision of sufficient electricity to cover the consumption of the city of Imola.

The timeframe for construction of the plant was extremely quick, as opposed to the long, complex authorisation process, which began in October 2003 and was concluded after 46 months, in July 2007, with the final authorisation from the Emilia-Romagna Region. The first start up of the first gas turbine occurred only 17 months following the opening of the worksite, which was definitively closed on 30 June 2009.

The worksite was overseen by Hera personnel from the Large Plant Engineering Sector, and works lasted a total of 23 months. The average number of supplier personnel at the worksite was 90 people/day, with peaks of up to 310 people/day. The organisation implemented in the worksite permitted 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. No accidents occurred over the entire term of the works. The plant has been operating at full capacity since October 2009. In its first quarter of operations, its performance fully complied with the project forecasts and the limits established in the authorisations.

Industrial co-generation

The Hera Group operates in the industrial co-generation sector through the installation of various electricity production plants and thermal plants which are fully dedicated to guaranteeing the energy needs of leading companies. The main product sectors involved are plastics, food, pharmaceuticals and ceramics, but also large sized third-sector organisations such as museums, shopping centres, spas and condominiums. With co-generation and tri-generation, primary energy is saved with respect to the traditional consumption, reducing emissions, increasing energy efficiency and reducing supply costs. However, an investment must be made in a dedicated technological plant.

The Group's "Energy Service" offer provides that Hera Comm will supply all energy carriers, reducing the customer's financial and operational commitment in the area of energy. Hera Comm evaluates the best technological structure based on the electricity and thermal requirements of the customer, prepares all authorisation documents (including those for the customer) and is responsible for operating and managing the technological plant.

At the end of 2009, eleven plants were operational and another eight were in the process of development. The environmental benefits can be quantified as lower emissions of CO₂ (4,100 t in 2009, 7,800 t in 2010 and over 13,000 t/year from 2011) and primary energy savings (1,800 toe in 2009, 3,250 toe in 2010 and over 5,500 toe/year from 2011).

Hera Comm, through "Energy Service" contracts, guaranteed a total savings to its end customers of more than Euro 2.5 million, corresponding to 7-15% savings on market price. The savings depends on the energy balance and the simultaneous use of energy carriers by customers.

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 just a few 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 customers' homes through a distribution network comprised of insulated piping. The heat then fuels the domestic heating system via non-polluting heat exchangers.

Customer benefits consist in 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 allows 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

	2007	2008	2009
Primary energy saved (toe)	12,558	13,097	20,491
Nitric oxide avoided (t)	81.1	72.0	254.9
Carbon dioxide avoided (t)	52,244	56,598	117,794
Sulphur oxide avoided (t)	123.8	136.2	261.1

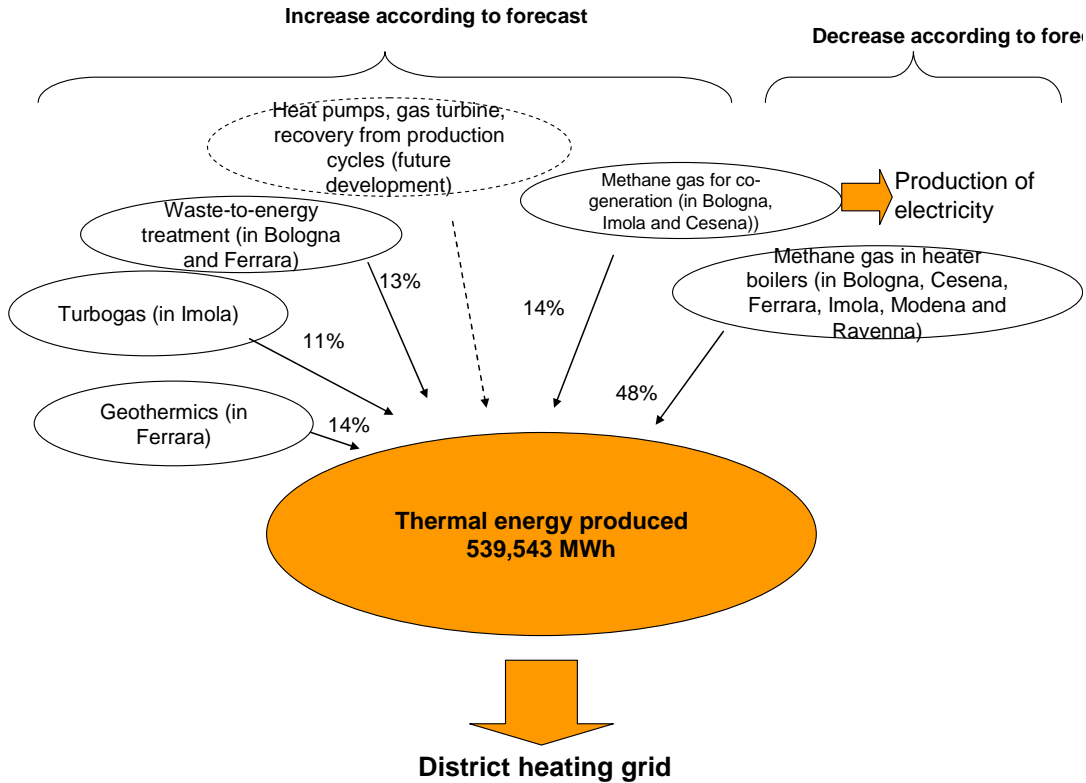
Calculated as the difference between a traditional system (heating installation 35% fuelled by gas-oil and 65% by methane, with an average seasonable output of 75%, and an Italian electricity power plant with average emissions) and Hera's district heating systems for the same quantity of energy (thermal and electricity). In 2008, the estimation coefficients for emissions were updated to conform with changes in the mechanisms from the Emission Trading regulation.

In 2009 the plants managed by Hera led to primary energy savings equating to 20,491 tonnes of oil equivalent, an increase of 56% compared to the savings in 2008, with a differential of 7,394 toe in absolute terms. On the environmental side, the start up of the co-generation plant in Imola enabled the doubling of the carbon dioxide and sulphur oxide emissions avoided, while nitric oxide emissions avoided more than tripled.

Works begin for district heating at Cesena Hospital

The operation, whose cost amounts to about Euro 3 million, envisages the construction of an Energy House, a technological centre where plants will be installed for the combined generation of thermal energy, electricity and cooling, and thus, about 2,000 metres of new district heating pipes will be installed and managed in the Bufalini Hospital in Cesena. The project is part of the wider "General District Heating Plan for the Town of Cesena": it will increase independence from fossil sources, drastically reduce atmospheric emission, improve energy efficiency and reduce costs.

Sources used for district heating



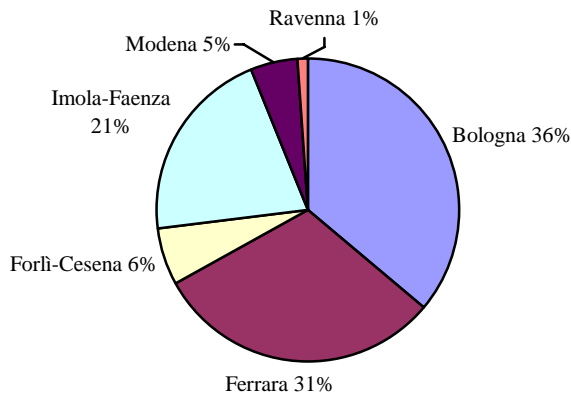
District heating data

	2007	2008	2009
Thermal energy sold (MWh)	391,501	422,633	475,026
Volumes served (thousand of m ³)	15,301	16,109	17,154
Housing unit equivalents served (No.)	50,838	53,696	57,180

Housing unit equivalents served were calculated on the basis of an average apartment volume of 300m³.

Thermal energy sold increased by 12% in the last year. This increase is due to the climate trend and the increase in the volumes served. The increase in volumes served in 2009, equal to 6.5%, is in line with the goal of extensive expansion of district heating. Compared to the 2009 figure, for 2010 an increase of 8% in volume served is expected, and for 2013 an increase of 30% is expected: to achieve these targets, the Group's sales actions will be implemented further, with specific initiatives regarding the development programmes.

Volumes served by area (2009)



Europe studies district heating in Ferrara

The Ferrara district heating plant was visited by a delegation of 40 experts from EU and non-EU countries, as part of the Euroheat & Power (EHP) Congress, promoted by AIRU (the Italian Association of Urban Heating) which was held for the first time in Italy (Venice) in May 2009. Ferrara was chosen due to the excellent characteristics of its plant, which is in line with European best practices: an integrated system which recovers energy using waste-to-energy plants, biogas energy, co-generation plants or renewable sources (geothermics), and heat pumps fuelled by recovered water. The plant has been operating since 1990. It serves almost 58,000 customers, with 67 km of network installed, over 17,000 m³ of connected volumes and 475,000 MWh_t sold in 2009.

Energy consumption

Hera's energy consumption reflects the multi-business nature of the Group (energy, water, environment, and other services such as and 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 co-generation 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 follows a policy aimed at increasing energy efficiency in all activities carried out.

Primary energy consumption by type

thousands of GJ	2007	2008	2009
Electricity excluding public lighting	1,606	1,628	1,681
Electricity for public lighting	542	548	600
Methane for production	3,232	2,937	5,619
Methane for heating of premises	110	111	134
Fuel for vehicles	317	345	363
Waste-to-energy treatment	6,311	6,531	7,718
Total	12,118	12,100	16,115

Data have been calculated using the conversion standards defined by the GRI G3 guidelines. The data refer to energy consumption by Hera SpA, Uniflotte, Herambiente, FEA and Hera Luce. From 2009, the data also include Marche Multiservizi.

The increase in total consumption in 2009 is mostly attributable to the increased waste-to-energy capacity (+18%) and the increase in the use of methane in power plants (the electricity produced through co-generation has quadrupled), as a result of the operations of the new combined cycle plant in Via Casalegno in Imola. The calculations of consumption for 2009 also included consumption related to the operations of Marche Multiservizi, which was not included previously (contribution of about 398,509 GJ). Excluding Marche Multiservizi, electricity consumption, excluding that related to public lighting, decreased by 5.5% compared to 2008.

White certificate objectives

(toe)	2007	2008	2009
Gas distribution	26,047	81,489	106,359
Electricity distribution	1,418	8,495	14,959
TOTAL	27,465	89,984	121,318

The production of White Certificates pursues the set objectives. Additional results are expected in terms of reducing energy consumption of the Group's production systems, with the implementation of specific targets for the various business units from 2010. The results achieved may also contribute to the achievement of White Certificate objectives.

Energy saving initiatives

The energy savings initiatives promoted by the Group continue and gain strength, in two main areas:

- establishing 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, aimed at the recovery of significant portions of thermal energy from processes or the use of renewable sources;
- developing new interventions on the Group's buildings and plants aimed at rationalising the end use of energy.

The main projects completed with industrial partners to improve efficiency in their process cycles include two initiatives:

- innovating the process of fixing film covering in the production of packaging containers, with estimated savings of about 250 toe per year;

- increasing the efficiency of a fat processing plant, through the recovery of heat from the cooling phase of the processed product, with an estimated savings of about 300 toe per year.

The energy efficiency initiative in partnership with Gatti S.r.l.

In collaboration with the company Gatti of Castelnuovo Rangone (MO), operating in the transformation of butchering by-products to produce fats used in the cosmetics or livestock sectors, a significant energy efficiency initiative was developed which, using a heat exchanger, recovers the heat previously dispersed in the cooling phase of the process. The project obtained the approval of the AEEG for the purpose of obtaining White Certificates, and is part of the activities of development and promotion of energy efficiency in final uses undertaken by the Hera Group in order to comply with the yearly obligations for acquiring White Certificates. Primary energy savings of about 300 toe/year are estimated, corresponding to consumption of 350,000 m³/year of gas, equal to the annual consumption of about 250 housing units. With the 1,500 White Certificates which we estimate will be obtained in 5 years it will be possible to contribute over 50% of the investment. The project was realised also thanks to effective collaboration with the Confindustria Association of Modena.

The energy savings initiatives aimed at the public continued, including that of disseminating the use of low consumption florescent bulbs, with over 700,000 lightbulbs distributed in 2009 through sales at significantly discounted prices in collaboration with several businesses.

The Group companies are expanding specific energy analyses capable of identifying and quantifying potential measures for increasing energy efficiency, also in plants other than water cycle plants, which is the business sector that consumes the most energy. The main interventions completed in 2009 were:

- in district heating, the construction of the new combined-cycle plant in Imola, while will allow for the substitution of the old open-cycle plant, which was less efficient, as well as the construction of a new co-generation plant in Modena, which is planned to come on stream in 2010, and will substitute most of the heat previously produced using simple methane boilers;
- the optimisation of ventilation systems in the purification plants in S. Benedetto and Castello d'Argile, in the province of Bologna, in addition to the Modena plant, whose works were concluded at the end of 2009, in addition to those already completed in Cervia and Ferrara;
- optimisation of air-conditioning installations via remote management and high-efficiency generators;
- efficiency upgrading of public lighting systems;
- Efficiency upgrading of the electric motor controls with inverters and the installation of new electric motors with class 1 efficiency.

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 the country. It manages 331,460 light points (+1.43% compared to 2008) and ensures the efficiency of the public lighting service in 61 municipalities included in the provinces of Bologna, Ferrara, Forlì-Cesena, Modena, Pesaro and Urbino, Ravenna, Rimini and Florence; for 26 of these municipalities, it also manages the traffic light installations.

Hera's management of public lighting focuses on improving the service by reducing power used and 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 lightbulbs was, on average, three days in 2009 (3 days in 2008, 3.5 in 2007 and 4 days in 2006).

Energy-saving intersections in Bologna and Modena

Bologna was the first city in Italy to have all LED traffic lights, since the beginning of 2009: 232 plants, in 300 intersections with 3,780 lights. Compared to traditional lightbulbs, 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 lightbulbs installed by Hera Luce allow Bologna to reduce consumption, which is estimated to fall from 2,600 MWh/year to 460 MWh/year, for a savings of almost Euro 300 thousand per year. A decrease in consumption equal to 184 toe/year, which will avoid the emission of approximately 13,500 quintals 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 savings in terms of toe can be quantified as 286 toe/year, and will allow for the avoidance of emissions of 874.5 quintals of CO₂ into the environment.

Production and distribution of water

Hera's water supply sources comprise underground water, surface water and, to a lesser extent, springs. From 1 January 2009, in the Romagna area, almost all water distributed was purchased wholesale from Romagna Acque – Società delle Fonti, which manages the main water production plants in the provinces of Forlì-Cesena, Ravenna and Rimini. In order to reduce subsidence linked to the withdrawal of water from aquifers deep underground, during 2009, the final connection of the Reno-Setta feeder channel was to the drinking water treatment plant in Sasso Marconi (Bologna) was completed. The works allow for supplying the Val di Setta aqueduct both with water from the Setta torrent, and water from the River Reno. This work will provide greater volumes of surface water and will, to the same extent, reduce the use of underground waters in Bologna.

The future of a pipeline

The Fondo Reno–Coronella and Gualdo-Cona pipelines and the new sewage collector of via Ferrara in Portomaggiore are among the leading water networks in Italy to be built based on mathematical models which simulate and forecast their functioning under any operating conditions. Thanks to this innovative instrument, it is possible to optimise the functions of the plants in order to achieve increasingly high service standards. With this application, Hera translates scientific research into industrial applications capable of producing real benefits in service management.

The purification processes are more or less complex depending on the quality of the source water: process steps include chemical and physical water drive, usually adopted for surface water, to 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)

thousands of m ³	2007	2008	2009
Groundwater	153,892	150,751	152,946
<i>of which purchased</i>	0	0	36,779
Surface water	159,088	169,416	165,171
<i>of which purchased</i>	51,201	62,345	79,264
Springs and minor sources	12,238	22,339	26,474
<i>of which purchased</i>	1,221	2,236	2,125
Total	325,219	342,505	344,591

Figures include both the civil and industrial aqueducts (the latter being part of the Territorial Operating Structures of Forlì-Cesena, Imola-Faenza and Ravenna and comprising 1.5% of the total).

The 2009 data show a slight increase in the total volume of water introduced into the network (slightly more than 1% compared to 2008), mainly in the area of Pesaro, partly offset by a decrease in the other areas. Specifically, the figure regarding Marche Multiservizi was affected, in 2009, by the installation of new metres at supply sources, with a significant reduction in estimated volumes compared to the previous year. The increase in 2008 compared to 2007 was due to the expansion of the area served to Modena and Pesaro.

Considering only the water system for domestic use and not including Marche Multiservizi, there was a reduction of 0.5% of the water introduced into the system in 2009 compared to last year. On a like-for-like basis (not including Marche Multiservizi and SAT) there was a reduction of 1.9% compared to 2007, which corresponds to 6 million cubic metres. More significant changes were recorded in Ferrara (-7%) and Modena (-8%); the reduction of the water introduced into the grid/network resulted in a lower consumption of electricity in Ferrara by 1.8 GWh (-11%).

In 2009, the percentage of groundwater collected of the total was 44.4% substantially stable compared to 2008. The differences on the self-produced volumes and those purchased in the provinces of Forlì-Cesena, Ravenna, Rimini) are due to Hera's sale of business units relating to production for portable uses to Romagna Acque - Società delle Fonti, starting from 1 January 2009.

Water introduced into the network (breakdown by source and area) (2009)

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	49,123	7,872	10,403	8,991	43,191	0	26,833	6,534
<i>of which purchased</i>	0	0	10,403	0	0	0	26,375	0
Surface water	40,538	21,658	21,796	14,071	926	32,105	14,271	19,805
<i>of which purchased</i>	0	0	21,346	11,583	0	32,105	13,759	471
Springs and minor sources	4,245	-148	2,765	1,167	7,370	0	2,243	8,832
<i>of which purchased</i>	0	-148	1,375	0	772	0	127	0
Total	93,906	29,382	34,964	24,229	51,487	32,105	43,347	35,171

The data include both the civil aqueduct and the industrial aqueduct (the latter present in the territorial structures of Forlì-Cesena, Imola-Faenza and Ravenna).

Distribution network extension is 30,849 kilometres (including Marche Multiservizi which counts for around 4,335 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

%	2007	2008	2009
Plastic	51.4%	52.4%	52.8%
Asbestos cement	24.1%	22.0%	21.6%
Steel	16.3%	17.7%	17.7%
Cast iron	6.4%	5.9%	5.9%
Other materials	1.8%	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 aqueduct during the year and the water accounted for as supplied to customers during the same period: the latter figure was estimated as 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 customer as at 31 December in the previous year calculated after the reading of all the meters.

On the one hand, this calculation method permits perfect consistency with the revenues recorded in the statutory financial statements for each year, but on the other hand is 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.

Non-invoiced water (physical and administrative losses from the civil aqueduct)

%	2006	2007	2008	2009*
Percentage of non-invoiced water (Hera Group)	25.4%	25.3%	25.0%	26.0%
Percentage of non-invoiced water (Hera Group excluding Marche Multiservizi)	25.4%	25.3%	25.0%	25.0%

* Provisional

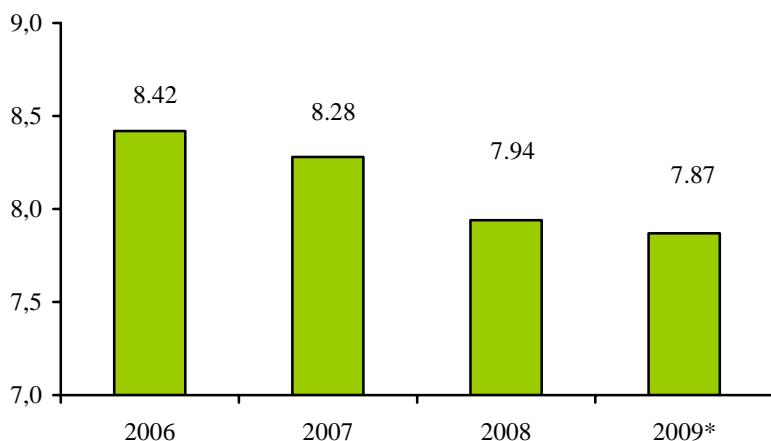
The figures shown illustrate that the network losses for 2008 were 25% compared to a national average of 34% (Integrated Water Service Report prepared by the Osservatorio Prezzi & Tariffe of the Cittadinanzattiva association in 2009).

For 2009, the network losses figure is estimated at 25%, in line with that of the previous year. This figure will be adjusted next year in order to take into account the effective charge calculated during 2010 after all the meters have been read.

The table above shows the figure for non-invoiced water excluding the area served by Marche Multiservizi, for which a significant increase in losses was recorded, due to an increase in the amount of water introduced into the network. This latter increase is affected by the installation of the new metres at the supply sources, which resulted in a more accurate figure compared to the previous one.

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 more easily useable to make comparisons with other companies. A decrease of 6% is noted between 2008 and 2006.

Non-invoiced water per kilometre of network managed (m³/km/day)

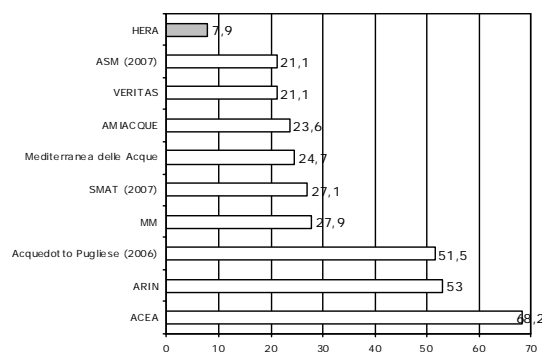


* Provisional

Data do not include Marche Multiservizi.

Non-invoiced water in Italy

This table compares the companies controlled by the largest Italian municipalities 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, the compare different companies, the network length should be taken into consideration. The aqueduct managed by Hera had the best performance among the ten companies in the study (7.9 cubic metres per kilometre per day), due to contained losses and a vast network managed.



In 2009, further progress was made in dividing the network into districts: the works relating to the Riccione district were finalised, and the works on the Rimini district are currently starting up. Based on the formation of the network, the Ravenna TOS has classified several municipalities as similar to districts. In these areas, through monitoring and careful assessment of minimum night-time flow rates, it will be possible to identify possible network leaks. In the Ravenna TOS, the substitution of the North coastal pipeline and the efficiency upgrading of the lifting system, for the purpose of controlling network pressure.

The Bologna TOS added a reduced pressure area in Castel Maggiore to the three existing macro-areas of reduced pressure (north, south, and west).

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 will complete the planned process of division into districts, thereby guaranteeing 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 nighttime flow rates from the collection containers, will serve 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: the International Water Association (IWA).

In this regard, the Emilia-Romagna Region's Loss Group (which Hera belongs to) conducted a study on two sample districts in the area of the Ferrara TOS (Mirabello and Portomaggiore aqueducts) to determine the Economic Losses Level for these districts, or the level of losses at which it becomes disadvantageous to invest more in reduction. The study involved a series of calculations for the purpose of assessing the economic efficiency of the intervention strategies, such as pressure management, search for hidden leaks, refurbishment of assets, and the speed and quality of repairs. The method set forth above, therefore, serves as a guide for the analysis and planning of the management of loss levels in a water system. The joint objective is to gradually extend the analysis to the other structures of the Hera Group, in order to determine the total Economic Losses Level and the exact amount of resources that should be spent on loss reduction.

Ravenna and water

In the rooms of the State Archive, the exhibition "Ravenna e le acque" (Ravenna and Water) has been set up, with the objective of helping people, especially young people, understand the importance of water resources. Parchments, cartographic representations, paper documents, manuscripts and printed documents were exhibited, with the intention of illustrating the history of the city's relationship with water. The show is divided into three areas: "Water for Drinking" dedicated to the development of aqueduct networks, from the time of Trajan to the Ridracoli Dam; "Water for Defence", linked to the role of natural barrier performed by lagoons, swamps and waterways; and "Water for Work", which documents the links between rivers and canals, water mills, decontamination and the cultivation of rice. At the exhibition, Hera presented its "2008 Report on the Quality of Drinking Water".

Wastewater purification quality

In 2009, Hera managed sewage and wastewater purification services through the operating structures in 226 municipalities (55 of which through Marche Multiservizi). The sewage system (excluding Marche Multiservizi) is approximately 13,500 kilometres long and is generally mixed (about 65% of the total). With reference to 2008 figures, the sewage system covers approximately 92% of the requirements expressed as

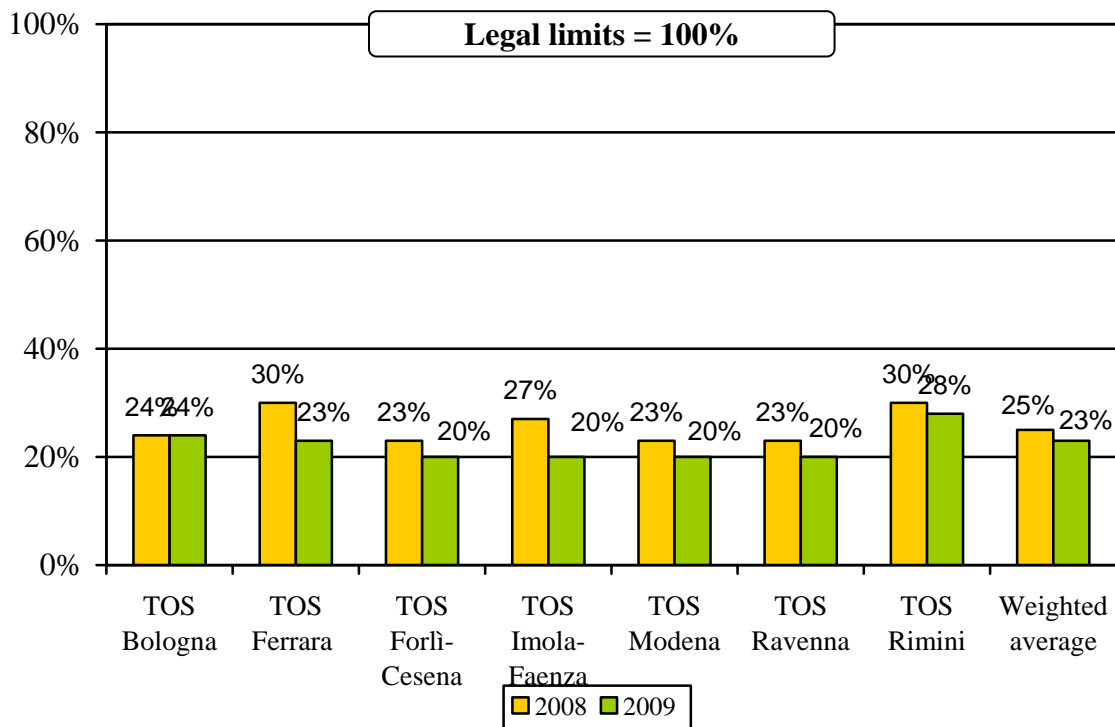
inhabitant equivalents (meaning the sum of resident inhabitants, production users transformed into inhabitant equivalents and presence due to tourism). Wastewater purification is carried out through 859 treatment plants, of which 15 have power equal to 100,000 inhabitant equivalents. The service covers 90% of inhabitant equivalents in the area.

These coverage values are decidedly higher than the national values: according to the 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 insofar as the availability and the results of the water services. In regard to purification, the 17 largest local water basins in terms of inhabitant equivalents were analysed: Rimini had the basin which better satisfied the purification requirements of the area. Bologna is at third place in the classification 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 314 million cubic metres of wastewater in 2009 compared to 299 million in 2008, an increase of 5% 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 84.2% of the total wastewater treated) and is calculated on the basis of the ratio between the concentration gauged for BOD5, COD, TSS, ammoniac nitrogen and the related maximum concentrations permitted by Legislative Decree 152/2006 and subsequent amendments and integrations. Bologna's plant limits are different from the regulation: ammoniac 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.

The data relating to the quality of the purified water shows an improvement in all local areas, except Bologna where the data is in line with the previous year. The concentrations of the four parameters considered are on the average at 23% of the limits set by the law; this means that the concentrations are 77% lower than what is allowed. There were no significant changes between the individual parameters considered: from 76% for BOD5 and SST to 79% for ammonia nitrogen and COD. The values that are closest to the legal limits were recorded at the Bologna TOS for ammonia nitrogen, although these amounts were 60% lower than the limits set by the law and for BOD5 the Rimini TOS was still lower by 59% than the limits set by the law. The values recorded in these two TOSs were influenced by the plants of San Giovanni – the main town for the Bologna and Riccione TOS and Cattolica for the Rimini TOS. As mentioned above, these plants will undergo upgrading work in 2010 and thereafter.

Improved purification in Ferrara

In 2009, at the Ferrara purifier, the sludge storage plant was expanded, with a total investment of over Euro 500,000. With six new storage tanks, the total capacity was increased from 3,000 to 9,000 tonnes. Therefore, the plant is capable of further reducing environmental pollution: it is possible to obtain dehydrated sludge with characteristics that permit its reuse in agriculture. The sludge contains organic substances and several minerals such as nitrogen, phosphorus and potassium, which are indispensable for fertile soil.

During 2009 the biological processes in many plants were standardised, in order to comply with the limits for the disposal of nutrients. The scheduled interventions for the Modena plant relating to the replacement of the system for the aeration of the oxidation basins and the realization of a bypass system for primary sediments to ensure the correct organic load in the biological tank were concluded; Furthermore, the automation and control systems for the Faenza purifier for optimization of the biological process were completed.

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 nitrogen discharged into the environment. The restructuring work 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, call for tender concluded), Riccione (180,000 IE, tender to be called in mid-2010) and Formellino - Faenza (99,000 IE, preparation of worksite underway). The works relating to the Cesenatico and Cattolica purifiers are in the definitive planning phase. The adjustment works on the Lugo plant (270,000 I.E.) are proceeding regularly, according to schedule.

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 2009, the planning which was underway during 2008 was under completion or near to calling of the tender. Similarly, the construction works are proceeding regularly, including the adjustment of the purifiers in Granarolo, San Giorgio di Piano and San Matteo della Decima (works in progress – Bologna TOS), the adjustment of the purifier of Riolo

Terme and the purifier of Castel Guelfo (the first is completed, and the second is being completed - Imola-Faenza TOS) as well as the expansion of the Santa Sofia plant (testing phase - Forlì-Cesena TOS).

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 areas (less than 200 IE), the Provinces are currently performing reviews to establish the intervention priorities and level of treatment (with the exception of Bologna and Ravenna, who have completed their reviews).

Average concentrations for the year at the main plants (2009)

(mg/l)	Body of water receiving the purified wastewater	COD (limit: 125 mg/l)	BOD5 (limit: 25 mg/l)	TSS (limit: 35 mg/l)	Ammoniac nitrogen (limit: 15 mg/l)	Volumes treated (thousand ds of m ³)
IDAR (Bologna)	Navile canal	33.6	7.3	10.7	11.4	48,873
Anzola (BO)	Scolo Sanguinettola Bassa or Scolo Lavinello	24.1	5.7	7.8	0.9	1,398
Calderara (BO)	Scolo Dosolo	23.6	5.1	6.0	0.5	971
Ozzano (BO)	Rio Marzano	32.8	6.5	11.7	3.5	554
S. Giovanni (BO)	River Reno	60.5	17.1	27.6	10.7	732
Gramiccia Ferrara (FE)	Po di Volano	30.0	6.7	12.6	1.3	17,263
Cesena (FC)	Rio Granarolo	17.4	5.0	5.6	0.9	5,969
Cesenatico (FC)	Scolo Madonna	32.1	5.4	9.8	1.3	3,984
Forlì (FC)	Scolo Cerchia	30.7	5.1	11.6	2.2	12,892
Savignano (FC)	River Rubicone	27.3	5.0	6.3	4.0	5,178
Faenza Formellino (RA)	River Lamone	42.3	5.7	11.9	0.8	5,775
Imola Santerno (BO)	River Santerno	37.7	6.0	35.8	3.5	6,864
Modena (MO)	Naviglio Canal	26.9	6.2	10.3	2.3	33,994
Ravenna (RA)	Cupa and Scolo Fagiolo Consortium canal	24.5	4.5	6.5	1.2	15,503
Alfonsine (RA)	Scolo Sabbioni	29.3	2.5	5.7	0.5	3,201
Bagnacavallo (RA)	Scolo Cappuccine	23.7	2.9	5.3	0.5	1,275
Cervia (RA)	Cupa Consortium canal	20.6	3.8	5.2	3.0	5,342
Lido di Classe (RA)	Pergami canal	13.1	1.2	5.8	0.7	1,159
Lugo (RA)	Scolo Arginello	41.0	4.9	7.4	3.3	6,430
Marina di Ravenna (RA)	Scolo Piombone	22.3	1.4	10.1	0.4	1,263
Russi (RA)	Scolo Pisinello	18.7	1.7	3.5	0.7	1,714
Rimini Marecchiese (RN)	River Marecchia	21.7	5.1	8.1	3.2	12,555
Rimini S. Giustina (RN)	River Marecchia	29.3	5.4	10.4	1.3	14,187
Riccione (RN)	Rio Marano	28.5	6.3	9.9	1.3	6,313
Cattolica (RN)	Torrente Ventina	24.7	4.9	8.3	3.5	5,873
Bellaria Igea Marina (RN)	River Uso	24.9	5.4	8.7	2.5	2,880
Pesaro Borgheria (PU)	River Foglia	31.5	4.5	10.2	11.5	6,989
Total volume treated						229,131

The volume treated in the plants indicated in the table equates to 73% of total wastewater treated.

Purification efficiency of a purification plant is linked to its capacity to remove 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 ammoniac 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 Capoluogo (BO), which, while remaining within the legal limits, recorded an increase in outgoing concentrations. The above is attributable to a temporary overloading of the plant, due to the connection of new users: in 2010 this purifier, now at the limit of its capacity, will be partially decommissioned (only one line will remain in operation) and the liquids shall be conveyed to the recently renovated plant at the former Zuccherificio site. It is noted that, for the Imola Santerno plant, where there is a final lagoon, the TSS limit is 150 mg/l.

Improved purification in Riccione

This intervention concerns the most important sections of the purifier: in 2009 the restructuring of the treatment of waste collected through the gully suckers and the dehydration of biological sludge were completed, for an investment of Euro 1.5 million. Summer 2012 is the date set for completion of the works on the biological oxidation processes and the removal of nitrogen, and on the final disinfection of purified water, for an additional investment of Euro 5 million. The supplementation or substitution of parts of the plant with new technologies allows us to obtain greater reliability in the purification process, in full compliance with the most recent environmental and sector regulations.

In 2009, the purification process produced about 53 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%). 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 Italian Legislative Decree 99/1992; specific regulations for the Emilia-Romagna Region are contained in resolution no. 2773/2004 and subsequent amendments and integrations. The sludge reused directly in agriculture was almost 2% of the total, in line with 2008. The remaining sludge produced was managed through dedicated incineration (about 29,600 tonnes) transfer to landfills (103,200 tonnes) and indirect agronomic reuse following composting (39,500 tonnes).

Constructed wetlands

Hera also manages various constructed wetlands plants in the provinces of Bologna, Ferrara, Florence, Forlì-Cesena Rimini and Ravenna. Some of these areas provide didactic tours which aid in understanding the process of wastewater treatment. The constructed wetlands process involves use of a third party purification system of biological ponds and of macrophytic vegetation with the function of a “filtration ecosystem”, enhancing the quality of already treated water. These systems contribute to the reclamation of borderline areas, creating natural environments and landscapes that are pleasing to the eye, and are often chosen as refuges for various species of birds, amphibians and reptiles. In these areas, it is often possible to organise didactic tours to observe specific animal and vegetable species typical of wetlands.

Atmospheric emissions

Atmospheric emissions generated by waste-to-energy plants

All the plants for the treatment and disposal of waste managed by the Hera Group are constantly subjected to analysis and monitoring so that all significant environmental aspects can be pinpointed and managed by means of best available technologies. These activities are conducted in full compliance with regulatory provisions. The environmental management systems adopted are certified by external agencies. A considerable number of initiatives are undertaken with the collaboration of many public institutions and supervisory bodies as part of our efforts to secure further scientific and statistical means and data dedicated to the provision of satisfactory plant performance ratings relative to environmental safety.

Transparency at the Modena waste-to-energy plant

Since November 2009, citizens have been offered the possibility of taking guided tours and obtaining information from a specific customer window at the Modena waste-to-energy plant. These initiatives were realised by the Hera Group, in collaboration with the Municipality of Modena and the District 2, to favour the awareness of the plant and ensure the utmost transparency in relations with the local areas. Both services are overseen by specialised personnel of Herambiente. For an appointment at the customer window or to book a guided tour, just call the District 2 URP or send a request via e-mail.

Control of waste-to-energy plants regards, firstly, process parameters and emissions impacting the air, water and soil, followed by an assessment of environmental emissions via an integrated approach. Within this context, prevention measures become a priority. The main objective is pinpointing the best technological and management options for minimising, on the one hand, consumption of materials and energy, and, on the other, the environmental impacts of the entire process life cycle.

Atmospheric emissions generated by waste-to-energy plants

(t)	2007	2008	2009
Particulates	4.8	4.5	3.3
Hydrochloric acid	4.6	3.9	3.6
Nitric oxides	464.2	395.6	413.8
Sulphur oxides	17.5	19.3	5.0
Carbon monoxide	34.9	48.8	57.0
Hydrofluoric acid	0.4	0.4	0.2
Total Organic Carbon	8.0	7.8	7.0
<i>Waste treated in plants (t)</i>	<i>599,101</i>	<i>622,629</i>	<i>734,492</i>
<i>Energy produced (MWh)</i>	<i>328,221</i>	<i>392,217</i>	<i>477,175</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 May 2009 a new waste to energy line at the Modena plant was deployed and the two old lines ceased operation from September;
- following the deployment of two new lines in the Ferrara plant in November 2007 and January 2008 respectively, the old line 1 ceased operation from the beginning of 2009;
- following the deployment of the new line at the Forlì plant from August 2008, the old lines 1 and 2 ceased operation from the beginning of 2009;
- two of the three lines at the Rimini plant ceased operation from July 2008; at this plant, work is underway for the construction of a new line.

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.

The trend for emissions of total particulate (-31%), sulphur oxides (-71%), Hydrofluoric acid (-48%), nitric oxides (-11%) and total organic carbon (-13%) continues to decrease, even with the 23% increase in treated waste between 2007 and 2009.

The significant decrease in sulphur oxides is specifically concentrated in Bologna (optimisation of the doses of chemical reagents) and in Ferrara and Forlì (launch of the new lines).

With regard to pollutants not monitored continuously, emissions can be estimated on the basis of the results of analysis performed during the year. In 2009, 155 kilograms of metals were emitted, along with 0.3 kilograms of aromatic polycyclic hydrocarbons and 52.1 milligrams of dioxins and furans.

Atmospheric emissions generated by waste-to-energy plants in relation to disposed waste

g/t	2007	2008	2009
Particulates	8.0	7.2	4.5
Hydrochloric acid	7.7	6.3	4.9
Nitric oxides	775	635	563
Sulphur oxides	29.2	31.0	6.8
Carbon monoxide	58.2	78.4	77.6
Hydrofluoric acid	0.6	0.7	0.3
Total Organic Carbon	13.4	12.5	9.5

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 particulates), emissions have halved in the last three years. On average, for the pollutants indicated in the table, the reduction on 2008 is 34% (considering only the new plants in Ferrara and Forlì, this percentage rises to 55%).

The first mobile unit for sampling emissions

Hera's first vehicle equipped for sampling and performing the laboratory analyses of gaseous emissions which the analysis laboratory of Forlì is in charge of has been operational since November 2009. The new van is designed to permit insertion of tubes for sampling at the emission points of the waste-to-energy plants. Using the vehicle equipped with laboratory counters and technologically-advanced tools, samples can be withdrawn and highly specialised analyses and direct measurements can be taken in the field (this is the case, for example, for nitric oxide and carbon dioxide) and samples can be prepared and stabilised for transport for subsequent analyses at the Forlì laboratory, such as, for example, testing for particulates, metals and dioxins.

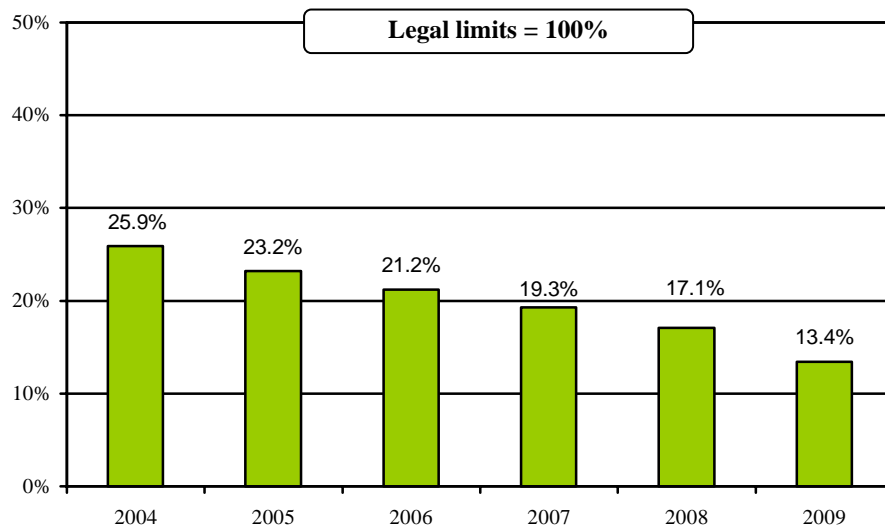
Concentrations of atmospheric emissions of waste-to-energy plants (2009)

(mg/Nm ³)	Legal limits Leg. Decree 133/2005	Bologna	Ferrara	Forlì	Modena	Ravenna (WDF)	Ravenna (special waste)	Rimini
Particulates	10	0.6	0.5	0.5	0.6	1.5	0.1	1.0
Hydrochloric acid	10	0.3	0.2	1.4	1.3	0.0	0.1	1.7
Nitric oxides	200	82.2	39.3	37.7	120.7	141.7	76.0	153.9
Sulphur oxides	50	0.8	0.0	0.3	1.1	0.1	2.8	1.2
Carbon monoxide	50	13.9	12.7	8.2	6.8	10.9	2.0	4.0
Hydrofluoric acid	1	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total organic carbon	10	1.5	0.4	0.4	0.8	0.7	0.4	0.8
Total metals	0.5	0.05	0.02	0.02	0.02	0.09	0.03	0.10
Aromatic polycyclic hydrocarbons	0.01	0.00002	0.00009	0.00001	0.00036	0.00027	0.00008	0.00005
Dioxins and furans (ng _{FTE} /Nm ³)	0.1	0.010	0.000	0.006	0.021	0.074	0.016	0.019
Cadmium and Thallium	0.05	0.00096	0.00014	0.00071	0.00078	0.00230	0.00080	0.00217
Mercury	0.05	0.003	0.001	0.000	0.000	0.002	0.001	0.004

The legally established limits refer to Legislative Decree 133/2005. For particulates, hydrochloric acid, nitric oxides, sulphur oxides, carbon monoxide, hydrofluoric acid, and total organic carbon, the values correspond to the average continual measurement and the limits correspond to average daily. 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.

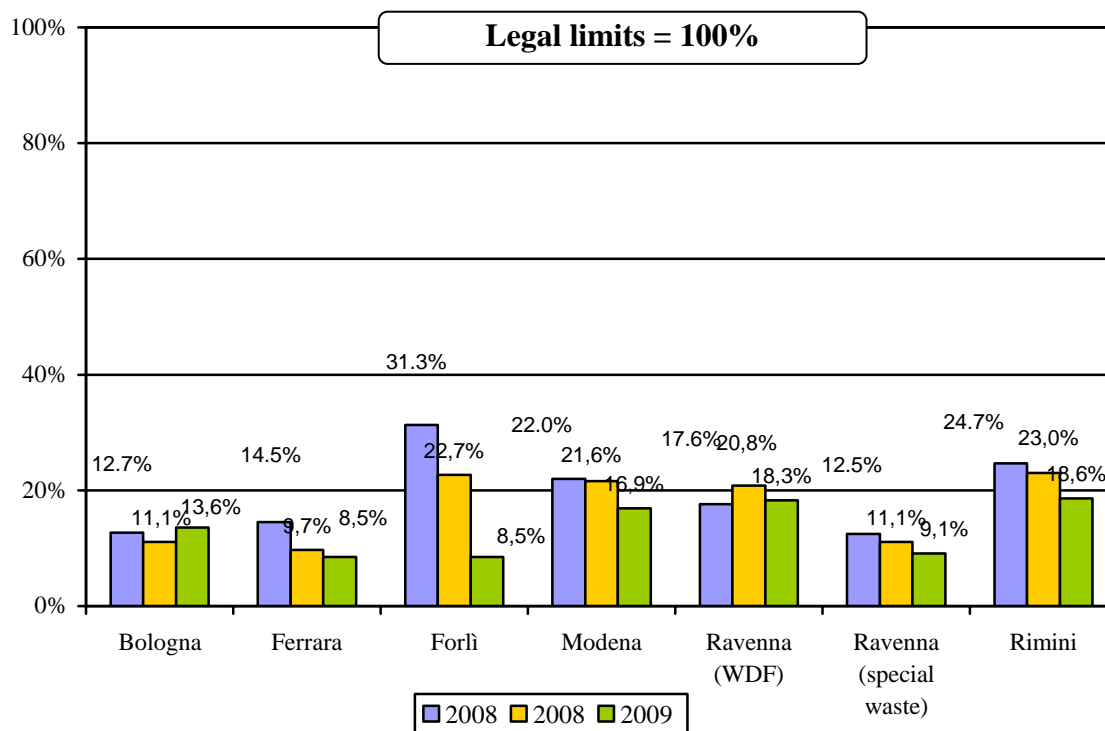
The various Hera Group waste-to-energy plants fully observe the limits laid down by current legislation. The concentrations of atmospheric emissions are in line with those of the previous year, for all plants. For the Forlì plant, as a result of the start-up of the new plant, the values of concentrations of atmospheric emissions are significantly lower than those of 2008.

Atmospheric emissions from waste-to-energy treatment plants compared to legally established limits of Leg. Decree 133/2005 – continuously monitored parameters (optimal values < 100%), average of the seven plants



The plant renovation 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 2004-2009. In 2009, the concentrations of the atmospheric emissions of waste-to-energy plants were on the average at 13% of the limits set by the law, compared to 26% in 2004. This means that in 2009, the emissions were 87% lower compared to the allowed level while in 2004 this percentage was 74%.

Atmospheric emissions from waste-to-energy treatment plants compared to legally established limits of Leg. Decree 133/2005 – continuously monitored parameters (optimal values < 100%), plant detail



Significant improvements in these results are obtained by means of constructing new plants: the Ferrara and Forlì plants, launched in 2008, show better figures. The same indicator was calculated for the four plants with authorisation limits that are more stringent than Italian regulations for 2009. The data are displayed in the table below. In this scenario, the results are, once again, excellent: the concentrations are, on average, 86% lower compared to the more restrictive limits.

Atmospheric emissions from waste-to-energy treatment plants compared to authorisation limits – continuously monitored parameters (optimal values < 100%)

%	2007	2008	2009
Bologna (FEA) waste-to-energy plant	18.6%	16.0%	18.7%
Ferrara waste-to-energy plant		9.1%	9.3%
Forlì waste-to-energy plant			16.2%
Ravenna waste-to-energy plant (special waste)	14.9%	13.0%	10.9%
Arithmetical average	16.8%	12.7%	13.8%

For the Ferrara plant, the new 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, the new line 3 was considered.

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 569 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. Relating to the Ferrara plant, the limit of 130,000 tonnes stated in the Integrated Environmental Authorisation was derogated from for the sole conferment of urban waste, following a judgment of the Regional Court Administration.

Transparency in Hera waste-to-energy plant emissions

Since the beginning of 2008, anyone can consult the Group's website to find daily emissions from the Group's waste-to-energy plants: average values from the previous day and the "half-hourly averages" (every half hour the on-line data are updated with the average value recorded over the prior 30 minutes). The data is 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, making 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.

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 project has been revised over time. The current duration regards the period between April 2007 and April 2010 and follows the following project lines:

- environmental monitoring
- assessment of exposure of the population;
- epidemiological assessments on the effects on health;
- studies of toxicological effects;
- definition of the criteria for the Health Impact Assessment;
- communication aspects.

In December 2009, the results of the project line regarding communication were published in the series the "Monitor Notebooks" and the studies regarding the other project lines are continuing.

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 the thought and techniques of environmental investigation 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 the 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 Politecnico di Milano both promotes and participates in, concerning "Fine and ultrafine particle emissions from combustion plants" was presented. The study attempts to organise and critically evaluate the phenomenology, consistency and potential implications of fine and ultrafine particles from combustion plants. The work measures and compares the UP emissions by plants fuelled by pellets, gas-oil and gas for domestic heating and waste-to-energy transformation (the plants of Milan, Brescia and Bologna were examined).

Results shows that UP concentrations detected in waste-to-energy treatment emissions generally fell within the same levels, when they were not actually lower, as those present in the ambient air in the localisation sites. Additionally, for all three plants, the concentrations measured are systematically lower, by at least 100 times, compared to the measurements for exhaust from pellet and gas-oil fuelled civil boilers and only slightly higher than the measurements from natural gas boilers.

Systems for monitoring pollutant emissions in new plants

Since 2002, Hera has engaged in a modernisation and expansion plan for its waste-to-energy plants that now is about to conclude.

At the end of this modernisation programme, the Group's waste-to-energy treatment capacity will increase by one million tonnes per year with an increase of 30% compared to the initial capacity. The new technologies adopted for energy recovery systems in the new plants will increase energy efficiency, doubling the energy produced and the electric power installed.

The electric power installed at the end of the programme will be 105 MW (comparable to a small-to-medium thermoelectricity station) with a production capacity of almost 600,000 MWh per year (equal to the annual consumption of about 200,000 households). One of the principal objectives of the modernisation plan is to reduce to a minimum the environmental impact of these plants.

All of the new plants were planned and constructed in compliance with EU and national BAT (Best Available Techniques) regulations, and are equipped with even better systems both in terms of emissions abatement as well as continuous measurement and control of emissions.

In regard to the fume purification device, the installation of a series with two systems for reaction and filtration was selected for the reduction of dust, chloric acid, hydrofluoric acid, sulphur oxides, heavy metals, polycyclic aromatic hydrocarbons

(PAH), dioxins and furans, and two systems for the reduction of nitric oxides (a non catalytic + a catalytic system); in addition to the pollutant abatement efficiency, this choice provides a versatile device which ensures that the emissions will be lower than the limits set in the event of the malfunctioning of one of the two systems. The usage of this fume purification system results in abatement of the pollutants by approximately 90% compared to the values indicated for the BAT approved by the Ministerial Decree of 29 January 2007. In relation to the monitoring of the emissions, a new system was installed at the new plants which ensures continuity of collection even if the main apparatus breaks down by activating a second device for the recording of the monitored data. Finally, in regard to the monitoring of the process, there is an apparatus for the doses of reagents and another for the monitoring of the combustion phases for optimisation of the raw materials.

What are BAT (Best Available Techniques)?

With Directive 1996/61/EC of 24 November 1996 (IPPC), now replaced by directive 2008/1/EC, the European Union established its first integrated instrument designed to implement a strategy of reducing the sources of pollution and therefore minimizing the environmental impact. This was previously handled with laws concerning specific sectors, such as atmospheric and water pollution. This law requires member states to consider all the aspects of a plant's environmental impact, from emissions to raw materials, from noise pollution to energy efficiency, as part of a single penalty system. The IPPC Directive's concept is based on prevention and reduction of pollution according to the identification of technological standards such as the best available techniques or BAT. Compliance with BATs is assessed for "IPPC Plants," as part of the Integrated Environmental Authorisation (AIA) which provides authorisation for a plant to operate and replaces all other pre-existing permits and authorisations. In order to assist the authorities and companies in determining the best available techniques, the European Commission adopts and publishes reference documents on the Best Available Techniques (BRefs, BAT reference documents), prepared by the European IPPC office in Seville, Spain. At the national level, the BRefs were translated as Guidelines validated by Ministerial Decrees.

In addition, for all plants the Environmental Impact Assessment was applied, which preventively sanctioned the compatibility with the surrounding environment. The Integrated Environmental Authorisation was also applied, which verified, in terms of planning and operations, the effective correspondence and veracity of the hypotheses contained in the Environmental Impact Assessment.

Each plant has various systems to control the environmental impact of the emissions that can be summarised as follows:

- process controls: the various wastewater purification systems continuously measure the concentration of various pollutants both upstream and downstream as evidence of the effective functionality of each individual wastewater purification phase;
- continuous control of chimney emissions: in addition to the parameters included in current regulation, Hera also voluntarily added continuous measuring systems for mercury and continuous dioxin sample systems;

- timely controls of the chimneys, at fixed dates, for those parameters which cannot be continuously monitored;
- 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.

Remote control of waste-to-energy treatment plants

Since June 2007, the remote control station for Hera's waste-to-energy treatment plants has been operating in Coriano (RN); this is an eminent innovation nationally, permits the systematic control in real time of the Group's waste to-energy treatment plants. All the 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 will be connected.

Atmospheric emissions generated by district heating

Atmospheric emissions generated by district heating

(t)	2007	2008	2009
Nitric oxides	115.3	135.8	128.0
Carbon dioxide	115,141	116,280	101,966
Sulphur oxides	2.6	0.0	0.0

The estimation coefficients for emissions were updated to conform with changes in the mechanisms from the Emission Trading regulation.

Emissions of nitric oxide and carbon dioxide fell by 6% and 12%, respectively. This derives from the lower consumption of gas, both in co-generation processes (reduction of the production of electricity, specifically concentrated in Bologna and Imola) and in heater boilers. As regards the latter, greater use of heat produced from renewable and similar sources (geothermics, recovery of heat from waste-to-energy plants and turbogas) is noted: the percentage of use of renewable and similar sources (including waste-to-energy plants at 51%) increased from 36% to 46%.

In 2009, the district heating plants produced a total of 606 GWh of electricity and thermal energy. The ratio between the quantity emitted and the energy produced provides a measure of specific emissions.

211 grams of nitric oxides were emitted in 2009 for each megawatt per hour of energy produced and 168 grams of carbon dioxide for every kilowatt-hour, equal to -12% and -18% compared to the figures for 2008.

In 2009, the Group's co-generation plants consumed 142,583 cubic metres of water.

Atmospheric emissions generated by district heating (2009)

(t)	Nitric oxides	Carbon dioxide
Bologna	69.3	53,955
Ferrara	21.3	16,934
Forlì-Cesena	12.3	8,132
Imola-Faenza	14.3	14,356
Modena	9.8	7,810
Ravenna	1.0	778
Total	128.0	101,966

Emissions of the new co-generation plant in Imola

During the initial period of commercial operation of the plant, from October to December 2009, the concentrations at the chimney were much lower than the legal limits and the limits defined by the Integrated Environmental Authorisation.

Concentrations of atmospheric emissions of the co-generation plant in Imola (2009)

(mg/Nm ³)	National limit	Authorised limit	2009
Nitric oxides (NO _x)	60	15	8.7
Carbon monoxide (CO)	50	10	2.1
Ammonia slip (NH ₃)	not envisaged	2.5	0.2
Total Particulate Matter (TPM)	not envisaged	5	0.004
PM ₁₀	not envisaged	3.5 (1 as quality objective)	0.07

The limits of authorised emissions refer to Decree of 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. The values correspond to the average continual measurement (for PM₁₀ data are the average of 14 measurement). Limits correspond to the hourly average for all but 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.

Specific emissions produced for the production of one megawatt per hour equal 47.8 g/MWh for nitric oxide, 11.3 g/MWh for carbon monoxide, 0.99 g/MWh for ammonia and 0.0237 for total fine particles.

We note that the values measured on a continuous basis for total particulate matter (which also includes PM₁₀) are more than 1,000 times lower than the authorised limit.

Water consumption for the evaporative cooling tower in the first 3 months of operation was equal to 89,017 cubic metres, in line with expectations.

In the period in question, the plant always guaranteed the production of thermal energy for district heating through at least one line. The two lines operated for 1,281 and 1,637 hours, respectively.

Corporate vehicle fleet

Fleet (No. of vehicles)

(No.)	2007	2008	2009
Diesel	982	1,814	1,869
Petrol	1,044	930	844
Methane	385	475	532
Biodiesel (25%) and Diesel (75%) mix	704	97	0
Electric powered	61	47	46
Total	3,176	3,363	3,291

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 to the traditional diesel and petrol. In 2009, 74 vehicles were registered, including 60 fuelled by methane (equal to 81% of total vehicles registered).

Over the last years, Hera has introduced in its fleet vehicles diesel engines that are fuelled by a mix of 75% diesel and 25% organic fuel. At the end of 2007, 704 vehicles were powered by this “biodiesel”, while at the end of 2008, biodiesel-powered vehicles amounted to 97. The application of regulations that contain obligations for diesel producers regarding emissions with a portion of biodiesel in automotive fuel has caused significant problems with market availability that, together with technical problems from the use of the high 25% portion of biodiesel in Euro 5 vehicles, forced the Group to abandon its voluntary decision and adopt the standard mix pursuant to law. In 2008, the minimum legal portion was 2%, and in 2009 it rose to 3%: the Ministry of Economic Development Decree dated 25 January 2010 set the minimum portion 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 23 April 2008, no. 100.

In 2009 a study was carried out to jointly evaluate both the cost per kilometre and the energy efficiency of the main fuels alternative to petrol and gas-oil, meaning methane, GPL, electricity or hybrid. In light of the various mileage obtained by the vehicles available using the different types of fuel, and the different quantity of primary energy used, the study pointed out significant alignment in operating costs for light vehicles and a difference of a few percentage points in favour of gas-oil for heavy vehicles. Therefore, also in order to overcome the obstacles constituted by the lack of distribution throughout the local areas of methane distributors, the Group redirected its decision to adopt vehicles using low environmental impact fuels toward GPL.

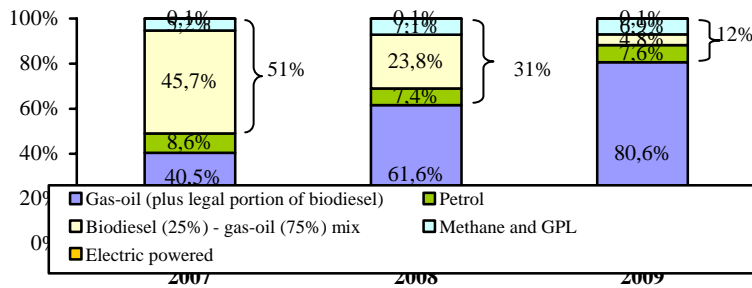
Unfortunately, the hypothesis of developing a methane distributor for the public transportation in Modena fell through, due to the waiver of the other partners to the agreement signed in 2008: therefore, the purchase of seven methane automatic waste compactors which were to operate in that municipality was suspended. The launch of the use of methane automatic waste compactors in the municipality of Forlì was also temporarily suspended, in view of the probable reorganisation of the city’s waste collection system.

The testing launched at the end of 2008 of two new side-loading automatic waste compactors powered by methane and equipped with an innovative motor continued with

success, with the consolidated data indicating a reduction in methane consumption of approximately 6% as well as 6% lower carbon dioxide emissions, compared to those for methane vehicles that have been in use for several years. Currently, the Hera Group uses 18 methane automatic waste compactors respect a total of 201.

In 2009, a feasibility analysis was performed, at the end of which the number of side-loading automatic waste compactors powered by methane required for waste collection in the urban area of the provincial capital cities.

Fuel consumed by vehicles

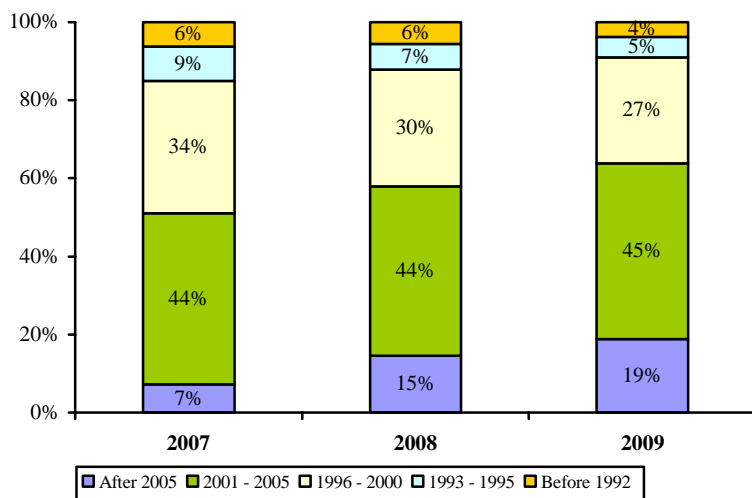


The comparison between the various types of fuel has been made, considering the primary energy present in the single fuels calculated using the GRI method.

As detailed above, low environmental impact fuel consumption (calculated in terms of primary energy contained in the fuel expressed in GJ) declined to 12% of the total in 2009.

Excluding Marche Multiservizi, as at 31 December 2009, the average vehicle age was 8.2 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

In 2009, action continued for reducing the environmental impact (traffic, atmospheric emissions, noise, energy consumption, etc.) of the commuting of Group staff. The section of the company intranet containing information on the concessions launched by the group, in close connection with the local authorities, aimed at encouraging reduced use of private vehicles, was further expanded. In addition, software has also made available to all employees, to support car pooling, in other words, the practice of giving a lift to other colleagues who live in the vicinity of one's journey to and from work.

Action also continued for supporting public transport and the use of bicycles, targeted at those who live near the Berti Pichat and Frullo Bologna premises. In 2009, more than 221 staff members took advantage of special conditions for a 50% discount on the purchase of yearly bus and train tickets (+ 77% 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, is used on average by twelve individuals a day (+ 29% when compared with 2006) for commuting purposes, and is also available for work-related trips between the two premises. For the use of bicycles, 15 incentives were disbursed in 2009 (up to a maximum payment of Euro 50 per person for the purchase of a bicycle and accessories or for maintenance).

Yearly monitoring data of the Hera headquarters in Viale Berti Pichat reveal that, between 2003 and 2009, the number of cars used for commuting per 100 employees has fallen from 74 to 61.4, a reduction of more than 17%, and despite the increase in the total number of employees from 864 to 954, and a decrease estimated at around 365,000 km travelled per year.

Other programmes were initiated in other areas. 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 in a year. 17 workers participated in 2009, of whom 12 made more than 80 bicycle commutes.

The Group participated in the project of the Municipality of Forlì for the development of a mobility management plan for the Forlì industrial area, distributing the related survey questionnaire to 301 employees working in the area concerned. 122 questionnaires were returned, amounting to over 40%. The Ferrara TOS participated in the project promoted by the Province for activities to increase awareness on safe driving during commuting.

In order to pursue the reduction in the use of private cars by Group employees when commuting, in 2010 the analysis and mobility management actions will be extended by applying an assessment model developed at the beginning of 2010 during a study conducted as part of a doctorate thesis in engineering.

Greenhouse gas emissions

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 Emission 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 it is necessary to quantify and submit the emissions produced to 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	2007	2008	2009
ACER Barca (Bologna)	28.8	Thermal power	97%	121%	153%
ACER Pilastro (Bologna)	32.8	Thermal power	234%	561%	276%
Berti Pichat plant (Bologna)	25.7	Co-generation plant		100%	48%
COGEN (Bologna)	26.9	Thermoelectricity co-generation and thermal power	52%	91%	76%
Ecocity (Bologna)	33.8	Thermoelectricity co-generation and thermal power	86%	184%	176%
San Giacomo (Bologna)	21.7	Thermal power	114%	143%	163%
Casalegno plant (Imola)	222.7	Co-generation plant		100%	n.a.
Montericco (Imola)	20.2	Thermoelectricity co-generation and thermal power	72%	45%	24%
Canal Bianco (Ferrara)	92.3	Thermal power	103%	106%	88%
SAFTA plant (Piacenza)	41.3	Co-generation plant	38%	47%	43%
Ravenna Waste-to-Energy Plant (special waste)	-	Waste-to-energy plant	91%	-	-
Average			64%	70%	55%

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.

There are 10 Hera Group plants authorised to emit greenhouse gas on the basis of Emission Trading legislation, involving total installed furnace power of 546.2 MW. The emissions for these plants amounted to 200,120 tonnes in 2009. The Ravenna waste-to-energy plant using special waste was not included in the National Allocation Plan 2008-12.

Total CO₂ emissions in 2009 increased significantly, due to the start up of the Casalegno plant. The Ministry for the Environment is currently carrying out the

investigation for the purpose of issuing the resolution of assignment of CO₂ quotas, which are not yet available at the moment.

The latest generation combined cycle plant at Imola replaced the old open cycle gas turbines of Montericco, which were obsolete and much less efficient. Only the two boilers remain of the Montericco plant and they are used to support the Casalegno plant. Several energy analyses are being implemented, aimed at identifying optimisation measures which will result in a reduction in consumption and, therefore, in emissions, with equivalent services provided.

Total greenhouse gas emissions amount to 1,483,416 tonnes of CO₂ equivalent. The main source of emissions is the landfills, losses in the gas network and waste-to-energy plants. Indirect emissions from electricity consumption were 225,204 tonnes.

The components are, in detail:

- 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 and office heating: carbon dioxide from the combustion of methane;
- gas leaks: 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, heating of premises and electricity consumption are calculated using coefficients provided in the Emissions Trading regulation, while emissions for motor vehicles and gas network leaks are calculated using coefficients from readings.

Waste collection

The Hera Group is a major player in the field of urban waste management. Hera manages an integrated service in 6 ATO in the province of Emilia Romagna, for a total of 142 municipalities. Moreover, through Marche Multiservizi, 31 municipalities in the Pesaro and Urbino province are served. In total, Hera served 173 municipalities in 2009, for a total population of 2.7 million inhabitants.

The area covered by Hera is characterised by higher assimilation and thereby has the highest annual per capita urban waste production rates in Italy: waste production in the Emilia Romagna region is 695 kg/inhabitant in 2008 (source: Report 09 Waste Management in Emilia Romagna, Emilia-Romagna Region, 2009). The Italian average stood at 546 kg in 2007 (source: ISPRA 2008 Waste Report).

CiboAmico brings solidarity to canteens while also being good for the environment.

In November 2009, Hera launched CiboAmico, an initiative aimed at recovering unused foodstuffs in the Group canteens through distribution to local associations that assist persons in difficult conditions and poverty.

The pilot project was launched in the Viale Berti Pichat cafeteria in Bologna, with an agreement concluded between Hera, Concerta (the canteen operator) and Opera Padre Marella, an association that operates in Bologna to assist persons who are poor and enduring hardship. Launched in collaboration with Last Minute Market, a University of Bologna spin-off that encourages actions against waste and the recovery of unused goods, CiboAmico made it possible to recover approximately 2,000 portions of food in the first three months that it operated. As the initiative will be extended to another three company canteens, approximately 15,000 portions per year are expected to be distributed once everything is fully operational.

Hera has developed an organisational model for separated and non-separated collection of urban waste which is based on the management experience of one of its local founding companies: the study and analysis of management best practices allowed for basing the new organisational model on our own real consolidated wealth of knowledge and experience acquired over decades.

The Hera integrated waste management system (WMS)

Hera's Waste Management System (WMS) is characterised by three main systems:

- local collection: performed via bins distributed throughout the area or via residential systems. The system is primarily targeted at residential users and small, non-residential users;
- residential collection from non-domestic users that produce high quantities of specific waste similar to urban waste (cardboard in shops, glass or tins in bars, organic waste in canteens or restaurants, etc.);
- centres for separated waste collection: 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 as a whole allows for the collection of large quantities of separated materials of a high quality, contributing to the achievement of the strategic EU objective of materials recovery, maintaining economic sustainability and, therefore, limited impacts on tariffs.

As regards local collection, various areas have accepted the proposal of using the evolved model named IEB (Basic Drop-Off Points), which involve 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 rationalisation of the service 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.

The key to incentivising separated waste collection in Rimini

E-gate is the project for managing household waste, 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 implementation of the project throughout the province will result in the modification of about 3,400 bins for non-separated waste, and will involve over 110,000 users. With this project, Hera aims at increasing the percentage of separated waste collected, which in the province of Rimini should reach 65% by 2012.

The overall production of urban waste in 2009 recorded a slight increase of 1.7% compared to the previous year. This figure is specifically due to the increase in activities carried out: in the Modena area, in fact, about 33,000 tonnes of waste from pruning and aggregates were collected, which in the previous years, had not been collected by Hera. Excluding this waste flows and waste from the cleaning of shorelines, total waste decreased by 0.4% and the waste produced per inhabitant decreased by 2.6% in the last year.

Urban waste collection (breakdown by Territorial Operating Structures)

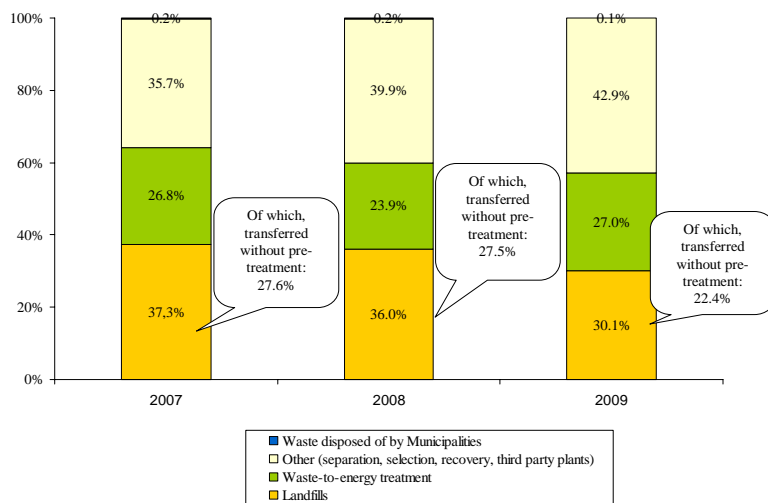
(t)	2007	2008	2009
Bologna TOS	378.0	373.2	359.2
Ferrara TOS	93.2	92.6	90.5
Forlì-Cesena TOS	260.9	269.3	274.4
Imola-Faenza TOS	134.5	138.4	137.8
Modena TOS	215.1	268.0	306.2
Ravenna TOS	231.1	238.2	237.1
Rimini TOS	256.1	258.9	257.0
Marche Multiservizi	101.5	127.9	133.3
Total	1,670.5	1,766.3	1,795.5
kg/inhabitant*	666	662	657

* Excluding waste from the cleaning of shorelines.

The percentage of urban waste collected by Hera and disposed of in landfills is lower compared to 2008, consistent with the 2010 objective, with the authorisation obligations of several plants and with the closure or reduction in operations of several landfills. The six percentage point decrease in the portion of waste disposed of in landfills is offset by the increase in urban waste treated in waste-to-energy plants (+ 3 percentage points, following the start up of the new lines at the Ferrara, Forlì and Modena plants) and the waste sent for selection or recovery (+3 percentage points, following the greater quantities of separated waste collected).

The percentage of urban waste disposed of in landfills without pre-treatment came to 22.4% (18.7% excluding Marche Multiservizi). During 2009, the portion of pre-treated urban waste disposed of in landfills came to 30.1% (including Marche Multiservizi which disposes of 68% of urban waste in landfills) compared with an Italian average of 46.7% (ISPRA 2008 Waste Report). If Marche Multiservizi is excluded, the portion declines to 27.0%.

Urban waste collected (breakdown by destination)



Separated waste collection

Separated waste collection is performed by the Group mainly in single materials collection, regarding an extremely wide range of materials. The main materials, such as paper, cardboard, glass, plastic, tins, organic waste, clippings, bulky waste, batteries and medicines are collected through geographic systems or target collections. Other types of waste such as wood, metal scrap, waste from electrical and electronic appliances (RAEE), cooking and mineral oil, accumulators, aggregates and various types of dangerous waste are delivered to separated waste collection centres. In some cases, mixed materials collection is envisaged, where systems that permit effective separation in the selection plants are favoured.

The key makes the difference

In May an experimental system of separated waste collection was launched in Gatteo Mare and San Mauro Mare, through home collection using locking bins, with the primary objective of increasing separated waste collection. The system demonstrated its effectiveness, achieving highly significant results: 66% of separated waste collected was recorded. 360-litre bins were distributed, instead of 1,700-litre bins, in order to make their presence more discrete and less invasive. Using the key, users can open 5 bins (for paper, plastic/tins, glass, organic waste and non-separated waste) and the keys can only be used in the residential area assigned to the user.

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 disposed of.

Number and volume of separated waste collection bins

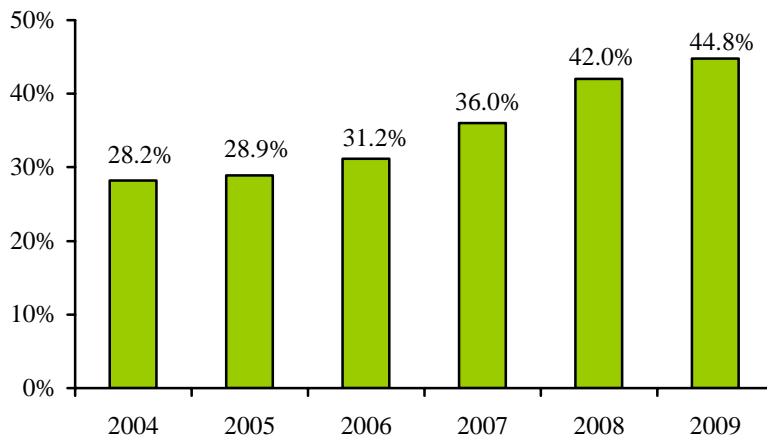
	2007	2008	2009
Number of bins (no.)	94,406	130,897	147,604
Bin volume (m ³)	125,299	162,584	181,941

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 2008, there were increases in both the number of skips for separated waste collection (+13%) and their volume (+12%). More marked increases were recorded in Ferrara and Imola-Faenza. Contextually, in order to achieve higher efficiency in services, the Group reduced the number and volume of bins for separated waste collection; the total volume reduction was 3%.

An additional separated waste collection system was implemented through the Collections 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. In 2009, the construction of two new Collection Centres was completed, while works for adjustment to the recently issued regulations were carried out at over 100 Centres.

Separated waste collection



The percentage is calculated excluding waste from shorelines. The calculation of separated waste collection also includes similar waste transferred by manufacturers for recovery and separated waste collected from third parties as provided by Emilia-Romagna Region, Decree of the Regional Government no.1620/2001 and implemented in municipal regulations and regulations of the Water and Waste Regulatory Authorities in force.

From 1997, the year that the Ronchi Decree took effect, through 2008, the companies that form Hera Group increased the average percentage of separated waste collection

from 11% to 44.8%. Excluding Marche Multiservizi, separated waste collection comes to 45.3%. In Italy, separated waste collection in 2007 came to 27.5% (ISPRA 2008 Waste Report).

In the last three years, separately collected waste transferred by manufacturers for recovery and separated waste collected from third parties accounted for approximately one-fifth of the increase in separated waste collection. In 2009, this amount of waste was equal to 106,000 tonnes, or 13% of the total separated waste collected.

Drop-off points open on Sundays

In October the Imola drop-off point was opened to the public on Sunday mornings. When dropping off waste, users received free ecological gifts: we distributed 250 fabric shopping bags, 268 cans for collecting used cooking oil, 126 cans for collecting mineral oil, 356 battery chargers for rechargeable batteries and 365 battery testers. Over the 4 Sundays, about 900 residents brought over 14 tonnes of waste, comprising paper, cardboard, glass, plastic and tins, 1,000 litres of cooking oil, 700 litres of mineral oil, 300 car and motorcycle batteries, and hundreds of small household appliances.

Significant importance is attributed to the communications campaigns that accompany each new initiative regarding the service of separated waste collection. In concurrence with the activation of new collection systems, communications projects were activated, including tutoring (door-to-door contact for all users).

The collection of waste from electrical and electronic appliances (RAEE) has taken on a significant role in the last few years, also by virtue of the recent Italian Legislative Decree 15/2005 implementing EU regulations. In the last four years, the quantity of RAEE collected per capita grew by over 50%, reaching in the area covered by Hera almost 5 kg/inhabitant per year. This quantity exceeds the objective set forth in the regulation (4 kg/inhabitant) and is in line with the average European standards, much higher than the Italian average of 1.9 kg/inhabitant.

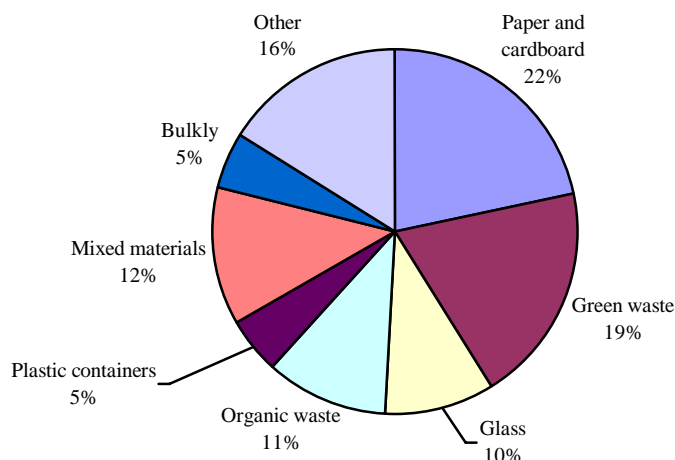
Separated waste collection (breakdown by Territorial Operating Structures)

%	2007	2008	2009
Bologna TOS	29.8%	36.0%	39.7%
Ferrara TOS	40.1%	43.4%	46.6%
Forlì-Cesena TOS	37.5%	42.8%	45.9%
Imola-Faenza TOS	34.1%	41.4%	43.8%
Modena TOS	36.6%	44.5%	49.7%
Ravenna TOS	46.3%	50.6%	51.7%
Rimini TOS	35.0%	41.5%	43.1%
Marche Multiservizi	33.1%	36.4%	37.2%

The percentage 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.

In 2009 we collected 271 kilograms of separated waste per inhabitant, an 8.1% increase compared to the 251 kilograms collected in 2008.

Separated waste collection 2009 (breakdown by waste type)



The increase in separated waste collection specifically regards waste with a higher content of organic material. On the other hand, there is a reduction in mixed materials collection, as this type of collection is being discontinued in favour of single materials collection. This has resulted in a sharp increase in the collection of plastic (+30%).

Material targeted for recovery (2009)

thousands of t	From non-separated waste collection	From separated waste collection	Total
Total waste collected	1,061.6	734.0	1,795.5
Total waste targeted for recovery	123.1	697.9	821.0
% of waste targeted for recovery	11.6%	95.1%	45.7%

Much of the material from separated waste collection must be discarded and earmarked for disposal insofar as it is mixed in with other waste and cannot be separated from it by the normal techniques adopted. Within mixed materials, the percentage of material which cannot be recovered reaches up to 50% of the waste collected.

Energy efficiency from recycling waste

In 2008 the book “Il riciclo ecoefficiente” (Eco-Efficient Recycling) - Edizioni Ambiente - was published by the Istituto Ambiente Italia, Duccio Bianchi. This is a comparative study of the energy efficiency of the use of secondary raw materials, meaning materials recovered from waste, starting from separated waste, and recycled, meaning they are reinserted in the production cycle instead of raw materials.

By analysing the Italian (and international) system of recovery and recycling of each material, the study demonstrates that this activity is a now-indispensable source for national industrial procurement within the context of the globalisation of trade in secondary materials. In addition to the important economic role, there is the environmental dimension of the system: the industrial reuse of materials provides significant benefits, above all the reduction of energy consumption and greenhouse gas emissions.

The results shows that waste still plays a primary role in the current economic-environmental challenge. With a credible development of recycling (+15% compared to current amounts) and with intelligent evolution of the waste management system, in 2020 it could be possible:

- to reduce energy consumption by an additional 5 million toe (equal to 32% of the national energy efficiency target for 2020);
- to reduce CO₂ emissions by over 17 million tonnes (equal to 18% of the national target for emission reductions for 2020);

In terms of the effective recovery of material, single material collection (paper, glass, metal) has an insignificant portion of material which cannot be recovered. A significant part of the non-recoverable share is made up of plastic, which requires selection in order to fall within the limits of the Consortium for Recovery of Plastic Packaging Materials (COREPLA).

Waste disposal

National and EU regulations define principles and priorities for waste management, from minimising waste as the source to material recovery, energy recovery and, only as last resort, the disposal in landfills.

Hera manages, directly or through subsidiaries, a pool of more than 70 unique plants in Italy that allow us to both fully and appropriately respond to the EU and Italian principles for waste management as well as participate in the entire waste management cycle.

The Group's plant pool includes storage and initial pre-treatment plants, plants for selection and recovery of dry material, plants to recover 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. Landfills function as final disposal. 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.

Hera manages all these types of plants, supplying integrated waste management.

Furthermore, over the last few years, Hera has implemented various initiatives to enhance the zones that, up until recently, were typically used as landfills. Combustion waste is used more frequently for recovery of metals and aggregates (in 2009 about 38% of waste produced by the Group's plants was targeted for recovery). Civil purification sludge is used to produce corrective materials for agriculture. Separation of sodium products from reaction during fume purification in waste-to-energy plants allows us to reuse these substances in specific production cycles.

Moreover, in order to reuse the considerable quantities of biomass of various types and origin present in the waste, actions have been taken aimed at its recovery, both as an agricultural fertiliser as well as a raw material in energy production, thereby avoiding its disposal in landfills. The "Biomass" project was presented to the Region and the Provinces in which Hera manages the waste cycle as an innovation of the system. Once

fully on stream, this project will contribute by around 10% to the achievement of sector specific targets of the Regional Energy Plan.

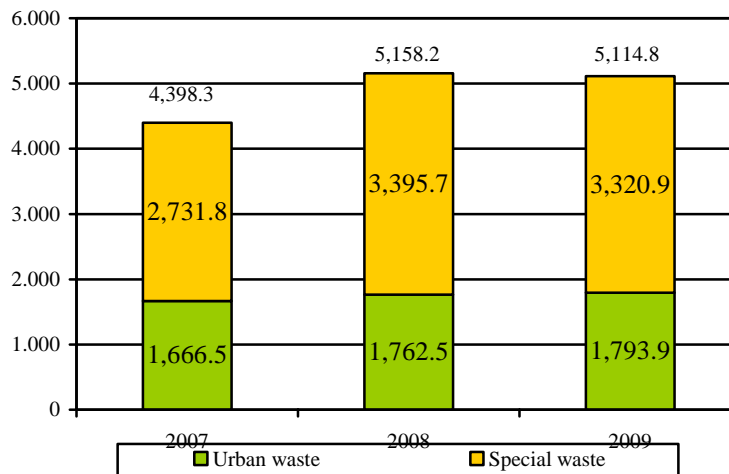
In 2009 the Cesena composting plant was launched, which came on stream in August 2009 with the filling of the biocells, and in December 2009 with the generation of electricity.

A new frontier for organic waste

The new Romagna Compost plant, located in S. Carlo di Cesena (FC), was inaugurated in December 2009: the new feature that this plant presents is an anaerobic process (without air) called digestion, which, in addition to compost also produces biogas, a methane-based gas used to produce renewable energy. With an estimated capacity of about 40,000 tonnes/year of treated waste, production of 8,000 tonnes/year of biological compost and 8 million kWh/year of electricity, once fully operational, the plant will produce almost 10% of the electricity consumed by the town of Cesena (residential users). The digestion of waste in the plant produces methane using bacteria (the same bacteria contained in cows' stomachs) which break down all the substances that normally cause bad odours, resolving the problem at its source and transforming it into an opportunity, thanks to the production of a new energy resource.

After the digestion is completed, a composting phase is started, which enables the material to be used as potting compost or as an agricultural fertiliser (certified for biological agriculture). The works on the plant began in February 2008 and were completed at the end of August 2009, with an investment of about Euro 7.5 million.

Waste treated by type



Urban and special waste (breakdown by plant type)

thousands of t	2007	2008	2009
Separation plants	41.0	76.5	1.3
Selection plants	216.6	267.4	289.3
Waste-to-Energy plants	599.1	622.6	734.5
Compost plants	327.7	352.2	402.0
Landfills	1,534.7	1,597.8	1,400.4
Stabilisation and chemical and physical treatment	848.2	1,058.1	1,084.6
Plants of third parties	831.0	1,183.5	1,202.7
Total	4,398.3	5,158.2	5,114.8

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

The economic trend, along with the technical and authorisation constraints, has generated a reduction in the amount of waste, particularly for special waste. Despite this, the positive contribution of Marche Multiservizi, which recorded an increase in the amount of waste managed following the expansion of its area of operations (addition to the Group's scope of activity of a landfill and a composting plant which were transferred in July 2009 to Marche Multiservizi by shareholder Comunità Montana Alto e Medio Metauro).

The definitive start up of the new waste-to-energy plant in Forlì and the start of the plant in Modena generated an increase in the amount of waste treated in waste-to-energy plants. Concurrently, there was less use of landfills, due to the closure of landfill 1C in Modena, the decrease in the amount of waste treated in the landfills in Tremonti (BO), Busca (FC), Civitella (FC) and Galliera (BO) due to technical and authorisation difficulties, partly offset by the greater use of landfill 1C in Ravenna and the landfill in Pago (FI).

In the selection chain, there was an increase in the quantities of waste treated in the Akron plant in Modena, following the definitive start up of the new plant. The increase in quantities of waste treated in the stabilisation and chemical-physical treatment plants is mainly attributable to the sludge treatment plant of Ravenna, following the revamping in progress and development of sludge conditioning activities.

Disposal of urban waste in Europe

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% used in waste-to-energy treatment. In some regions such as Liguria, Puglia, Sicily and Molise, the use of landfills for disposing of waste exceeds 90%. In 2009, Hera's customer base used landfills for disposing of waste for 30% of urban waste collected.

At European level the trend in reducing the use of landfills for disposing of urban waste continues: in EU-15 the figure dropped to 33% in 2008 and to 40% in EU-27 (Eurostat data).

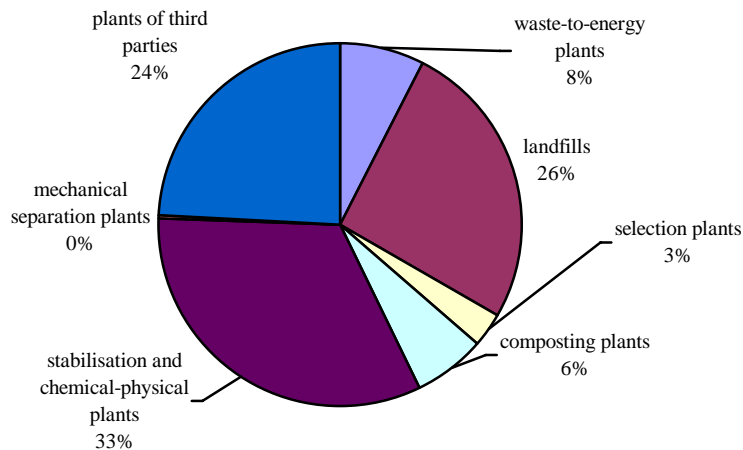
In Europe, the countries which use waste-to-energy treatment the most are Denmark, Switzerland and Sweden with percentages of 50% and above (further increasing compared to the previous years). In all of these countries, the percentage of waste

destined for recovery is more than 40%, proof of a possible coexistence between waste-to-energy treatment and higher separated waste collection.

In Norway, Belgium, Germany, the Netherlands and France, the percentage of waste destined for waste-to-energy treatment is 32-38%.

In Germany, the Netherlands and Switzerland, the use of landfills is almost nil: these countries report percentages lower than 2%.

Special waste disposed of (breakdown by plant type) - 2009



In 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 is urban waste, 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 tonnes in 2006 in Italy, compared to special waste production of about 134.7 million tonnes.

Hence, the portion of special waste represents more than quadruple 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.

Making a difference, also on holiday

This action, promoted by Hera in collaboration with the municipalities of Cervia and Ravenna, is targeted to tourist who holiday in residences and apartments rented through real estate agencies. When the keys are handed over for rental of the property, the agency gives the tourists a kits of bags for separate collection of waste, and a leaflet with information on what, how and where to drop off the waste. In summer 2009 a total about 12,000 kits were distributed: this involved about 30 agencies in the area of Ravenna and about 50 in Cervia.

In EMAS registered treatment plants (which treated 43% of waste disposed of), 234,953 m³ of water was consumed (a reduction of 7%, perimeter being the same, compared to

2008). In some plants, part of this water is reused within the production cycle. During 2009, the water reused came to around 63% of total water consumed.

1,506 thousand cubic metres of water was consumed in the Group's seven waste-to-energy plants. 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 new line, water consumption dropped from 153,000 to 26,000 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 the plants in the vicinity of the waste-to-energy plant. The operating percentage of these plants amounted to 78%.

15,753 tonnes of reagents were consumed in waste-to-energy plants, 12% more than the previous year. 15,747 tonnes of chemical reagents were consumed in the stabilisation and chemical-physical treatment plants.

Progress of work on treatment plants

The status of Hera's new waste-to-energy plant projects as at the end of 2008 is as follows:

- the new line in the plant in Forlì, brought on stream in August 2008, demonstrated excellent performance in 2009, both in environmental terms and in terms of production (waste disposed of and generation of electricity). In March 2009, works began for the construction of the district heating plant which will supply the district heating network of Forlì, using the heat from the waste-to-energy plant. The plant is expected to start operations by November 2010;
- the new line in the plant in Modena came on stream in September 2009, immediately showing excellent environmental performance. In September there was a fire in the old part of the plant, caused by hydraulic oil used for the equipment which involved a limited part of the electric system and a small part of the non-hazardous waste, without causing a significant environmental impact. The fire resulted in the old lines being definitively shut down. In 2010 lines 1 and 2 are expected to be discontinued, while line 3 will be revamped;
- in 2009 the construction works begun in September 2008 continued, for the realisation of the new waste-to-energy line in Rimini. Initial activation is expected for June 2010.

Urban and special waste disposal (breakdown by plant)

thousands of t	ISO 14001	EMAS	2007	2008	2009
Rimini Coriano	x	x	121.3	37.7	69.8
Bologna Frullo (Frullo Energia Ambiente)	x		206.7	204.1	198.4
Ferrara Canal Bianco	x	x	43.2	129.3	132.0
Forlì Grigioni	x		44.8	68.3	118.3
Ravenna strada Romea km 2.6	x	x	47.7	49.1	42.8
Modena Comparto Area 2 Cavazza	x		104.2	103.5	137.0
Ravenna (Ecologia Ambiente)	x		31.2	30.6	36.2
<i>Total waste-to-energy plants</i>			599.1	622.6	734.5
Civitella – FC			33.3	17.4	0.0
Busca – FC	x	x	131.9	117.0	85.7
Ravenna str. Romea km 2.6 (1C)	x	x	196.0	203.0	286.1
Lugo – RA	x	x	0.3	0.0	0.0
Galliera – BO	x	x	181.7	176.4	157.8

thousands of t	ISO 14001	EMAS	2007	2008	2009
Tre Monti – Imola	x	x	266.2	237.3	198.7
Il Pago Firenzuola – FI	x	x	0.0	28.6	78.7
Ravenna strada Romea km 2.6, formerly 2B super (Sotris)	x	x	16.0	2.2	6.3
Ravenna strada Romea km 2.6, formerly 2B super (Sotris)	x	x	63.3	75.3	63.1
Modena Caruso 1C	x		201.3	322.0	0.0
Modena Caruso 2B	x		7.5	0.0	0.0
Zocca – MO	x		22.6	8.8	56.9
Castelmaggiore - BO (A.S.A.)	x	x	202.0	195.6	179.0
Nuova Geovis S. Agata Bolognese (BO)	x		12.1	5.2	21.2
Tavullia (Marche Multiservizi)	x		94.5	94.9	93.2
Montecalvo (Marche Multiservizi)	x		-	17.2	39.4
Urbino (Marche Multiservizi)	x		-	-	30.3
Third party landfills			106.0	97.0	104.1
<i>Total landfills</i>			<i>1,534.7</i>	<i>1,597.8</i>	<i>1,400.4</i>
Akron Coriano (RN)	x		50.2	59.2	68.2
Akron Modena	x		0.0	30.2	60.0
Akron Mordano (BO)	x		53.3	55.7	44.1
Akron Lugo-Cotignola (RA)	x		61.0	74.7	70.6
Ferrara (Ecosfera)	x		43.7	45.3	42.7
Other Hera plants			7.3	0.0	0.0
Other external plants			1.1	2.2	3.8
<i>Total selection plants</i>			<i>216.6</i>	<i>267.4</i>	<i>289.3</i>
Busca - FC (Romagna Compost)			13.2	14.4	21.9
Nuova Geovis S. Agata Bolognese (BO)	x		127.2	124.8	99.4
Nuova Geovis Ozzano (BO)	x		19.9	24.0	21.5
Voltana di Lugo – RA	x	x	39.9	48.4	48.3
Rimini Cà Baldacci	x		37.5	40.5	37.4
Ostellato - FE	x		90.0	99.9	87.3
WDF stabilisation plant (RA)	x		0.0	0.2	17.0
Akron Tre Monti stabilisation plant – Imola			-	-	65.2
Stabilisation plant (Marche Multiservizi)			-	-	3.9
<i>Total composting plants</i>			<i>327.7</i>	<i>352.2</i>	<i>402.0</i>
Forli chemical phys. plant	x	x	24.2	25.0	25.3
Ravenna chemical phys. biological plant	x	x	190.5	191.6	187.3
Ravenna sludge treatment			87.6	119.3	134.8
Ravenna Z.I. (Ecologia Ambiente) chemical phys. plant	x		55.5	235.4	143.2
Alfonsine chemical phys. biological plant	x		13.3	1.9	0.0
Lugo – RA chemical-physical-biological plant	x		84.9	70.9	92.0
ITFI Bologna stabilisation and chemical phys. plant	x	x	100.5	130.9	130.0
Ravenna (Sotris) stabilisation plant	x	x	17.2	14.2	10.3
Chemical-physical plant (with special waste platform) Ferrara	x	x	7.9	7.0	8.3
Modena Area 2 Cavazza chemical physical plant	x		138.4	150.0	133.3
Modena Area 3 chemical physical plant	x		15.2	18.2	19.9
Modena CTIDA Area 3 chemical physical plant	x		2.0	0.3	0.0
Soloric plant Modena	x		13.3	4.9	4.8
Anaerobic digester Spilamberto			97.6	88.3	76.3
Modena stabilisation and chemical phys. plants (CIC)			-	0.3	3.1
<i>Total stabilisation and chemical phys. plants</i>			<i>848.2</i>	<i>1,058.1</i>	<i>1,084.6</i>
WDF production Ravenna	x	x	4.7	3.7	-1.7
Bologna separation	x		0.0	0.3	-0.2
Tremonti – Imola (Akron) separation	x		36.3	67.2	-2.0
Forli separation			-	-	5.2
Nuova Geovis separation	x		-	5.2	0.0
<i>Total mechanical separation plants</i>			<i>41.0</i>	<i>76.5</i>	<i>1.3</i>
Plants of third parties			831.0	1,183.5	1,202.7
<i>Total plants of third parties</i>			<i>831.0</i>	<i>1,183.5</i>	<i>1,202.7</i>
Total			4,398.3	5,158.2	5,114.8

Waste produced by Hera

The activities managed by the Hera Group generate various waste types. On the basis of the specific chemical-physical characteristics relating to the waste, it subsequently re-

enters the recovery (energy or material) or disposal processes managed internally by the Group. For example, waste from the maintenance of company parkland is treated in composting plants, and leachate from landfills is treated at stabilisation and chemical-physical plants.

Main types of waste produced by Hera

thousands of t	2007	2008	2009
Sludge from purification, treatment and distribution	173	192	148
Sand from wastewater treatment plants	13	20	19
Ash from purification sludge incineration	4	4	4
Other sludge produced by the Territorial Operating Structures (sewer cleaning, septic tanks, etc.)	25	11	6
Other waste produced by Territorial Operating Structures	6	1	1
Waste-to-energy plant electrofilter dust	9	14	25
Waste-to-energy plant waste	91	93	167
Solid waste from stabilisation	20	12	41
Sludge produced by chemical-physical-biological plants	53	53	69
Sludge treatment water	129	78	97
Separated oils produced by chemical-physical-biological plants	1	0	0
Surnatant from chemical-physical-biological plants	380	489	592
Leachate from landfills	259	292	458
Scavenging water/sludge from waste-to-energy plant fumes	136	152	125
Non-reusable fractions from plants for selection and for the production of fuel from waste	124	112	160
Other waste from Waste Management Division storage and plants	1	7	24
Total	1,423	1,532	1,936

Data refer to Hera S.p.A., Herambiente, Akron, FEA, Nuova Geovis, Romagna Compost. For 2007 and 2008, data refer to Hera S.p.A.

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

In 2009, the quantities of waste produced by waste-to-energy plants (waste, dust and solid waste from stabilisation) increased due to the start of operations of the new waste-to-energy lines. Leachate increased due to the adverse climate conditions, which resulted in higher rainfall and, as a result, greater production of leachates. The increase in quantities of non-reusable fractions can be attributed, primarily, to the composting plants.

In 2009 the by-products of subsidiaries were also considered, consolidating them into Group plants. Waste and dust were affected by the consolidation of FEA; the non-reusable fraction from selection plants and other waste were affected by the consolidation of Akron, Ecosfera, Romagna Compost and Nuova Geovis; leachates were also affected by the consolidation of Asa, Sotris and Nuova Geovis; while waste produced by the stabilisation and chemical-physical plants were affected by the consolidation of Ecologia Ambiente.

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 portions, production of road foundations;
- surnatant from chemical-physical-biological plants: biological purification treatment in plants;
- leachate from landfills: treatment in chemical-physical-biological treatment plants;
- non-reusable fractions from plants for selection and for the production of fuel from waste: waste-to-energy treatment, landfills.

Recovery of waste-to-energy treatment plant waste

Currently in Italy there are various methods for managing combustion waste, ranging from reuse within the production cycle at cement works (preventively treated), to treatment to recovery iron and metals contained within, to disposal in landfills, which is still widely used.

In other parts of Europe, another management method widely used is to select from the waste a portion of aggregate matter of certain granulometry and mechanical characteristics to be used as road foundations.

The Modena plant constructed by Italcic is able to recover both the iron and metallic (aluminium) portions of the waste both to create a product with hydraulic characteristics that can be used as road foundations.

The plant has two sections, the first has the objective of recovering metallic materials from waste and select a granulometry of aggregates adapted to creating the final product. The second section, through blast-furnace slag additives, aggregates and a specific catalytic converter transfer pozzolanic properties to the resulting product, that, once laid, begins a capturing process which gives it excellent mechanical resistance characteristics if used for road foundations. In the meantime, the product obtained (preventively de-ironised and de-metallicised) does not release pollutants or heavy metals and is subject to transfer tests to verify the release of pollutants from the inertia.

In July 2009 the operational test of the plant was conducted, and the authorisation for start of the “entry into operations” period under provisional operation was requested, for the purpose of both fine-tuning the processing and collecting a series of analytic data on all matrices (incoming waste, CIC pretreated and produced) and assessing the overall compliance with the criteria defined in the authorisation.

Biodiversity

Starting in the 1980's, 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.

The Convention on Biological Diversity, drawn up in Rio de Janeiro in 1992, affirms the intrinsic value of biological diversity and recognises the need to conserve ecosystems and natural habitats *in situ*, through the maintenance and reconstruction of the populations of living species in their natural habitats. At European level, two directives have been issued: the Birds Directive (79/409/EEC) and the Habitats

Directive (92/43/EEC), which envisage the creation of SPA (Special Protection Areas) – specifically to protect birds – and SCI (Sites of Community Interest). Together, these sites comprise the “Nature Network 2000”.

The natural areas protected are portions of land or water areas where alterations generated by mankind are very low or nil. 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 (Pontelagoscuero 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, by contrast, 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 2005-2009, these tests demonstrated that the water disposed of showed no forms of toxicity.

Hera also manages some minor water collection work in the Forlì-Cesena province within natural parks, authorised by the Emilia-Romagna Region as they do not have any impact on the environment.

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 Superintendent for Cultural Assets, the Parks Department and the Regional Authorities, analysing these assessments, prescribing mitigation measures aimed at containing any impacts and at 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).

Appendices

Glossary

AEEG

Italian Authority for Electricity and Natural Gas, formed under Italian Law No. 481 of 14 November 1995.

ARPA

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

Ammonia nitrogen

The term ammonia nitrogen (NH_4) is used to define the concentration of ammonia ions in water. It provides an index of biodegradation of nitrogenous organic substances. Its value is expressed in mg/l.

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). A high biochemical oxygen demand indicates intense biodegradation of organic matter, and may infer the presence of organic pollution. Thus, this is an indirect measure of pollution levels. Its value is expressed in mg/l.

Bonds

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

CCGT

Combined Cycle Gas Turbine. It is an electricity generation plant whose main function is 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.

CIP 6

Ruling 6/1992 of the CIP (Interministerial Price Committee) concerning incentives for the production of electricity from renewable sources. It determined the tariffs and contributions for the production and sale to ENEL (national electric power utility) of energy from conventional, renewable and assimilated sources.

CIPE

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

COD

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

Co-generation

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.

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.

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).

District Heating

Transfer over distances of heat from thermoelectric power stations, co-generation plants or waste-to-energy plants through an energy vector (hot water, superheated water, steam).

EMAS

EU Regulation No. 761/2001 which envisages the adoption by business concerns of environmental management systems based on policies, programmes, procedures and objectives directed toward improving the environment, and publication of an Environmental Statement, to be validated by the ECOAUDIT committee.

Ethical funds

This term is used to describe mutual investment funds that aim to choose commitments in shares, bonds and government securities using ethical selection criteria. These parameters are defined as exclusion/inclusion.

Focus group

A surveying technique based on discussion among members of a group of persons. The main aim is to conduct an in-depth study of a specific issue in relation to given targets. Interaction between focus groups members provides the basis for the surveying action.

Geothermics

The science dedicated to problems relating to the internal energy of the Earth and to the practical applications of this energy source.

Green certificates

Certificates issued according to the provisions of Article 5 of 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 has increased by 0.35% per year from 2004 to 2007 (in 2007 it was 3.05%) and from 2008 it increases by 0.75% per year. Production of electricity from plants fuelled by renewable sources is entitled to the certification of production from renewable sources (Green Certificates). Green Certificates can be sold as a means of ensuring compliance with the obligation to introduce energy from renewable sources.

Greenhouse gas

These gases are transparent with respect to solar radiation, and prevent the dispersion of heat from the Earth, thus leading to the overheating of the atmosphere. Over and above greenhouse gases of natural origin, the main greenhouse gases produced by mankind are carbon dioxide, methane, chlorofluorocarbons and nitric oxides.

GRTN

Gestore della Rete di Trasmissione Nazionale. (National Electricity Transmission Grid Operator) Article 7 of the European Directive on the internal electricity market (96/92/EC) defines this as: the party responsible for the management, maintenance and, if required, the development of the transmission grid in a given area and the relative devices for interconnection to other grids, in order to guarantee the security of the supply. Article 8 assigns the grid operator the responsibility for dispatching from its power plants in its area, and the determination of use of interconnections to other systems.

Heat pump

This is a device capable of transferring heat from a body at a lower temperature to a body at a higher temperature, using electricity.

Inhabitant equivalent

The concept of the inhabitant equivalent was introduced to allow for comparing various types of sewage (urban, household, industrial) in terms of pollution. Using conversion factors, this term is used to estimate

how many inhabitants would be required to produce (with normal domestic sewage) the same amount of pollution. Generally, one inhabitant equivalent corresponds to 60g of BOD5 per day.

KPI

Key Performance Indicators are specific indicators selected on the basis of corporate information needs. They are used to conduct corporate monitoring. KPIs may be financial, production-oriented, commercial, environmental or social, or may regard more than one aspect.

Leachate

Substance deriving from the filtration of water and other liquid mixtures through waste.

Mobility Management

Refers to an internal corporate department in charge of managing staff commuting.

Nitric oxides

Nitric oxides (mainly NO and NO₂), gases produced by combustion of fossil materials. Nitric oxides contribute to the formation of ozone in the lower atmosphere and acid rain.

Nm³

Normal cubic metre, volume of gas at 0°C and 0.1 Mpa

OHSAS 18001

The OHSAS 18001 (Occupational Health & Safety Assessment Series) standard is an internationally recognised benchmark for certification of workplace health and safety management systems.

PM10

Particulate matter, or dust, of a diameter of less than 10 microns from various sources (natural or generated by mankind). PM10 includes a variety of solid or liquid particles of differing characteristics. Given their smallness, they tend to remain suspended in the air.

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

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.

SA 8000

International certification standard regarding respect for human rights, respect for workers' rights, safeguards against exploitation of minors, and guarantees with respect to workplace health and safety conditions.

Services Charter

Corporate document setting quality standards for corporate services.

Social cooperatives

Cooperatives regulated by 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.

Stakeholder

Stakeholders are persons with vested interests. They may or may not belong to the company of which they are a stakeholder, and they may have a bearing on the decisions, conduct or success of a company.

Subsidence

Sinking of the soil caused by lowering of the underground water table, in turn caused by withdrawal of groundwater at a faster rate than the natural recharging time.

Sustainability Report

An instrument which accounts for the impacts of corporate activities on three dimensions of sustainability: economic, social and environmental.

Sustainable development

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Report, World Commission for Economic Development, 1987).

Toe

Tonne of oil equivalent. Conventional unit of measurement of sources of energy equivalent to 10,000 Mcal (= the energy obtained from combustion of a tonne of oil).

TSS

The term TSS (total suspended solids), which are the cause of the turbidity of liquids, means the total amount of suspended solids and filterable solids. This represents the total substances present in the sample following drying, at 105°C. Its value is expressed in mg/l.

Turboexpander

Machine that transforms energy of a given kind (e.g. potential energy) into mechanical energy, made available for use via a rotating axis. The resulting energy may in turn be used for the production of other energy (e.g. by coupling an alternator to the turbine to enable the alternator to exploit the mechanical energy to produce electricity).

UNI EN ISO 9001:2008

International technical standard for certification of quality management systems.

UNI EN ISO 14001: 2004

International technical standard for certification of environmental management systems.

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.

Waste

Italian Legislative Decree No. 22 of 5 February 1997 defines waste as “any substance or object which the holder disposes of or has decided or is required to dispose of”. This decree classifies waste based on its origin, as urban or industrial, and, according to the level of dangerousness, as hazardous or non-hazardous.

Waste-to-energy plant

Plants using waste as a fuel to produce heat or energy.

Water and Waste Regulatory Authorities (ATO)

The ATO water and waste regulatory authorities, based on Italian Law No. 36 of 1994, 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.

WDF

Waste-derived fuel.