



# sustainability report 2007

“the facts and figures behind our commitment”



## Contents

Letter from the Chairman of the Board.....	4
Letter from the Managing Director.....	5
<b>The Report .....</b>	<b>6</b>
Reading this Report .....	6
Drawing up this Report.....	7
<b>About us .....</b>	<b>11</b>
Hera today.....	11
History .....	11
Services managed .....	12
Mission, Charter of Values and Code of Ethics .....	14
Managing sustainability .....	17
The instruments of governance .....	23
<b>Dialogue with stakeholders.....</b>	<b>33</b>
Mapping Hera's stakeholders .....	33
Listening, dialogue and involvement initiatives.....	35
Dialogue on the Sustainability Report .....	47
<b>Results and Value added.....</b>	<b>49</b>
Operating results.....	49
Allocation of value added .....	53
<b>Workforce .....</b>	<b>57</b>
Objectives and performance .....	57
Breakdown.....	58
Turnover .....	61
Diversity and equal opportunities .....	64
Training .....	66
Pay, salaries and bonuses.....	72
Health and safety .....	75
Industrial relations .....	78
Internal communication .....	80
Cultural associations .....	82
<b>Customers .....</b>	<b>84</b>
Objectives and performance .....	84
Breakdown.....	85
Tariffs and billing .....	87
Service quality .....	95
The quality of drinking water .....	97
Service security.....	101
Customer relations .....	105
<b>Shareholders .....</b>	<b>109</b>
The objectives and the results .....	109
Breakdown.....	110
Corporate Governance and safeguards for shareholders .....	112
Distribution of dividends .....	113
Stock exchange share performance.....	113
Relations with investors and financial analysts.....	116
<b>Financial Institutions .....</b>	<b>118</b>
<b>Suppliers.....</b>	<b>120</b>
Objectives and performance .....	120
Breakdown.....	121
Operations within local communities.....	124
Qualification and selection of suppliers .....	125
Contract management .....	128
Supplier relations .....	130
<b>Public Administration .....</b>	<b>131</b>
Objectives and performance .....	131
Breakdown.....	131
Relationships with municipalities and other local authorities .....	133
Relations with authorities .....	135
Research projects .....	137
<b>Local Communities.....</b>	<b>139</b>
Objectives and performance .....	139
Breakdown.....	139

Communication .....	140
Environmental education .....	142
Media relations .....	144
Sponsorship and donations .....	145
Environmental regulations and compensations at new Hera plants .....	147
Associations and Hera membership .....	148
Pending legal proceedings .....	149
<b>The Environment and Future Generations .....</b>	<b>150</b>
Objectives and performance .....	150
Environmental impact of the activities managed by Hera .....	151
Energy production .....	154
Energy consumption .....	159
District heating .....	161
Production and distribution of water .....	163
Wastewater treatment quality .....	168
Atmospheric emissions .....	172
Greenhouse gas emissions .....	180
Waste collection .....	182
Separate waste collection .....	185
Waste disposal .....	189
Waste produced by Hera .....	192
Biodiversity .....	194
<b>Appendices .....</b>	<b>195</b>

## **Letter from the Chairman of the Board**

---

This Sustainability Report provides the results of a year of activity - 2007. During this year, we made further progress in realising the business project requested of us by the company's shareholders.

Five years from the creation of Hera, we are extremely satisfied with what we have managed to build on the foundation of innovative, distinctive strategies, which have become a benchmark model for the sector: the creation of a large group with deep roots in the local areas, our industrial management of services managed, our organisational methods, our specialisation with respect to the services provided to customers.

This process has been undertaken with close attention to all its related effects. In fact, since 2004, Hera has been a member of Global Compact, an international declaration of the intention to obtain consensus and support with regard to certain fundamental principles and the application of these, relating to standards applying to work, human rights and environmental safeguards. Today, Hera's commitment to this initiative continues.

In 2007, the investments aimed at increasing the Group's production capacity continued, in terms of electrical energy produced (with the electrical power plants in Teverola and Sparanise), natural gas imported (with the Galsi gas pipeline) and waste treatment plants (with the waste-to-energy plant expansion plan).

These initiatives allow us to face up to the increased competition in the energy sector.

The results achieved and respect of the targets defined in the Industrial Plans and promises to investors are proof of the validity of the Hera project.

We see these results as the starting line – no more than that – in our drive forward, while maintaining the corporate management traditions of local public services which are so deeply rooted and consolidated within the Emilia Romagna region.

**Tomaso Tommasi di Vignano**  
**Chairman of the Board of Directors**

## **Letter from the Managing Director**

---

Hera's Sustainability Report is a yearly appointment which the company uses to provide various types of information about the company, how it operates, and its main impacts. This is an important initiative for transparency, a way to provide a general overview of our work.

The importance of the Sustainability Report was pointed out by Hera's Board of Directors which, this year, for the first time, discussed and approved the Sustainability Report together with the Financial Statements.

We continue to believe that the greater the presence of corporate social responsibility in all company decisions, the greater the possibility of realising corporate strategies. This is a strong commitment, which requires strong support from the top management, as well as the investment of time and resources.

But it also produces results.

Specifically, in 2007 we were pleased to verify that the internal climate improved, the number of accidents in the workplace decreased, and we continued to develop internal skills.

The completion of investment in IT systems for customer management, though presenting a few initial problems, enabled us to provide services more in line with customer expectations. Attention to service safety remained high, as well as the amount of realised investments required by the local areas.

Supplier selection is increasingly carried out based on criteria which do not focus solely on the price, but also based on attention to people facing hardship, occupational safety, quality and protection of the environment.

From the environmental perspective, the first three years of application of the Kyoto Protocol closed with full compliance with the emissions quotas assigned to Hera. The number of waste treatment plants with EMAS registration and ISO 14001 certification increases every year.

A large company also has a significant ability to influence people's choices: thus, it must find the strength to manage its operations with great responsibility, in order to generate positive changes in people's lives.

This is what we are committed to doing.

**Maurizio Chiarini**  
**Managing Director**

# 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 throughout local communities.

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.

The more technical terms used in this document are defined in the glossary in the last pages of this report.

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

This Sustainability Report can also be viewed on the internet site [www.gruppohera.it](http://www.gruppohera.it), where it can be downloaded both in Italian and English.

A version of the report is also available on CD, including other corporate documentation and details regarding the social responsibility of Hera.

This report also includes an evaluation form you can use to give us your opinion. Your views are extremely important since they will enable us to improve the content matter and presentation of the Sustainability Report. Please fill out the form and send it back to us.

We hope you will enjoy reading our report!

The greenhouse gas emissions created by the use of paper for the preparation of this Sustainability Report have been neutralised through the acquisition of 4 VERs (Verified Emission Reductions), voluntary reductions deriving from the Progetto Parchi (Parks Project), promoted by Federparchi and Kyoto Club, with the technical support of Azzero CO<sub>2</sub>, in partnership with Legambiente and the WWF. This project involves the forestation of national and regional parks, natural reserves, urban parks and areas, and international parks.



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

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



**Information:**

Corporate Social Responsibility Department, Hera S.p.A.

Viale Carlo Berti Pichat, 2/4

40127 Bologna

Tel. + 39 051-2814231

Fax + 39 051-2814036

www.gruppohera.it

## **Drawing up this Report**

---

### **Standards**

The Sustainability Report 2007 was drawn up on the basis of the AA1000 standard which provides the steps required for preparing social and sustainability reports.

The report content matter was selected in compliance with GRI and GBS guidelines, and taking into consideration the information deemed useful for corporate stakeholders.

In this version of the report, G3 guidelines have been used for the second time.

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 Gruppo di studio per il Bilancio Sociale (GBS) had, instead, proposed its Principles for the Preparation of Social Reports in 2001 .

### **Structure of the document**

The first three sections of the report provide an account of how the company was created, its identity, mission, corporate strategies, sustainability strategies, the key indicators for assessing economic, environmental and social sustainability, and dialogue actions with stakeholders. The fourth section highlights corporate economic returns by means of the methodology based on value added allocated to stakeholders proposed by the GBS. The next sections provide an account of the results achieved for each class of stakeholder, given as performance ratings of a qualitative and quantitative nature and related to the objectives set forth in the previous report and achievement of these.

The objectives for the coming years for each class of stakeholder have been set in line with the company's strategic planning instruments; in certain cases, future targets of the company have been specified.

### **Reporting actions**

The reporting actions comply with the AA1000 standard.

The process of setting sustainability objectives entailed analysis of the corporate strategic planning instruments and pinpointing projects prospected as objectives that impact stakeholders according to the Balanced Scorecard system. This information was completed through the involvement of a Guidance Committee and interviews with several Directors.

The data collection actions required for the report entailed the preparation and distribution of forms providing the technical indications used for construction of indicators. Integration with the Industrial Plan, Balanced Scorecard and the yearly Budget has been foreseen in order to ensure consistency, with respect to the indications provided and the instruments for planning and internal controls.

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 2007 press review as well as the results of the activities for stakeholder involvement were considered.

### Hera wins the Confservizi Quality Award

In 2007, the Hera Group took first place in the “Environmental and Social Accountability Systems” category, in the third year of the Confservizi Quality Awards, which aim to contribute to the implementation of actions and strategies focused on promoting Corporate Social Responsibility. Specifically, Confservizi wanted to recognise the company for the valuable work it has done in analysing and monitoring policies enacted in the social and environmental fields.




### Auditing of the Report

This Report was audited by an external company, which certified its compliance with the GRI – G3 and GBS guidelines. The corporate quality management system, certified in compliance with the ISO 9001:2000 standard, foresees collection of quality KPIs on a regular basis. The Hera Group Sustainability Report 2007 was drawn up using the G3 guidelines approved by the Global Reporting Initiative. It is noted that the “Sustainability Reporting Guidelines & Electric Utility Sector Supplement” Pilot Version was not taken into consideration, as it was not definitive at the moment of drawing up this report.

In terms of the levels of application identified for these guidelines (shown in the figure), this Report reached a level of application of A+, which corresponds to complete application of the requirements of the guidelines, and an independent external audit.

Report Application Level	C	C+	B	B+	A	A+
<b>ES Profile Disclosure</b>	Report on: 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15	Report on all criteria listed for Level C plus: 1.2	Report on all criteria listed for Level B plus: 3.9, 3.11 4.5-4.13, 4.16-4.17	Same requirements for Level B.	Same requirements for Level B.	Same requirements for Level B.
<b>ES Management Approach Disclosure</b>	Not Required	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category
<b>ES Performance Indicators &amp; Sector Supplement Performance Indicators</b>	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.	Report on a minimum of 20 Performance Indicators, at least one from each of: Economic, Environmental, Human rights, Labor, Society, Product Responsibility.	Report on a minimum of 20 Performance Indicators, at least one from each of: Economic, Environmental, Human rights, Labor, Society, Product Responsibility.	Report on each core ES and Sector Supplement* indicator with due regard to the Materiality Principle; either: a) reporting on the indicator or b) explaining the reason for its omission.	Report on each core ES and Sector Supplement* indicator with due regard to the Materiality Principle; either: a) reporting on the indicator or b) explaining the reason for its omission.	Report on each core ES and Sector Supplement* indicator with due regard to the Materiality Principle; either: a) reporting on the indicator or b) explaining the reason for its omission.

\*Sector supplement in final version



### Scope of reporting

The scope of this documents includes all the companies in the Hera Group, consolidated in the Consolidated Group Financial Statements, using the line-by-line method. In

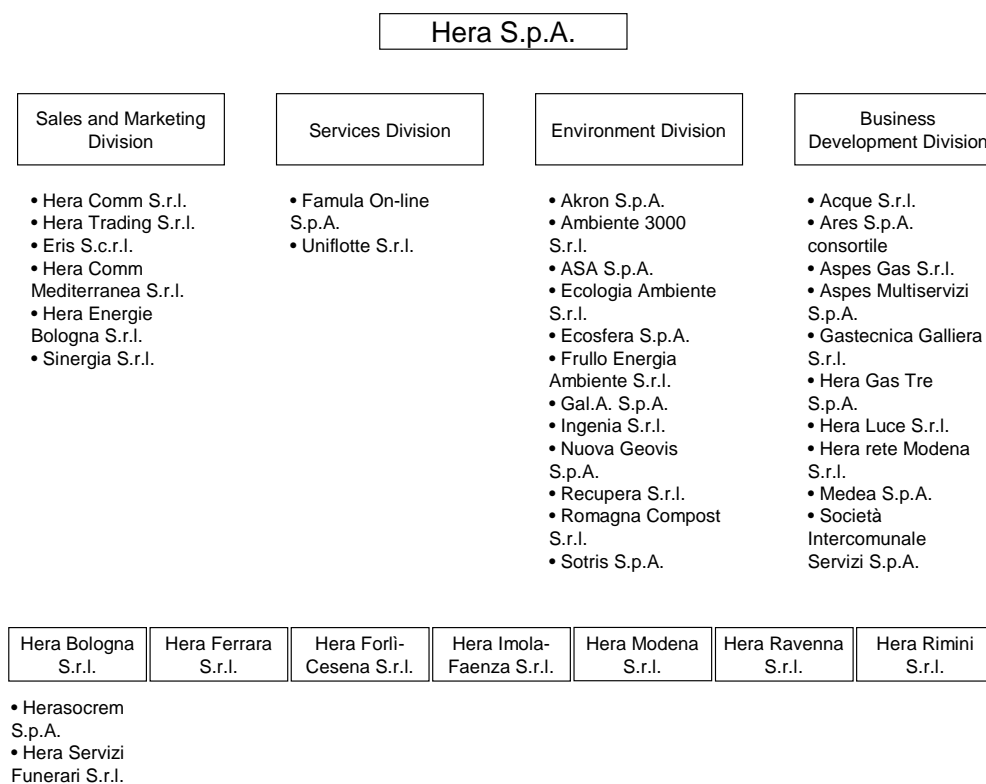


contrast to the previous Sustainability Reports, the most significant 2007 data of Aspes Multiservizi was consolidated or pointed out in the commentary notes.

Aspes Multiservizi is a multiutility which operates, also through its subsidiaries, in the public utility sector (mainly integrated water services, distribution and sale of methane, and waste management services) in the Pesaro-Urbino province. Aspes Multiservizi has published a yearly Sustainability Report since 2003.

In certain cases, the findings do not cover the full 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



### The working group

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

This report was drawn up by the Corporate Social Responsibility Unit 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, Giuseppe Gagliano, Claudio Galli, Giancarlo Leoni, Susanna Zucchelli.

*Corporate Social Responsibility Department:*

Filippo M. Bocchi, Paola Brandolini, Silvia Cicchelli, Gabriele Magli, Gianluca Principato.

The following people contributed to the preparation of the 2007 Sustainability Report.

Patrizia Albertazzi, Marta Alesi, Claudio Anzalone, Alberto Apollo, Claudio Artioli, Silvia Baccarani, Giovanni Barberis, Luigi Barbieri, Giacomo Battara, Roberto Bazzani, Marina Bellei, Cecilia Bondioli, Enrico Bordigoni, Sandro Bosso, Angelo Bruschi, Guglielmo Calabrese, Alessandro Camilleri, Giancarlo Campri, Dario Casone, Lara Castaldelli, Silvia Cavina, Michele Corradini, Isabella Data, Roberta De Carli, Ennio Dottori, Cristian Fabbri, Mila Fabbri, Roberto Fabbri, Dario Farina, Luca Narciso Favilli, Fausto Ferraresi, Andrea Ferri, Giovanna Filanti, Luca Flamini, Franco Fogacci, Giorgia Freddi, Roberto Gasparetto, Cristina Gasperini, Marzia Giardini, Francesco Gramolino, Massimo Grandi, Marcello Guerrini, Monica Guidi, Valeria Guizzardi, Jens Hansen, Salvatore Rudi Iaconis, Anna Maria Innocenti, Giangiuseppe Lengueglia, Patrizia Lombardi, Loris Lorenzi, Tiziana Lusiani, Carla Macrelli, Maria Cristina Magni, Micaela Maini, Rita Malossi, Silvia Malservisi, Leonarda Maresta, Tiziano Mazzoni, Edolo Minarelli, Cinzia Morandi, Veronica Musiani, Pietro Musolesi, Cecilia Natali, Carla Petraglia, Vanessa Pezzi, Stefania Pilan, Paola Piraccini, Claudio Poli, Roberta Raddi, Gian Carlo Randi, Mirko Regazzi, Carmelo Mario Riccio, Michela Ronci, Loris Rusticelli, Fabrizio Salieri, Franco Sami, Beatrice Sandri, Andrea Serra, Walther Sirri, Oriano Sirri, Carlo Sussi, Giovanni Tagliatela, Mauro Tiviroli, Gianluca Valentini, Stefano Venier, Marco Venturi, Stefano Venturi, Stefania Virgili, Emanuel Zamagni

**Hera's Sustainability Report in the short-list of the GRI Awards**



Hera's 2007 Sustainability Report was selected for the short-list of the GRI Readers' Choice Awards. Nearly 800 companies participated in the first round of these Awards. The selection was made by readers, who, with their votes, selected 8 sustainability reports for the final short-list, based on 5 criteria: material aspects (the report must include all aspects which are most important for the company and relevant for stakeholders), inclusion of stakeholders, reporting on sustainability results, completeness and quality of the information provided. The winners will be announced in May 2008 during the second annual Amsterdam Global Conference on Sustainability and Transparency, organised by the Global Reporting Initiative.

# About us

## Hera today

---

Hera is one of the major multiutility companies in Italy, operating in approximately 200 municipalities of the provinces of Bologna, Ferrara, Forlì-Cesena, Modena, Ravenna, Rimini and Pesaro and Urbino. Hera also operates in several municipalities in the province of Florence.

Hera provides energy (gas, electricity), water (water systems, sewerage and purification), and waste management service (collection and disposal) services to a total customer base of approximately 2.9 million users.

Hera is a company renowned for its reliability, soundness and competitiveness. Its main strengths lie in:

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

The shareholding structure at the dividend coupon date includes 183 public shareholders (holding 58% of shares, in all), 368 institutional investors and almost 25,000 private shareholders (natural persons and corporate bodies which 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. The operation was unique, in terms of size, in a sector historically characterised by significant fragmentation and a wide range of operators.

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

The shared aggregation process which led to the formation of Hera has continued over time through various operations concentrated on companies in the energy, water and waste management sectors, operating in geographical areas bordering the areas managed.

In 2003, the public lighting and municipal waste management services of the company, Geat, in Riccione were acquired.

Agea joined Hera in 2004 (Agea is an energy and waste management operator in the province of Ferrara), as did Acosea (integrated water service in the province of Ferrara) and Ecologia Ambiente (treatment of special waste).

The merger with Meta took place in September 2005. Meta is operational in Modena in the energy, water and environmental sectors. Shares were also purchased in 2005 in the companies, SGR Servizi (sale of gas in the province of Rimini, Pesaro and Urbino and Macerata), Hera Energie Bologna (sale of energy and heat in the province of Bologna), ASA, Unieco, Uniflotte, and Hera Luce. Small local gas distribution operators were also acquired (Tecnometano, Gasgas, Argilegas, TS Distribuzione Gas, TS Energia).

The company Geat Distribuzione Gas (gas distribution in Riccione) merged with the group in early 2006. Always in 2006, Hera acquired the power grid from Enel in 18 municipalities in the province of Modena, and increased its equity investment in the companies Aspes Multiservizi and acquired an equity investment in SAT (multiutilities operating respectively in the provinces of Pesaro and Urbino and Modena).

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 will hold 41.8%. The merger takes effect on 1 January 2008. Also in 2007, the merger of SAT S.p.A. into Hera S.p.A. was approved, with effective date of 1 January 2008.

## **Services managed**

---

### **Energy services**

Hera is one of the major operators in Italy, in terms of managed volumes for the sale and distribution of gas. Sales total approx. 2.4 million cubic metres per year to approx. 1 million service customers. Electricity sale and distribution has grown considerably following the merger with Meta. Currently, Hera sells approx. 3.1 terawatt-hours of energy per year to approx. 270,000 customers.

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

### **Water services**

Hera manages integrated water cycle services in more than 181 municipalities, with sale volumes totalling approx. 241 million cubic metres of water for domestic and industrial use, water systems covering approx. 26,000 km, approx. 11,700 km of sewer lines, and 841 treatment plants.

### **Waste management services**

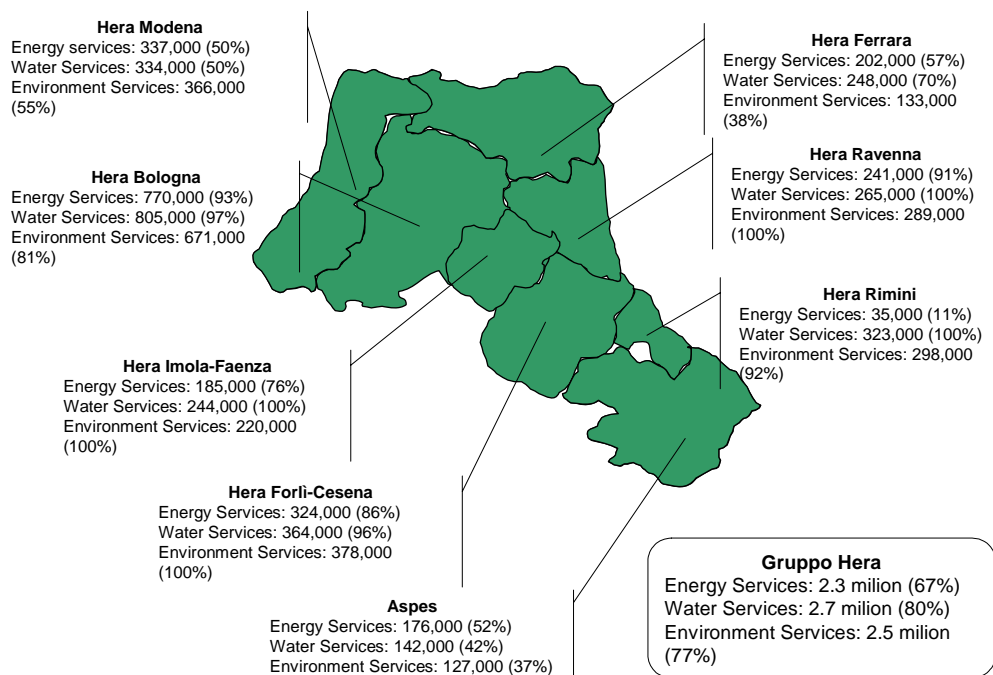
Hera manages the entire waste cycle: collection, recovery, treatment and disposal. The group manages municipal waste in approx. 145 municipalities representing a customer base of approx. 2.5 million users (collecting approx. 1.7 million tonnes of refuse per year).

Hera owns 73 disposal plants. Hera, with its 7 plants, is one of the major operators in Italy in the waste-to-energy sector. In 2006, about 2.7 million tonnes of waste were disposed.

### Hera – key statistics (2007)

	2007
Revenues (millions of euro)	2,863.3
Gas customers (thous.)	1,018.7
Gas sold (million m <sup>3</sup> )	2,414.2
Water customers (thous.)	1,015.0
Water sold (million m <sup>3</sup> )	241.1
Electricity customers (thous.)	273.2
Electricity sold (GWh)	4,334.7
Waste treated (thous. t)	4,398.3
Permanent workforce (as at 31/12) (no.)	6,114

### Customers served in the local areas\*



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

## Mission, Charter of Values and Code of Ethics

---

### The Mission

---

“Hera’s goal is to be the best 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 for 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 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 responsibility:** *A company built to last, as a resource for society, the environment and 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.

## Revision of the Mission and Charter of Values

---



In the autumn of 2005 the process of reviewing and revising the Mission and Charter of Values established in 2002 was initiated.

A working group was set up, coordinated by the Corporate Social Responsibility Unit, for the purpose of proposing a revised Mission and Charter of Values to the Executive Committee. It was decided to involve the employees in the process by way of a number of focus groups and the circulation of a questionnaire composed of a quantitative section, where the Values and Principles laid out in the proposal were rated from 1 to 10, and a qualitative section where participants could express their personal views. 29% of the total employees involved replied and returned the questionnaire, expressing their approval of the draft, with an average rating of around 7.5.

The main evaluations and qualitative proposals put forth by the workforce in the questionnaire involved, in terms of the Mission, the insertion of more specific references to environmental protection and company's deep roots in the local operating areas. For the Charter of Values, these proposals involved the addition of the value of coherence; for the Principles, these included a reference to environmental protection and the focus on professional development of employees.

These proposals were implemented and inserted in the text of the Mission, Charter of Values and Operating Principles, and discussed within the Hera S.p.A. Executive Committee. The Committee then submitted the definitive text to the Board of Directors, which approved it in June 2006. This led to the definitive development of *La nostra bussola* (Our Moral Compass), a leaflet distributed to all employees, and available on the company intranet and the Group's internet site.

## The Group's new Code of Ethics

---

In line with the revision of the company Mission and Charter of Values, in September 2006 the Group began the process of revising its Code of Ethics, which had been drafted in 2004.

This initial phase of this revision involved the analysis of areas with "ethical" risk, starting from internal management systems and external codes of conduct, thus involving discussion and verification with the Group managers in charge of relations with various groups of stakeholders. In the following phases of revision, the various drafts of the text were subject to two focus groups, comprising 40 employees from various business units, and all Group managers and executives as well as to interviews with 4 mayors of shareholder municipalities.

The new Group Code of Ethics was approved by the Hera S.p.A. Board of Directors on 12 September 2007.

A key aspect of this revision process was the method of participation in creating regulations and guidelines for ethical conduct, shared by those who play various roles in making up the organization: directors, executives, workers, collaborators and key external references including customers, social organisations, and suppliers.

On 8 October, the Board of Directors of Hera S.p.A. appointed an Ethics Committee, which is the body in charge of disseminating, awareness-raising, and implementation of

the Code of Ethics. The members of the Ethics Committee are two Directors of Hera S.p.A. and a manager expert in social responsibility and the issues dealt with by Legislative Decree 231/01. The Committee receives the reports on violations of the Code, assesses whether to begin proceedings and is a point of reference for requesting opinions on the methods for complying with the Code. The Committee also has the task of pointing out any needs to amend or update the Code, which will then be subject to the approval of the Board of Directors.

A fundamental point of implementation of the Code is represented by awareness-raising and dissemination of its contents through top-down training which began in November 2007. This training will finish in June 2008, and involves the Group's over 6,000 workers. Employees will carry out self-training in classrooms where they will find the contents of the Code explained through a computerised version of a traditional board game.

As at 15 February 2008, 827 people have been involved in the dissemination of the Code (equal to 16% of the total), within 51 training sessions.

#### **Hera awarded the Financial Statements Oscar, in the Large Companies category**



In 2007, Hera won the Financial Statements Oscar, which has been, for over fifty years, the most prestigious award for companies with the most outstanding economic, social and environmental communication. Hera was awarded the “Financial Statements Oscar for Major (Listed and Non-Listed) Companies”, after accurate analysis carried out by an external commission, which recognised the completeness and clarity of content in both Italian and English, and the significant attention paid to Corporate Social Responsibility. The jury, headed by Angelo Provasoli, Rector of Bocconi University, particularly appreciated the communication efforts, also in terms of the

technology adopted, to promote stakeholder involvement through an impressive range of initiatives.

The jury's motivation was as follows:

*“The company provided complete, comprehensive documentation which, in a clear and detailed manner, illustrated the economic and financial performance of the activity carried out in the various business sectors. The Sustainability Report dealt with several highly advanced initiatives, also at European level, in terms of stakeholder involvement. Hera operates based on a well-structured Code of Ethics, which is developed through participatory methods”.*

This award was sponsored and promoted by FERPI – the Italian Federation of Public Relations, and under the patronage of the President of the Republic.



## **Managing sustainability**

---

### **Corporate strategy**

---

The Hera Group renews its strategy, defined by the Group's Mission, by consolidating the growth it has achieved so far and implementing strategy for further development. Specifically, the increase in activities regarding renewable energy sources, multistakeholder approach to action, and the capacity to react to competitive development are new elements which fine-tune the Group's objectives defined in the 2007-2010 Industrial Plan.

This strategy can be broken down into four lines of action:

**Development:**

Developing competitive services (by covering procurement sources and plant development), succeeding over the competition in the market and for concessions, further investing in renewable energy, and achieving the expected return on investment for shareholders;

**Sustainability:**

Sustainability as a competitive advantage, protecting the territory in which the company operates, also by leveraging social responsibility, increasing the energy efficiency of the plants and activities, stimulating energy savings, and decreasing CO<sub>2</sub> emissions, also by taking advantage of emerging markets;

**Effectiveness/efficiency:**

Improving service quality while keeping costs the same, rendering tariff/price development sustainability, and reaching efficiency levels that make Hera competitive and successful in tenders for the assignment of services;

**Innovation:**

Effectively reacting to changes in the market context, and decreasing the use of non-renewable resources, also through industrial application of innovations deriving from applied research and the adoption of new technologies.

### **The “balanced” scorecard of the Hera Group**

---

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

In 2007, the Hera Group continued the process of introducing the balance scorecard system, begun in 2005.

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

**What is the balanced scorecard?**

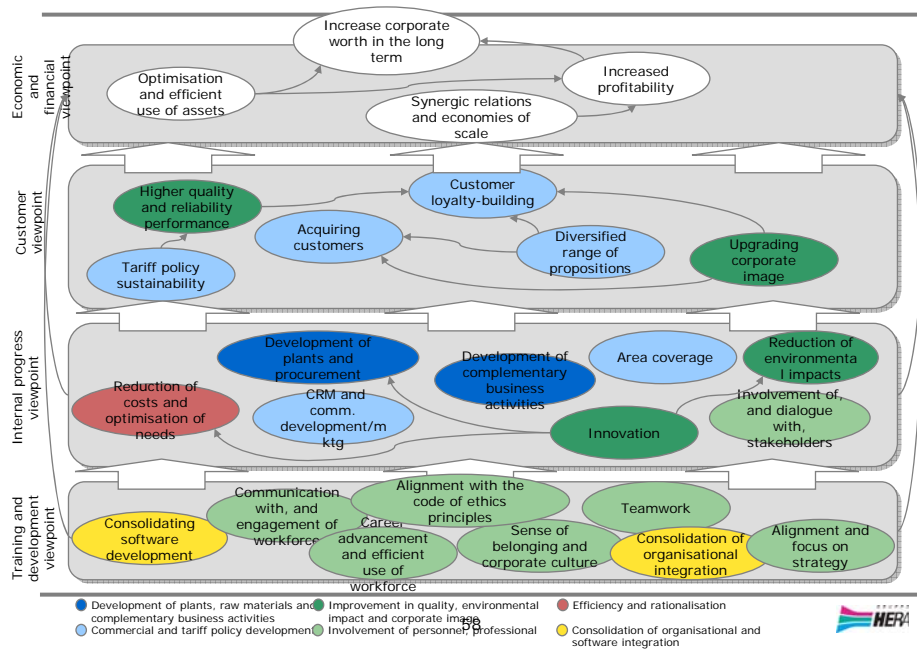
The balanced scorecard is a strategic control system. It can be aligned to the employee bonus system, and is based on the practice of forging links between strategy and day-to-day corporate management processes. It was devised in the early 1990's by the American academics, R. Kaplan and D. Norton. It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

The strategic map of the Hera Group is a summary of the objectives of the industrial plan and the commitments to stakeholders set forth in the Sustainability Report. The strategy map of the Group highlights 25 strategic objectives for increasing the value of the company over the long term. To achieve these strategic objectives, 47 priority projects were selected during the budgeting process. These were assigned to members of the Executive Committee, and are monitored on a quarterly basis. Of these project, 4 fell within the strategic macro-area of "Involvement of personnel, professional development, dialogue with stakeholders", 4 within the strategic macro-area of "Completion of organisational integration and software development", 9 within "Development of plants, raw materials and complementary business activities", 9 within "Commercial tariff policy development", 11 projects within "Improvement of quality, environmental impact and company image", and 10 projects within "Efficiency and rationalisation".

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. Approximately 50% 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 50% is linked to respect of budget objectives and compliance with specific organisational behaviours).

In 2007, the project-objective of sustainability (improvement in quality, environmental impact, image and involvement of stakeholders) accounted for a total of approximately 15% of the variable remuneration of Group executives.

## Strategic map of the Hera Group



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

- Reducing environmental impact.** Minimizing the direct and indirect environmental impact of corporate activities to safeguard the natural environment on behalf of future generations. Developing renewable energy and similar sources (*triple production by 2010*), reducing the use of landfills (*15% of waste in landfills by 2010*), further developing separate-waste collection (*50% by 2010*), containing atmospheric emissions (*waste-to-energy plant emissions equal to 25% of the legally established limits*).
- Increasing quality and reliability.** Improving customers satisfaction with services provided. Investing in order to improve the quality of relations with customers and the local areas. Further improving the commercial quality standards in the gas and electricity services and call center waiting times (*30 seconds within 2008*) and at branches (*20 minutes within 2010*). Further increasing gas service safety: Increasing the percentage rate of emergency call response times within 60 minutes, and reaching, by 2010, the levels established by the AEEG for inspections of the gas network. Improving the customer satisfaction index (*>70 by 2010*).
- Engagement of and dialogue with stakeholders.** Further developing the model of a business capable of reaching a sustainable balance of the interest of various stakeholders, in order to improve competitiveness over the long term. Further developing tools and procedures for dialogue with and listening to stakeholder expectations (*yearly customer satisfaction surveys, implement periodic meetings in the Rimini Residential Advisory Board (RAB), focus groups*).
- 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 2010.*

- **Career advancement and efficient use of skills and know-how.** Efficient use of the skills and know-how of the workforce and fostering career advancement to provide safeguards for knowledge and skill resources and to enable timely adjustment in the face of technological changes and/or changed strategy and objectives (*providing 130,000 hours of training per year in the 2008-2010 period.*)
- **Alignment with Code of Ethics principles.** Ensuring the maximum diffusion of the company Charter of Values and Code of Ethics. Monitoring compliance by putting in place an implementation system which shall be a point of reference for all workers (Ethics Committee, notifications, opinions).
- **Sense of belonging and corporate culture.** Disseminating corporate values and culture and a sense of belonging. Circulating the contents of the Charter of Values and the Code of Ethics, carrying out periodic specific training sessions (*involve 100% of workers in training actions on the new Code of Ethics*).
- **Innovation** Taking full advantage of openings for innovation provided by technology systems and processes, for improved services efficiency/effectiveness, for enhanced environmental performance, and for developing energy from renewable sources.

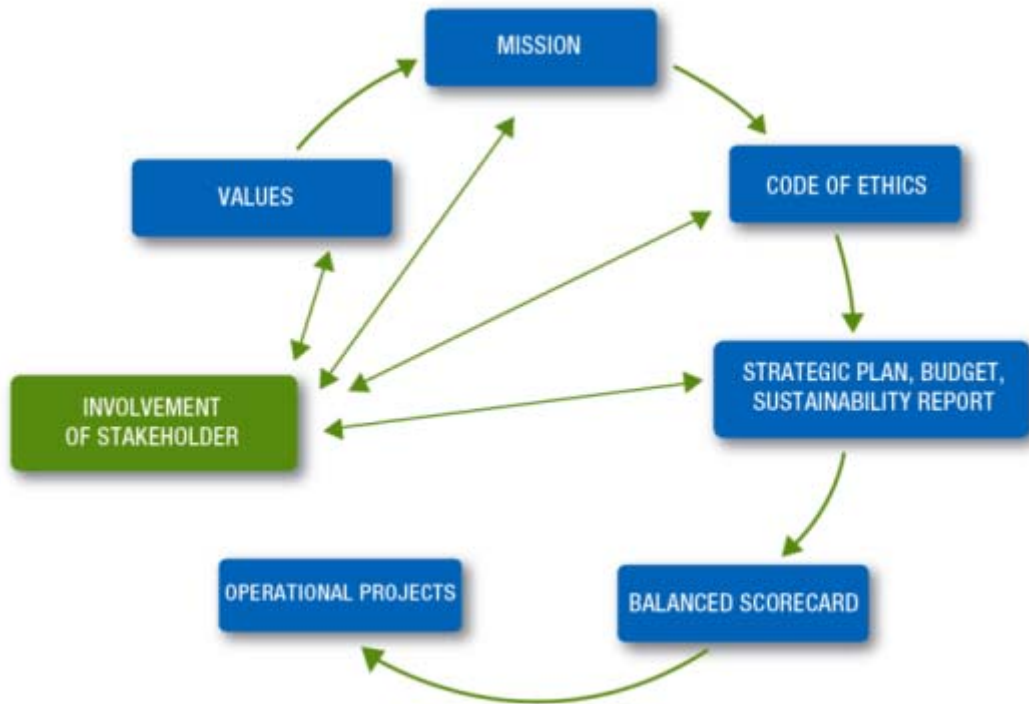
Many of the commitments to stakeholders listed in the pages below of this report are contained in the Hera Balanced Scorecard. This is to provide guarantees of consistency and coherence among the various instruments used for management and achievement of the corporate strategy (Industrial Plan, Sustainability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

## **Corporate Social Responsibility within Hera**

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

The Mission and Charter of Values dictate the guidelines for corporate conduct expressed in the Code of Ethics, which underlie each corporate action and relationship. A shared Mission, Charter of Values and Conduct is the strategic framework in which the Industrial 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 permits the Group to outline corporate strategies and social responsibility policies in specific operational projects managed by staff and periodically monitored. The involvement of stakeholders in the various phases of this process enables the biunique development of legitimate claims, and their suitable offsetting in corporate policy and in related implementation measures.

**From strategy to daily management: a virtuous cycle**



## Key Performance Indicators

Key Performance Indicators	2005	2006	2007
<b>Economic Responsibility</b>			
Value added (million €)	715.4*	792.4**	797.8**
Total investments (million €)	346.9*	504.8**	471.8**
Leverage (Net Financial Position/Shareholders' Equity)	65.4%*	77.4%**	92.6%**
ROI (Operating Income/Net Capital Employed)	8.8%*	8.6%**	7.4%**
EBITDA per open-ended contract employee ('000s euro)	65.4*	68.5**	74.2**
<b>Social Responsibility</b>			
Open-ended contract employees (average annual % of total workforce)	95.5%	93.2%	93.4%
Hours of training per capita	18.5	20.1	24.3
Workforce attending at least one training course (%)	82.2%	92.5%	92.1%
Accident frequency index (number of accidents/hours worked x 1,000,000)	50.1	47.5	42.4
Internal climate index (score 0-100)	50	-	53
Index of customer satisfaction for residential customers (score 0-100)	67	67	65
Gas emergency services: percentage of calls with intervention within 60 minutes	94.7%	96.3%	96.8
Average call center response time (seconds)	70.2	34.5	46.2
Average branch operator waiting time (minutes)	26.9	23.9	21.9
Total return for shareholders since listing (%)	94.2%	184.6%	171.8%
% value of supplies from local suppliers	70%	70%	62%
Value of supplies from ISO 9001 certified suppliers (% of total)	61%	60%	68%
No. environmental education programme students	33,505	37,622	36,014
<b>Environmental Responsibility</b>			
Portion of energy produced from renewable sources (incl. waste-to-energy)	42.4%	47.7%	48.4%
Portion of energy produced from renewable sources (incl. waste-to-energy), co-generation and turboexpansion	68.0%	71.4%	69.8%
Waste-to-energy plant emission levels vs legal limits (real concentrations/legal limits: optimal value <100%)	28.5%	25.0%	23.7%
Quality of treated water vs legal limits (real concentrations/legal limits: optimal value <100%)	30.0%	31.7%	30.0%
Compliance with Kyoto Protocol (real emissions/authorised emissions)	98%	87%	76%
Water grid loss (real and procedural)	-	25.4%	24.7% ***
Separate waste collection	30.9%	33.5%	38.6%
Fuel with low enviro. impact used by vehicles (methane, electric, biodiesel) (% total fleet)	10.4%	37.0%	46.2%
Portion of municipal waste collected for disposal via landfill with no pre-treatment (% total collected solid waste)	29.1%	24.0%	25.0%
Portion of municipal waste collected for disposal via landfill (% total collected solid waste)	-	37.0%	35.3%

\* Pro-forma data including the Meta Group.

\*\* Data including the Aspes Group.

\*\*\*Provisional data.

The social and environmental key performance indicators do not include Aspes Pesaro.

## **The instruments of governance**

---

### **Corporate governance**

---

Hera is the only Italian multiutility company with a diversified public sector majority shareholders. Regarding Corporate Governance, the Group adopted statutory procedures, with specific attention to the implementation of the principles contained in the Code of Conduct prepared by Borsa Italiana and published in March 2006.

The main governance bodies of Hera are the Board of Directors, the Executive Committee, Board of Auditors, the internal committees and the Shareholders' Meeting. The Board of Directors is supported in its duties by 2 committees: the Remuneration Committee and the Internal Control Committee. The Board of Directors also created 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 the 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.

The local public administration shareholders have the right to appoint 14 members of the Board, as follows:

- Municipality of Bologna: 4 members;
- Municipality of Casalecchio di Reno, and on behalf of 46 other municipalities: 1 member;
- Municipality of Cesena, and on behalf of 25 other municipalities: 1 member;
- Municipality of Ferrara, and on behalf of 9 other municipalities: 1 member;
- Comune di Forlì (municipality of Forlì): 1 member;
- Con.Ami (consortium grouping the municipalities of the Imola area) 1 member;
- Municipality of Modena, and on behalf of 29 other municipalities and authorities: 3 members;
- Municipality of Ravenna, and on behalf of 11 other municipalities: 1 member;
- Municipality of Rimini, and on behalf of 26 other municipalities: 1 member.

Private investors have the right to appoint 4 members of the Board, through the list vote method.

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

The local authorities holding shares have entered into a Voting Trust and Share Transfer Rules Agreement which provides clauses on the composition of the Board of Directors. There are also two consultation pacts that provide for clauses on the composition of the Board of Directors: one subscribed on 27 October 2006 by five minority shareholders of Hera S.p.A. and another pact subscribed on 11 July 2006 by 41 minority shareholders of Hera S.p.A.

According to the Articles of Association, the Board of Directors is to meet at least on a quarterly basis, and every time the Chairman deems it necessary. The Board of Directors is endowed with broad and unrestricted powers for ordinary and extraordinary

administration of the company. It is empowered to carry out all such actions as it deems necessary for and conducive to achieving the company purpose except those placed explicitly under the responsibility of the Shareholders' Meeting.

The Board of Directors met 12 times in 2007.

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



<b>Name and Surname</b>	<b>Office</b>	<b>Position</b>	<b>Appointed by</b>
Bruno Tani	Director	Non-executive independent director	Shareholders' Meeting for approval of annual report, from lists presented by the minority shareholders
Stefano Zolea	Director	Non-executive independent director	Municipality of Bologna according to the terms of art. 2449 of the Italian Civil Code.

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.. Three directors of Hera S.p.A. are aged between 30 and 50, 15 directors are over 50 years of age. The remuneration paid to directors of Hera S.p.A. is illustrated in the explanatory notes to the 2007 Financial Statements.

### **Executive Committee**

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

The Executive Committee is composed of the Chairman, Vice Chairman and Managing Director of Hera S.p.A. It met five times in 2007.

### **Remuneration Committee**

The task of this committee is to make proposals to the Board of Directors with regard to remuneration of the Chairman, the Managing Director, and managers who cover specific roles, as well as to propose the general criteria to be adopted with regard to remuneration of senior management.

The Committee met two times in 2007.

The Committee is made up of four non-executive independent directors: upon invitation by the Committee chairman, the Managing Director and the Chairman of the Board of Directors may participate in the meetings.

### **Internal Control Committee**

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

as well as, when expressly requested by the committee Chairman, the Managing Director and the Chairman of the Board of Directors.

The Committee for Internal Control met 5 times in 2007.

### **The Ethics Committee**

Appointed by the Board of Directors of Hera S.p.A. on 8 October 2007, it has the task of monitoring the dissemination and implementation of the Code of Ethics. It receives the reports on violations of the Code and assesses whether to begin proceedings.

It is composed of three members: two non-executive and independent directors of Hera S.p.A. and an executive who is an expert in corporate social responsibility and the issues dealt with in Legislative Decree 231/2001.

The Ethics Committee met once in 2007. As at 31 December 2007, the Ethics Committee had received no reports of violations of the Code.

### **Board of Auditors**

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

### **Supervisory Board 231**

The task of the Supervisory Board 231 is to supervise and control compliance with, and the functioning and effectiveness of, the Organisational Model for the prevention of crimes which might be linked to administrative liabilities of the Group companies, according to the terms of legislative decree 231/2001.

This board is an independent body appointed by the Boards of Directors of the companies of the group taking part in "Progetto 231" (Project 231)<sup>1</sup>. The Board reports to each Board of Directors on matters of concern as per legislative decree 231/2001. It avails itself of the Internal Auditing Department for purposes of control, analysis and other duties undertaken.

This Body is composed of three independent members, and is headed by the manager of the Internal Auditing Department. The Supervisory Board met six times in 2007.

## **Organisation**

---

---

SAT'S integration in Hera came to a conclusion in 2007, with operations commencing on 1 January 2008. The integration will allow Hera to extend its services to 6 municipalities previously under SAT management, i.e. gas, water and municipal hygiene, exploiting the synergies coming out of the merger.

---

<sup>1</sup> These companies are as follows: Hera S.p.A., Hera Bologna, Hera Ferrara, Hera Forlì-Cesena, Hera Imola-Faenza, Hera Modena, Hera Ravenna, Hera Rimini, Famula on-line, Hera Comm, Hera Trading, Akron, Ecologia Ambiente, FEA, Sinergia, Hera Luce, Acantho, Eris, Nuova Geovis, and Uniflotte (these companies comprise 90% of the Group's workforce).

The operation involved the insertion of approximately 200 resources, divided between the Hera Modena Territorial Company and the holding company.

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

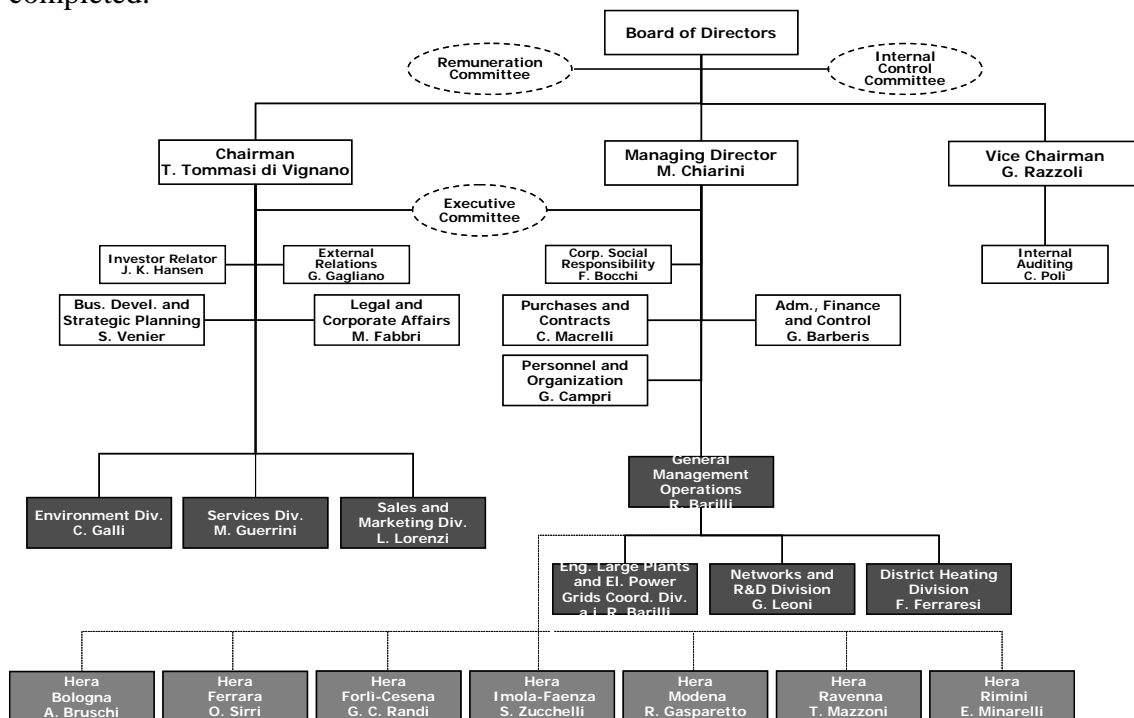
Important long-term projects for rationalisation of activities have reached the finalisation stage. Specifically:

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

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

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

Lastly, with the aim of guaranteeing the supervision and integrated formulation of the Quality, Safety and Environment System, in line with the organizational development of the Hera Group, in the first months of 2007 the integration of the Quality, Safety and Environment Division within the Head Office Personnel and Organisation Division was completed.



Organisationally, the structure of Hera is therefore based on six Divisions and **seven Territorial Operative Companies**. The **Divisions** of the Hera SpA holding company have guidance and coordination functions. The Waste Management, Services and Sales and Marketing Divisions directly manage their operations or production plants. The **Territorial Operative Companies** are operational within their respective areas and manage those services which more directly impact the end customer: urban hygiene, gas distribution, integrated water cycle and customer relations management via a network of branch operators.

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

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

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

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

#### **The role of the Territorial Operative Companies within the organisation**

The Territorial Operative Companies play a strategic role for Hera, above all in terms of maintaining relations with local communities, public administration and institutions, and for local management of regulated services. Territorial Operative Companies continue to constitute a strength, on a corporate level, for the group. In 2007, initiatives continued for the purpose of improving process efficiency, with specific attention to relationships with the local shareholders and the local stakeholders. Specifically, meetings continued to be set up between the Chairmen of the Territorial Operative Companies and the Executive Committee, and an internal report for each Municipality (Agenda Comuni) was used, and meetings were organised with mayors of shareholder municipalities.

## **Governing Corporate Social Responsibility**

---

### **Corporate Social Responsibility Unit**

In May 2005, the Board of Directors of Hera S.p.A. set up the organisational Corporate Social Responsibility Unit under the responsibility of the Managing Director. The CSR Unit has the task of making sure the principles of Social Responsibility are fully a part of corporate planning and management procedures. The CSR Unit is responsible for drawing up the Sustainability Report and delineating the Balanced Scorecard system integrated with sustainability strategies.

### **Internal Auditing Department**

In 2003, the Internal Auditing Department 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 Department 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 Department evaluates corporate risks, delineates the long-term audit plan and implementation, and executes the related specific audits.

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

In December 2007, the Board of Directors of Hera S.p.A. updated and expanded the mandate to the Internal Auditing Department, 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 2007, 300 test reports were examined, and surveys were carried out on a test basis on 50 plants such as potability treatment plants, treatment plants, gas stations, thermal district heating/cogeneration plants, electricity transformer stations, and waste-to-energy plants.

### **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, administrators or managers on behalf of the entities, or by natural persons acting under the supervision of such persons or subjected to supervision on their part.

The 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.

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 that provided the Group with advantages, which are therefore relevant as per the definition set forth in form 231 have been detected.

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

The Supervisory Body responsible for verifying the effectiveness and correct operation of the Model is also in charge of adjusting the Model in case of changes in the company situation, or updating the Model upon legal changes in the scope of the Decree. Among the “sensitive” activities recently included, we note occupational health and safety regulations.

### **Code of Ethics**

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

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

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

The new Code of Ethics was approved by the Hera S.p.A. Board of Directors on 12 September 2007.

### **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 controlled. 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.

### **The Quality, Safety and Environmental Management System**

The Group's commitment to continuous improvement in the quality of services provided, environmental protection and levels of safety for workers and the community continued in 2007 with the start of the certification process for the safety management system according to the OHSAS 18001 regulation. This process will conclude within 2008.

As well, Hera S.p.A. and the seven Territorial Operative Companies obtained positive results on the inspections for maintenance of ISO 14001 environmental certification, and renewal of ISO 9001 certification.

The EMAS project which aims for the registration, in the 2006-2010 period, of the entire Waste Management Division, for a total of 32 sites (corresponding to 53 waste treatment and disposal plants) is continuing. The first version of this project will be revised in order to include the plants in the Modena area.

In 2007, the Ecolabel and Ecoaudit Committee of the Ministry for the Environment issued EMAS registration for three new treatment sites: the waste-to-energy plant in Coriano (RN), the landfill in Galliera (BO) and the chemical-physical plant in Forlì; the preliminary investigation for registration of the chemical-physical plant in Bologna is underway.

In 2007 as well, the validation inspection of the Environmental Declarations of two further waste treatment/recovery sites by the external inspector obtained positive results: Imola Tre Monti and the Ravenna West Sector. Total new plants involved are the landfill for non-hazardous waste, located in Imola, the landfill for hazardous waste, landfill for non-hazardous waste, waste-to-energy plant, waste-derived fuel production plant, garden waste and sand plant, and chemical-physical plant within the multifunctional Ravenna West Sector. The preliminary investigation is currently underway with the Ecolabel and Ecoaudit Committee of the Ministry for the Environment for the EMAS registration of the above plants.

The two EMAS certifications regarding the operations of the site in Ferrara in via Diana (the site of the head offices of Hera Ferrara, of the waste-to-energy plant, the district heating plants and the other treatment plants) obtained in 2004 and for the management of the landfill in Baricella (BO) obtained in 2002 are still valid.

In 2007, the external certification company validated the Environmental Declarations of Hera Ferrara for the renewal of EMAS registration, extending registration to the integrated water service (potability treatment, treatment, management of the drinking water and sewerage networks). The preliminary investigation is currently underway with the Ecolabel and Ecoaudit Committee of the Ministry for the Environment. For 2008, the registration process for a further four plant sites is planned to be initiated, in addition to the maintenance of all registrations obtained so far.

The chapter "Environment and Future Generations" sets forth a list of the plants with ISO 14001 certification and EMAS registration (though awaiting ministerial validation).

#### **Hera's commitment to environmental and quality certification**

Hera has declared its commitment to continuous improvement in the quality of services provided, environmental protection and the level of safety for workers and the community through the issue of the new Quality, Safety and Environment Policy, in line with its mission and ethical values. This document, approved by the Board of Directors of Hera S.p.A. on 18 December 2007, and scheduled to be implemented shortly by all territorial companies, was delivered to all employees of Hera S.p.A. and will soon be

available on the company intranet and the external website, and will be part of the orientation information given to each new employee.

Environmental and quality certifications represent Hera's concrete application of QSE policy. Group companies with ISO 9001 quality certification amount to 92% (considering the number of employee with open-ended contracts). 86% of the waste treated in Group plants was processed in ISO 14001 certified disposal plants. EMAS certified plants processed 17% of the waste treated in Group plants. This percentage rises to 43% if we take into consideration the plant which did passed the inspection by the external company, but are still awaiting ministerial validation.

### **Major regulatory developments impacting sustainability**

The main regulatory developments affecting Hera's activities in terms of electrical energy and gas regard the completion of the deregulation of the electricity market, which led to the implementation of the related EU directives of 2003. From July 2007, all customers are free to choose their electrical energy supplier. Nonetheless, in relation to the necessary caution to be taken in case of consumers with lower contractual power, the law has set forth a transitory regime for protection of households consumers. Thus, end domestic customers continue to be served (at economic conditions determined by the Regulatory Authority) by their previous integrated operators, which are, however, required to separate sales to the protected market from distribution activities. From the organisational point of view, the new law does not have significant effects on Hera, which, from its creation, assigned all activities regarding the sale of electrical energy to its sales companies. On the other hand, the market framework has changed radically based on the risks and opportunities represented by its complete opening, which overlaps the almost completed opening of the gas market.

There are significant changes in terms of integration of environmental policies into energy regulations, with the approval of the new National Plan on the Allocation of Greenhouse Gas Emissions Certificates (being examined by the European Commission) and the revised decree on energy efficiency objectives.

In 2007, the Consolidated Environment Act (Legislative Decree 152/2006) was gradually revised, which re-defined waste in terms of European Community jurisprudence and substantially aligned consolidated management procedures. Even though the local public services reform bill (*Lanzillotta* bill) was approved at the first reading by the Senate, it has not yet been finalised due to the fall of the government.

The Italian Finance Bill 2008 contains significant changes in the regulation of competition in the distribution of natural gas: the law assigns the government, with the aid of the Authority for Electrical Energy and Gas, the task of overcoming the current tender model for assigning municipal concessions, through definition of concessions on a supra-municipal scale.



# Dialogue with stakeholders

## Mapping 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 each group exerts on corporate decision-making processes and the significance of each group with respect to corporate activities. These two aspects are assessed in the light of the decision-making power, pertaining legal or contractual obligations, employment relations with the company and links with corporate strategies. Mapping of the stakeholders and key issues to be targeted by involvement actions enabled to pinpoint the stakeholders of major importance for the company (workforce, customers, shareholders), a group of stakeholders with interests of a broader nature (financial institutions, suppliers, public administration, local communities) and a group of stakeholders whose interests are only indirectly represented (the environment and future generations).

Stakeholders	Main classes	Key issues	Key listening, dialogue and involvement initiatives
Workforce	<ul style="list-style-type: none"> <li>- Employees</li> <li>- Non-employee workforce</li> <li>- Union organisations</li> </ul>	Stability, internal climate, training, career advancement, bonuses, pay, balance between work and non-work activities, safety, internal communication	<ul style="list-style-type: none"> <li>- Biennial internal climate survey: latest survey carried out in 2007 (2,801 questionnaires filled in, equal to 46% of those sent)</li> <li>- Dissemination of the Code of Ethics (involving approximately 180 “supervisors” as facilitators)</li> <li>- Road show of the Chairman and Managing Director to illustrate the Industrial Plan to all staff (17 meetings held)</li> <li>- “5 anni di noi” (5 Years with Us), a Christmas even for all Hera Group staff, in which approx. 3,000 people participated</li> <li>- Improvement Groups (involving 153 workers in the 13 groups completed in 2007)</li> <li>- Meetings to present the Sustainability Report 2006 (involving approx. 500 workers)</li> <li>- Application of a dedicated section on Corporate Social Responsibility in the Hera Group Supplementary Collective Labour Agreement 22/03/06: discussion with trade union delegations on the Sustainability Report, the Code of Ethics, SA8000 feasibility study, and the internal climate survey</li> <li>- Six focus groups on the House Organ, VideoHera and the corporate intranet; ten interviews on a sample representing employees and one thousand interviews on-line to those who use the intranet on a daily basis</li> <li>- Focus group in March 2007 on the new branch prototype. When the new branch was inaugurated in October, a quali-quantitative analysis was conducted through interviews of branch operators</li> </ul>
Customers	<ul style="list-style-type: none"> <li>- Residential customers</li> <li>- Customer bases in areas served</li> <li>- Business customers</li> <li>- Consumer groups and trade associations</li> </ul>	Service quality, tariffs, transparency, safety, service reliability, communication and information	<ul style="list-style-type: none"> <li>- Annual residential and business customer satisfaction survey: 2,937 interviews of residential customers, a stratified sample by local area, turnover and service, 801 interviews of business customers, a stratified sample by local area and turnover</li> <li>- Seven meetings (one for each local area) with trade and consumer associations to illustrate the electricity promotional campaign</li> <li>- Survey for improvement of the Club Hera Insieme, with six focus groups, one in each province in which Hera operates</li> <li>- Investigation of communications needs: 8 focus groups conducted</li> <li>- Focus group in March 2007 on the new branch prototype. When the new branch was inaugurated in October, a quali-quantitative analysis was conducted through interviews on a sample of customers</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>- Public shareholders</li> <li>- Institutional investors</li> <li>- Private investors</li> <li>- Financial community</li> <li>- Ethical funds</li> </ul>	Dividends, share performance, investor relations, corporate governance aligned with best practices	<ul style="list-style-type: none"> <li>- Investor Relations: meetings with 360 investors</li> <li>- Meetings with managers of various ethical funds: the “ethical” financial analysts of CAI Cheuvreux, a leading investment bank, included Hera on its list of top 5 “sustainable” securities in Europe</li> <li>- International conferences</li> <li>- Periodic meetings between the Territorial Operative Companies and Mayors, or a Committee representing the community, of the municipalities of each local area</li> <li>- Interviews with Mayors for revision of the Code of Ethics</li> </ul>
Financial institutions	<ul style="list-style-type: none"> <li>- Banks</li> <li>- Bond market</li> </ul>	Continuity of relations, long-term solidity of equity	
Suppliers	<ul style="list-style-type: none"> <li>- Suppliers of goods and services and temping agencies</li> <li>- Qualified suppliers</li> <li>- Local suppliers</li> </ul>	Continuity of relations, qualification, bargaining conditions, payment deadlines	<ul style="list-style-type: none"> <li>- Meetings in Cesena, Imola, Modena and Ravenna</li> <li>- Shared methods were defined for managing the “Memorandum of Understanding for the Hiring of People Facing Hardship” with the associations which signed the Memorandum, and a joint project was launched to identify operational areas which could be directly assigned to social cooperatives on a test basis</li> </ul>

Stakeholders	Main classes	Key issues	Key listening, dialogue and involvement initiatives
Public administration	<ul style="list-style-type: none"> <li>- Local government authorities</li> <li>- Regulatory bodies</li> <li>- Universities</li> <li>- State agencies</li> </ul>	Transparent communication, concern over local issues, compliance with the law, correct management practices, innovation	
Local community	<ul style="list-style-type: none"> <li>- Local groups and associations</li> <li>- Trade associations</li> <li>- Media</li> <li>- Residents in the vicinity of production plants</li> <li>- Citizens' committees</li> </ul>	Support for initiatives, local investment, transparent communication, socially responsible corporate management	<ul style="list-style-type: none"> <li>- Comitato Consultivo della Comunità Locale (residential advisory board - RAB) in Ferrara and Imola. Being developed in Rimini</li> <li>- Conventions and meetings with local stakeholders in Imola, Rimini, Modena, Ravenna, Ferrara, and Forlì</li> <li>- Focus groups and studies for development of the web site</li> <li>- Convention in Ferrara on 24 May 2007 to present the 2006 Sustainability Report</li> <li>- Focused interviews with associations regarding the Sustainability Report</li> </ul>
Environment and future generations	<ul style="list-style-type: none"> <li>- Environmental groups</li> </ul>	Production of energy from renewable sources, energy and water saving, district heating, water withdrawal, greenhouse gas emissions, atmospheric emissions, separate waste collection, waste disposal	<ul style="list-style-type: none"> <li>- Participation in Local Agenda 21 Programmes (Bologna, Ferrara, Modena, Ravenna)</li> <li>- Collaboration with the province of Bologna in developing the "Microkyoto Imprese" protocol</li> <li>- Local initiatives to promote energy and water savings and separate waste collection</li> </ul>

## **Listening, dialogue and involvement initiatives**

---

Hera's commitment to developing listening and dialogue initiatives to engage stakeholders was evident in our actions throughout 2007. This is now a structural element within the operational methods of the business units in charge of relations with various stakeholders.

The single initiatives are described below by stakeholder category.

## **Workforce**

---

Within the Group Supplementary Collective Labour Agreement, subscribed in 2006, Corporate Social Responsibility takes on an important role: the principles of CSR are shared, employees are recognised as fundamental stakeholders in the company, and the trade unions are recognised as a central player in the diffusion of the principles of CSR in all ordinary company actions. As a result, the company trade unions were involved in

the work on the Sustainability Report, the new Code of Ethics, and the internal climate survey.

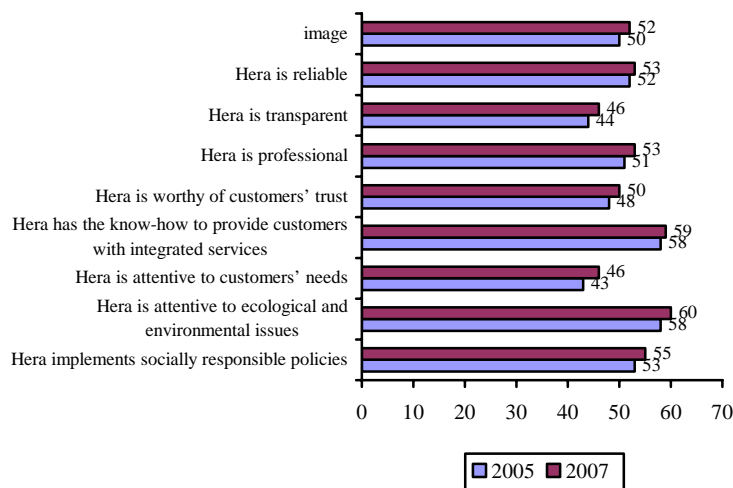
A trade union delegation was also involved in an SA8000 feasibility study, which was conducted with the support of Unioncamere, the IFOA (Training and Consultancy Centre of the Chambers of Commerce) and the CISE, within a project co-financed by the Emilia-Romagna Region. The study aims at assessing constraints and opportunities of SA8000 certification. It will be concluded in 2008.

### Internal climate survey

Two years on from the first internal climate survey, a new survey was carried out in order to examine the effectiveness of the numerous actions taken based on the results of the first survey, and to continue to respond to the existing critical issues. The questionnaire, which was sent to all workers, was organised using the same macro-structure of the first survey, in order to easily compare the results. Of the 6,106 questionnaires distributed, to be submitted anonymously, 2,801 (46%) were returned completed, substantially in line with 2005 (48%).

The overall satisfaction index, an indicator expressed on a scale from 0 to 100, and composed of various elements relating to personnel satisfaction and motivation, totalled 53 points compared to 50 points in 2005. The increase is significant, but still below the threshold (60) which the external company that carried out the survey indicated as representing the objective to be reached.

The results of the survey indicate that workers are “happy to be working for Hera” and are happier than several years ago. Workers are also strongly aware of their responsibility in relation to customers, but would like more opportunity to use their skills and to grow in their careers. There is increasing satisfaction regarding the work carried out and expectations: the most significant improvements in the satisfaction index were recorded for workers in Ravenna, Rimini, Imola-Faenza and Forlì-Cesena.



Analysis of the results produced points for reflection which led to the identification of improvement actions. The results and improvement actions identified were disclosed to all workers, through the February 2008 House Organ.

<b>Role in Hera</b>																	
<b>Summary of results...</b>	<b>... new improvement actions</b>																
<table border="1"> <caption>Summary of results for Role in Hera</caption> <thead> <tr> <th>Category</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>Position</td> <td>57</td> </tr> <tr> <td>Contents</td> <td>64</td> </tr> <tr> <td>Individual change</td> <td>51</td> </tr> <tr> <td>Listening initiatives</td> <td>50</td> </tr> <tr> <td>Training</td> <td>42</td> </tr> <tr> <td>Workload</td> <td>45</td> </tr> <tr> <td>Remuneration</td> <td>40</td> </tr> </tbody> </table>	Category	Value	Position	57	Contents	64	Individual change	51	Listening initiatives	50	Training	42	Workload	45	Remuneration	40	<ul style="list-style-type: none"> <li>• Effect a meeting point between the demand for and offer of jobs to improve management of internal mobility</li> <li>• Further develop the model of the School of Trades and promote new methods for providing training (e-learning)</li> <li>• Add descriptions of corporate departments and roles to the organisational structure section of the company intranet</li> <li>• 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</li> </ul>
Category	Value																
Position	57																
Contents	64																
Individual change	51																
Listening initiatives	50																
Training	42																
Workload	45																
Remuneration	40																
<b>Workplace</b>																	
<b>Summary of results...</b>	<b>... new improvement actions</b>																
<table border="1"> <caption>Summary of results for Workplace</caption> <thead> <tr> <th>Category</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>Communication</td> <td>47</td> </tr> <tr> <td>Work tools</td> <td>56</td> </tr> <tr> <td>Interdepartmental Groups</td> <td>57</td> </tr> <tr> <td>Organisational Unit</td> <td>59</td> </tr> <tr> <td>Organisation</td> <td>40</td> </tr> </tbody> </table>	Category	Value	Communication	47	Work tools	56	Interdepartmental Groups	57	Organisational Unit	59	Organisation	40	<ul style="list-style-type: none"> <li>• Ensure continuity in the meetings with senior management of the various local areas</li> <li>• Improve workspaces (i.e., offices, furniture, cleaning) and communal spaces (i.e. canteen, toilets)</li> <li>• Improve internal communications tools, specifically regarding the company intranet, also based on the results of the specific study conducted in 2007</li> <li>• Organise meetings of the Directors of the individual Territorial Operative Companies and Divisions with employees</li> </ul>				
Category	Value																
Communication	47																
Work tools	56																
Interdepartmental Groups	57																
Organisational Unit	59																
Organisation	40																
<b>Immediate superiors</b>																	
<b>Summary of results...</b>	<b>... new improvement actions</b>																
<table border="1"> <caption>Summary of results for Immediate superiors</caption> <thead> <tr> <th>Category</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>Trust</td> <td>63</td> </tr> <tr> <td>Development</td> <td>58</td> </tr> <tr> <td>Style</td> <td>59</td> </tr> <tr> <td>Leadership</td> <td>56</td> </tr> </tbody> </table>	Category	Value	Trust	63	Development	58	Style	59	Leadership	56	<ul style="list-style-type: none"> <li>• Institutionalise training initiatives which develop managerial skills for executives, managers and supervisors in charge of organisational units and personnel</li> <li>• Organise periodic meetings (i.e., quarterly) of the various managers with the personnel in their organisational units for the purpose of sharing and listening</li> </ul>						
Category	Value																
Trust	63																
Development	58																
Style	59																
Leadership	56																

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>Integration</td> <td>51</td> </tr> <tr> <td>Consistency</td> <td>45</td> </tr> <tr> <td>Change</td> <td>44</td> </tr> <tr> <td>Strategy</td> <td>52</td> </tr> <tr> <td>Values</td> <td>54</td> </tr> </tbody> </table>	Category	Value	Integration	51	Consistency	45	Change	44	Strategy	52	Values	54	<ul style="list-style-type: none"> <li>• Consolidate the Improvement Groups in the Territorial Operative Companies 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</li> <li>• Promote the adoption of conduct consistent with the company Charter of Values and the contents of the Code of Ethics</li> <li>• Promote consistent and sustainable conduct through specific projects within the various company locations (i.e., energy savings, separate waste collection, promote drinking tap water in offices)</li> </ul>
Category	Value												
Integration	51												
Consistency	45												
Change	44												
Strategy	52												
Values	54												

### Improvement Groups

The Improvement Groups provide an opportunity for employees to work together on proposals for achieving significant improvement in their daily activities. Associated objectives are the enhancement of the professional skills acquired and the stimulation of active participation of the workforce.

In 2007, a total of 15 improvement groups were conducted (of which 13 were concluded, and 2 under development).

By way of example, some of the suggestions from the Improvement Group and the activities to be implemented are set forth below:

	Area of improvement	Issue identified	Suggested solutions	Management evaluation of the suggestion
<b>Hera Bologna (warehouse dept)</b>	Organisation of resources, productivity and quality of work	Improvement in carrying out its role in completing the information to be acquired or implementing what has already been negotiated	Identifying a figure that checks the orders prepared for external companies. - Accepting the returns that are correctly compiled - Implementation of monitoring of orders returned by internal assistants - Set a time slot for delivering returns (afternoon 2-3 pm)	- In the project closing and implementation phase
<b>Hera Ferrara (clients/networks)</b>	Organisation of resources, customer relations	- Customers are not present on-site and the conditions for executing the work are lacking: 4 failed inspections per day out of 36 (approx. 11%) - Suitable IT equipment for operators	- Organise periodic meetings between customer service and networks on critical issues and required solutions - Internal control on the quality of hardware available	- Approved, initial meetings in March 2008. The frequency of the meetings will be defined - Probably intervention from March 2008 on
<b>Hera Forlì – Cesena (procurement/networks dept.)</b>	Organisation of resources, integration of production and warehouse management	Access and withdrawals during the winter period results in errors and loss of time	- Limit the opening hours to two time slots - Provide incentives for taking delivery of materials for scheduled work early - Organise inventory taking in warehouses in different periods	The project is already operational
<b>Hera Imola – Faenza (waste management)</b>	Separate waste collection	Queues when consigning materials at drop-off points at certain times of day	- Diversify the internal route using signage - Provide more information to customers	Project approved
<b>Hera Modena (waste management)</b>	Organisation of resources, customer relations	Data not transmitted by invoicing deadline	Create a procedure and forms with invoicing deadlines and methods, and for customer relations for each type of service provided	Project approved, planned to be developed within six months
<b>Hera Ravenna (waste management/networks/management control)</b>	Organisation of resources, integration of productions and management control	Correct attribution of costs to cost centres/cost items and verification of compliance with budget	- A document which guarantees greater information from Department Managers on budget choices - Consumption controls structured in the same methods as the budget, periodic meetings between operational control and single departments/offices	Project approved, to be developed within June-July 2008
<b>Hera Rimini (waste management RSP)</b>	Occupational health and safety	Team Managers/Coordinators report lack of support from superiors (i.e., warnings to workers not supported by superior)	- Periodic meetings in the operational areas to point out problems in the workplace and on procedures adopted - Training using videos on dangerous situations, correct/incorrect movements, use of equipment	- Started in January 2008, recorded in Personnel files - Collaboration of company doctor requested. Videos and educational material being prepared

### Other initiatives for workers

From February to March 2008, for the third consecutive year, the Chairman and Managing Director presented the Group's Industrial Plan to approximately 6,000 employees: the meetings also focused on presenting the results of the internal climate survey. In 2007, the number of meetings held by the top management of the company with groups of workers increased. The purpose of these meetings is to illustrate corporate strategies, promote discussion, engage employees and collect opinions and contributions on these issues from the greatest number of employees.

The process of developing the new Code of Ethics, following the focus groups conducted in 2007 with about thirty workers, involved all executives and managers, who received a draft in May so they could review it and provide further suggestions. In November 2007, the top-down circulation process began, which will involve the entire

Group workforce. One of the primary elements of this process is the role of facilitator, assigned to the direct supervisor of the personnel present in each training classroom.

With the objective of improving internal communication, the workforce was engaged in order to analyse their experience of the tools used (House Organ, intranet, Video Hera), receive useful feedback to improve these tools and ensure they respond better to real needs. This analysis, carried out in March 2007, comprised a qualitative part (with six focus groups of employees at various levels and ten in-depth interviews on a sample representing the employee population) and a quantitative part (one thousand on-line interviews were carried out to assess the intranet). The results obtained demonstrate different uses of communications tools, based on the employee profile and the type of work carried out. As a result, improvement actions were defined: for example, the usability of the corporate intranet will be improved, rendering it easier to use by prioritising news items based on importance, and increasing the number of links and pages for personnel (also including a section on Cultural Associations) and for the Territorial Operative Companies.

## **Customers**

---

---

### **Customer satisfaction survey**

In Autumn 2007, customer satisfaction surveys were carried out for both residential and business customers.

The residential customer satisfaction survey was preceded by an update of the issues dealt with and the most suitable questions for investigating these issues, based on the results of about thirty interviews with residential customers throughout the local areas in which Hera operates: lasting about one hour, the interviews dealt with issues that allowed Hera to substantially redefine the survey methods in several areas, such as the technical quality of the service provided, and the image that customers have of Hera. Thus, the decision was made to increase the focus, as compared to the past, on the service satisfaction index (Service CSI), an index which summarises the customer satisfaction for the sole aspects of service effectively provided (electrical energy, gas, water and waste management).

This index reaches high levels, with a score of 71, confirming levels of excellence in reliability, safety, cost and quality of Hera's services: most of the Territorial Operative Companies scored higher than 70. The overall satisfaction index (CSI) for residential customers, which includes the intangible elements of ideals and expectations, and media and management effects, fell by two points compared to 2006, reaching 65.

The probable causes include the impact of the change in IT systems (with resulting invoicing errors, long waiting times both at the call center and branches, increased complaints), implemented in the last two areas to enter the Group, Ferrara and Modena, and regulatory changes on the distribution of electrical energy, which affected Modena and Imola.

For 2008, actions have been implemented to improve customer satisfaction: careful planning for the start of tariff adjustments, more frequent communications with customers, increased information in issues such as investments in the water and waste management areas, the launch of the Hera Group's new internet site, new on-line services and the new Club Hera Insieme.



### **Assessment of overall satisfaction of residential customers**

<b>CSI (from 0 to 100)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Service satisfaction index (Services CSI)	70	71	71
Overall satisfaction index (CSI)	67	67	65
Global satisfaction	70	70	68
Satisfaction with respect to expectations	66	66	63
Satisfaction with respect to ideal	65	65	62

As regards the business customer survey, in 2007, an additional segment was added, that of large companies, as the results were available both for this segment, and the small and medium-sized companies segment. Large companies had a very high score both for the Service CSI, which stood at 69, and for the overall CSI, with a score of 63. Small and medium-sized companies had a significant increase in the Service CSI, which rose from 64 to 70, while the overall CSI was steady, at 61. On the whole, the survey demonstrates that the management and strategic choices made regarding large companies were correct, as shown by several indicators such as contractual conditions, which, due to their clarity, transparency and economic advantage, reached a score of 68 points, and the sales channel, with a total score of 77.

### **Assessment of overall customer satisfaction for large company business customers**

<b>CSI (from 0 to 100)</b>	<b>2007</b>
Service satisfaction index (Services CSI)	69
Overall satisfaction index (CSI)	63
Global satisfaction	66
Satisfaction with respect to expectations	63
Satisfaction with respect to ideal	61

The small and medium-sized companies segment increased its scores for all indicators, including environmental hygiene, which, in any case, has the lowest score, most likely due to the weight of the environmental hygiene tariffs, which customers consider too high in relation to the service provided.

### **Assessment of customer satisfaction for small and medium-sized company business customers**

<b>CSI (from 0 to 100)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Service satisfaction index (Services CSI)	64	64	70
Overall satisfaction index (CSI)	61	61	61
Global satisfaction	64	64	64
Satisfaction with respect to expectations	59	60	59
Satisfaction with respect to ideal	58	59	58

### **Other customer listening, dialogue and involvement initiatives**

In order to more closely match the needs of customers, the Sales and Marketing Division adopted customer relations methodology which involves customers prior to defining or redesigning new services.

This was carried out for the renewal of the Club Hera Insieme. In September 2007, focus groups were conducted with residential customers in each province in which Hera operates, in order to identify the high priority needs to be fulfilled through the Club. The customers interviewed were strongly interested in issues such as energy savings and

environmental protection. For these issues, Hera is seen as a potential point of reference for information, and an agent for stimulating positive and sustainable change. The customers also pointed out that customer loyalty initiatives must be aimed at a more significant economic savings, which derives from purchases of products and services used on a daily basis.

Six focus groups were organised to analyse the preferences of consumer households regarding possible offers of electrical energy and gas. Prior to the launch of the communications campaign regarding the *Formula Risparmio* (Savings Formula), aimed at all households upon the deregulation of the electrical energy market, the campaign was submitted to a sample of customers in order to test the effectiveness of the communication.

Within the project aimed at revamping the image and operations of the branches, in March 2007, customers were involved through the assessment of a prototype by focus groups. Based on the results, several modifications were made to the initial proposal, and the development continued with the realisation of the first branch at the central offices in Bologna. Upon inauguration, a second quali-quantitative analysis was carried out, through in-depth interviews with customers. Positive results were obtained, which provided useful indications for fine-tuning the branches. These indications will be taken into account in 2008, both for Bologna and the branches soon to be renovated in Forlì and Cesena.

Lastly, a qualitative survey was carried out on customers' perception of communications, to analyse customers' information needs and their opinion of the various communications channels used by Hera. In order to measure the gap between expectations and perceived reality, 8 focus groups were carried out over the territory: the results will be used to render communications more focused and effective in 2008, in relation to the needs expressed.

In conjunction with the launch of the *Formula Risparmio* promotional campaign, the characteristics of Hera's offer of products and services were illustrated to trade associations and consumer associations, through local meetings throughout Hera's operational territory. In order to ensure maximum transparency of the promotion, during the meetings, its characteristics were described in a detailed manner (real savings, accessory concessions, etc.) referring to the various methods of consumption of average households (with "flat" consumption or consumption which may be moved to the night hours or at weekends, with or without air conditioning) also making comparisons with the costs that the Authority guarantees to consumers who decide not to subscribe the offers on the free market, and the costs deriving from the subscription of offers by other operators (at a fixed price for certain time-frames, day and night/weekend tariffs, etc.). The Group, and, specifically, the Territorial Operative Companies, conduct regular listening and dialogue activities with numerous local consumer associations. For example, Hera Forlì-Cesena has subscribed a Memorandum of Understanding with several associations (Federconsumatori, Cittadinanzattiva, ADOC) for periodic meetings, which in 2007 were scheduled on a quarterly basis.

Hera maintains constant relations with trade associations, both in the local areas of the company and in the surrounding areas, offering these associations a single interface for their issues and issues regarding their members. The purpose is to stipulate commercial agreements which will offer member companies free market contracts with discounts, fixed, indexed or personalised prices, multiservice offers (gas, electrical energy, value added services such as energy auditing, etc.): these agreements also include activities of

co-marketing, events, and communications campaigns. At the end of 2007, 35 agreements were in place with associations operating in Hera's area of operations, and 18 in surrounding areas. The main associations involved include Api, Confartigianato, Conf. Italiana Agricoltori, CNA, Ascom, Confesercenti, Lega Coop, and hotel associations. It is worth noting the collaboration with the E.I.Con (Industrial Energy Consortium) promoted by Api Bologna and the Energia Open consortium promoted by Api Modena, for the purpose of improving procurement of energy services for their members.

## **Shareholders**

---

---

The activities regarding financial communication by Hera and relations with financial market operators have increased steadily over the years. In 2007, meetings were held with over 360 investors (compared to 350 in 2006) upon the presentation of the financial statements, the 2007-2010 Industrial Plan, and conferences organised by brokers.

Increased attention was paid to relations with ethical investors, in order to further enhance Hera's sustainable policies. Meetings were held with the managers of various ethical funds which showed interest in including Hera in several ethical indexes the "ethical" financial analysts of CAI Cheuvreux, one of the leading independent international firms, included Hera on its list of top 5 "sustainable" securities in Europe. In 2007, relations with Shareholder Municipalities were consolidated and structured through periodic meetings between the Territorial Operative Companies and the Mayors of Committees representing the community of these municipalities.

## **Suppliers**

---

---

In 2007, associations representing supplier companies (i.e. Confindustria, cooperatives) and single companies that supply works and services met in Cesena, Imola, Modena and Ravenna in order to increase their engagement in the Group's sustainability and social responsibility targets.

Meetings were held with the associations which signed the "Memorandum of Understanding for the Hiring of People Facing Hardship" in order to identify operational methods which could accelerate the application of the Memorandum: the meetings resulted in new methods of monitoring ongoing supply, greater clarity in the methods for defining and inserting qualitative parameters in public tenders, projects for identifying operational areas which could be directly assigned to social cooperatives (specifically in the Bologna area, where, at the beginning of 2008, services supporting separate waste collection were assigned).

## **Local Communities**

---

---

One of Hera's priorities is dialogue and engagement of persons residing in the vicinity of plants, Especially in the areas where construction or expansion is underway of new lines of waste treatment plants or electrical energy production plants.

In 2007, the activities of the Ferrara RAB continued, the Imola RAB was created and began activity, the Regulation for the creation of the Rimini RAB was defined, and further relations with various local communities were developed.

### **What is a RAB?**

RABs (Residential Advisory Boards) are a way companies and the public at large can get together and exchange information and monitor environmental indicators.

RABs facilitate communication, information exchanges and interaction between companies and local communities in the urbanized areas in the vicinity of corporate plants. This mechanism was tested for the first time in 1998 in Holland on the outskirts of Rotterdam, hosting a petrochemical complex managed by Shell.

The aim is to create communication and interaction modes between parties in operations involving large companies or aggregations of companies within contexts in which potential or likely adverse effects or risks are associated with corporate activities, directly impacting the urban environment.

### **The RAB at Ferrara**

The first RAB (Residential Advisory Board) organised by the Hera Group started up in Ferrara (Circoscrizione Nord Ovest) in 2005, upon the upgrading of the waste-to-energy plant managed by Hera.

The RAB is made up of nine members democratically elected by citizens, three representatives of the Municipality and three representatives of Hera.

After nearly three years, the RAB now plays a well-defined role, as a result of the intense work and considerable effort in order to obtain the trust of citizens.

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

- RAB members from the citizenry can freely access the Hera plants in Ferrara, in order to personally check on operations and view the main documents (analysis of atmospheric emissions, waste products records etc.):
- significant activities of data collection and documentation: from its creation (May 2005) until the end of December 2007, the RAB met 40 times, an average of once a month;
- the organisation of public meetings, involving technicians and specialists who illustrate and discuss the issues identified. In 2007, specific attention was paid to health aspects linked to waste management and separate waste collection;
- 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.

On 18 May 2007, the RAB, together with Hera and the Cultural Association, promoted an inaugural party for the new wooded area, six hectares developed using native plants and those belonging to the phytoclimatic category of the area. The woods, which the students of the local middle school have named the "Bosco della Bota" (Bota Woods -



from the name in dialect of the Burana Canal, on the shores of which the woods were created), falls within the network of nature areas that the Municipality and the Province are developing, to be used by all residents.

Lastly, the website [www.rab-fe.org](http://www.rab-fe.org) has been launched, which provides documentation, the RAB newsletter and updated information on planned initiatives.

As a result of this project, 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 under construction 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 2,600 residents voted. The RAB at Imola held its first meeting on 17 May 2007.

During the first meetings, the main documents regarding the new cogeneration plant were shared: the Environmental Impact Assessment, the Integral Environmental Authorisation, the building permit, the agreement with the Municipality of Imola, the Authorisation from the Region, the instructions from the Ministry for the Environment and Protection of Local Areas, the Ministry for Culture and the Environment and the Emilia-Romagna Region.

In order to better address the various issues and render the work of the organisation more effective, the RAB decided to split into three 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.

The main objective of the technical working group 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.

The main objective of the working group on environmental and health issues is to provide a framework as complete as possible of the air quality in the Imola area, analysing all the sources that contribute to pollution.

The working group on communication issues intends to develop the most widespread communications on the activities of the RAB as possible, using various types of media and tools: website ([www.rabimola.it](http://www.rabimola.it)), newsletter, meetings with the public, press releases.

Methods for access to the worksite in via Casalegno have also been defined: the members of the RAB may freely access the area, providing sufficient notice so that Hera may organise the visit and provide a guide. Those visiting the worksite must prepare a report for the other members of the RAB in order to inform them on the work carried out and all the material acquired.

### **Initiatives for engaging local communities**

In 2007 Hera Rimini worked with the Municipalities of Coriano, Misano Adriatico and Riccione to draw up the regulations for a RAB for the purpose of providing information and communication among residents and the Hera Group on impacts on the environment, on health, and on the quality of life of the operations of the municipal waste-to-energy plant in the Raibano area. The regulation, approved by the three Municipal Councils in December 2007, will lead to the creation, through public election,

of an instrument for participation of the local community interested in said plant, also in consideration of the planned expansion of the plant.

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, which includes the Province of Modena, Agenzia per l'Energia e lo Sviluppo Sostenibile, Hera Modena, Arpa Modena, Circostrizione 2, AUSL Modena, the Municipality of Modena, and a representative of residents appointed by Solidarity Policy Council. Though they were invited by the local administrators, the environmental associations decided not to participate in the Observatory.

### **2006 Sustainability Report presented in Imola**

In July 2007, Hera Imola-Faenza presented the Hera Group Sustainability Report in Imola, paying specific attention to the value that the company represents for local residents and areas. The public and private contacts with which the company has relations were invited to the meeting (public administration, trade unions, environmental associations, consumer and trade associations, volunteer organisations, suppliers, Forums and social organisations, the Imola RAB). The meeting provided an opportunity for reciprocal dialogue and listening.

In Bologna, the application of the memorandum regarding the thermal plant in via Segantini continued, through the periodic disclosure of the data regarding its operations and emissions to the Reno neighbourhood, to then be circulated on their website. Technicians also maintained a direct line of contact with residents, collecting information and suggestions which led to the adoption of small technical adjustments making it easier to understand the operational regime of the plant.

## **The Environment and Future Generations**

---

The Group collaborates with and participates in, often in the role of promoter, local area initiatives for water and energy saving.

Some of the areas in which Hera representatives have worked for some time are the Local Agenda 21 of the Province of Bologna and the Municipalities of Ravenna, Modena and Ferrara.

Hera has made strong commitments to the environment, with the voluntary adoption of environmental management systems, and their certification: EMAS regulations, which Hera adopted as a reference for the environmental certification of waste treatment plants, require the annual publication of Environmental Declarations (available on-line), which disclose data on the operations and impact of plants, improvements realised and new environmental improvement plans.

In 2007, Hera collaborated with the province of Bologna to develop a memorandum aimed at developing energy savings actions within companies. The memorandum, named "Microkyoto imprese, developed from an idea deriving from the Forum of Agenda 21 Locale, was formally signed in January 2008 by the economic associations in the province (Unindustria, CNA) and by Impronta Etica: membership of single companies must translate into actions to reduce energy consumption, reinvesting the savings achieved into promotion and awareness-raising actions in the local areas.

## Dialogue on the Sustainability Report

---

On 24 May 2007, Hera presented its Sustainability Report 2006 at its Ferrara location. This event was organised so that representatives of the various types of stakeholders could be heard, offering them an opportunity to describe their experience and give their opinion on the company's approach to CSR and the results presented in the Report.

Approximately 250 people participated in this event, including sessions by: Piero Ragazzini, General Secretary of the Emilia Romagna CISL, Marco Morselli, Manager of the ATO Agency of Bologna, Mauro Julini, of the National Management



of Cittadinanzattiva, Marco Bettini, Vice Chairman of API Bologna and President of "E.I.CON. consorzio per l'energia industriale" (Industrial Energy Consortium), Pietro Borghini, Chairman of "La Formica" a Non-Profit Social Cooperative of Rimini, Massimo Marchignoli, Mayor of the Municipality of Imola, Simone Basili, Chairman of the Consultation Agreement of Private Shareholders of Hera S.p.A., Luigi Rambelli, Manager of Legambiente Emilia Romagna and Giancarlo Cecchi, President of the Ferrara RAB (Residential Advisory Board). In the afternoon, a tour of the worksite of the waste-to-energy plant was given.

### **The opinion of associations**

Prior to drawing up this Report, Mauro Zanini, National Vice President and Director of the Energy Department of Federconsumatori, and Marialuisa Villa, External and Institutional Relations Manager of Altroconsumo were interviewed, in order to understand their points of view following a critical, in-depth reading of the 2006 Sustainability Report.

The officer of Altroconsumo expressed a positive opinion on the layout of the publication, specifically on the choice of elements which made it easier to both read the report and rapidly find information. However, she did mention that the length of the document and the complexity of the issues included make reading the report, if not difficult, at least long: she thus requested that a methods be developed for rapidly finding information, or searching by keywords be developed at least in the on-line version. She also pointed out difficulties in understanding the acronyms and technical terms used, some of which are not included in the glossary or explained in other sections of the Report, and the need to better illustrate some data, specifically those within the chapter on economic results and the distribution of value added. The commitment to publish both the data in waste-to-energy plant emissions, as well as data on drinking water on the website was greatly appreciated.

The officer of Federconsumatori believes that the Group must make a greater effort to render its bills even more transparent and easily readable, using them as a vehicle to provide consumers with additional information on issues such as water and energy savings, or separate waste collection. He then pointed out the difficulty, at times, in

understanding the Group's management model, and requested more transparency in terms of the remuneration to directors and executives, which was not included in the 2006 Sustainability Report. As regards the tariffs, specifically gas and electrical energy tariffs, he requested that Hera be more pro-active in extending the applications of the required social tariffs. He also requested that the Report present the average bills for at least three levels of consumption: single consumer, average household and large household. On the issue of complaints, he asked for greater description of the phenomenon, referring to the origin (directly from customers, from consumer associations, other), the channel of receipt (written, verbal, email, call center) and the type (connection, estimates, bills, etc.). He thus proposed that the Group take action to develop settlement procedures and to unify the Service Charters in the various local areas in which it operates.



## Results and Value added

This section includes the key data on economic aspects of the company. The 2007 data includes the economic results of the Aspes Group, which entered the scope of consolidation of the Financial Statements starting from December 2006.

### Operating results

#### Consolidated income statement

(millions of euro)	2006	2007
Revenues	2,311.5	2,863.3
Change in inventories of finished products and work in progress	2.7	-4.2
Other operating income	50.3	46.0
Raw materials and consumable materials (net of changes in inventories)	-1,146.7	-1,613.9
Costs for services	-642.5	-724.7
Personnel costs	-296.6	-300.9
Other operating costs	-46.5	-50.4
Capitalised costs	194.5	238.2
<b>EBITDA</b>	<b>426.7</b>	<b>453.4</b>
Amortisation, depreciation and allocations	-195.4	-232.8
<b>EBIT</b>	<b>231.3</b>	<b>220.6</b>
Quota of profits (losses) of associated companies	1.8	1.2
Financial income (charges)	-56.4	-79.3
<b>Pre-tax profit</b>	<b>179.2</b>	<b>142.5</b>
Income taxes	-79.0	-32.6
<b>Net profit for the year</b>	<b>100.2</b>	<b>109.9</b>
Attributable to:		
Shareholders of the parent company	90.1	96.2
Minority shareholders	10.1	13.7

Revenues for 2007 amounted to Euro 2,863.3 million compared with Euro 2,311.5 million in the same period of 2006, disclosing growth of 23.9%; the EBITDA rose from Euro 426.7 million in 2006 to Euro 453.4 million in 2007, +6.3%, and the EBIT rose from Euro 231.3 million to Euro 220.6 million (-4.6%). Pre-tax profit decreased by 20.5%, passing from Euro 179.2 million in 2006 to Euro 142.5 million in 2007, while net profit increased by 9.6%, passing from Euro 100.2 million in 2006 to Euro 109.9 million in 2007.

The increase in revenues, equal to Euro 551.8 million, should be viewed in relation to two opposing factors: the increase in revenues in the Electricity Area, in relation to increased volumes brokered, up by approximately Euro 599.8 million, and the decrease

in revenues in the Gas Area, equal to approximately Euro 65.6 million, linked to the decrease in volumes distributed and sold, as a result of the weather conditions.

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

The increase in other operating costs (service costs up by Euro 82.1 million and other operating costs are up by Euro 3.9 million) amounted in total to Euro 86.0 million (+12.5%). Considering that around Euro 39.7 million of the increase is related to the higher capitalised work costs and around Euro 39.5 million to the higher transport costs of electricity, there has been an approximate increase of 1% over the previous year: we should note that this result confirms how well the company's cost containment policy has worked, a policy that has been in place since the company's establishment, despite cost increases which were significant in some cases, and the increase in Group business. The increase in capitalised costs from Euro 194.5 million to Euro 238.2 million is mainly due to the increase in investments in this period, particularly in the water segment.

As at 31 December, the Group's consolidated EBITDA increased from Euro 426.7 million in 2006 to Euro 453.4 million in 2007, an increase of 6.3%. This result is particularly positive considering the exceptionally mild weather conditions which significantly reduced sales of gas and heat from district heating. This negative situation was offset by the positive performance of all other sectors, specifically by the Electricity sector.

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

The increase in financial charges is linked to the increase in indebtedness required as a result of the increased business volumes and Group operational and extraordinary investments, and the increase in interest rates. We note that Euro 6 million of the 2006 result benefited from income resulting from restructuring the interest rate hedging operations in which IAS standards were fully applied.

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

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

### **Balance sheet**

(millions of euro)	31-Dec-2006	31-Dec-2007
Net fixed assets	2,921.9	3,248.8
Net working capital	167.9	119.8
Provisions	-400.2	-406.0
<i>Net capital employed</i>	<i>2,689.6</i>	<i>2,962.6</i>
Shareholders' equity	1,516.3	1,538.6
Long-term debt	948.7	1,396.0
Net short-term debt	224.5	28.1
Net financial position	1,173.3	1,424.1
<i>Total sources of financing</i>	<i>2,689.6</i>	<i>2,962.7</i>

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

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

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

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

The Group's operating investments totalled Euro 464.0 million, compared to Euro 321.1 million in the same period of the previous year.

#### **Operating investments (non financial)**

(millions of euro)	2005*	2006	2007
Gas service	44.3	25.4	31.7
Electricity service	8.4	14.8	49.2
Integrated water service	76.2	100.2	131.4
Waste management services	100.2	88.8	166.2
Other services	24.4	35.4	35.0
Central Structure	77.8	56.4	50.4
<b>Total</b>	<b>331.3</b>	<b>321.1</b>	<b>464.0</b>

\* Pro-forma data including the Meta Group.

Investments in gas service in the area in question mainly relate to expansion, extraordinary maintenance and enhancement of networks and plant systems (investments in the local area increased from Euro 23.5 million to Euro 28.1 million). Additional investments regard the creation of the Sassari distribution network (by Medea) and the acquisition of easements on foreign gas pipelines for the purchase of raw materials (by Hera Trading).

Electricity service investments, are accounted for in part by service extension and special maintenance of the plants and distribution grids in the Modena and Imola areas, coordination of electrical energy grids (for a total of Euro 15.7 million), and the Imola co-generation plant, currently under construction (for Euro 33.5 million). In 2007, the increased investments also continued in the integrated water service, for works in the water systems sector (Euro 68.5 million), sewerage (Euro 40.1 million) and treatments (Euro 22.8 million) and mainly concerning extension, extraordinary maintenance and upgrading of plants. These investments derive from agreements subscribed with the pertaining Environmental Agencies (ATO).

The investments in waste management services remain high, continuing the investments in treatment plants, specifically the waste-to-energy plants in Ferrara, Forlì and Modena (for a total of Euro 91.8 million).

As regards the other services, the largest portion is represented by district heating, with Euro 16.2 million, slightly falling compared to 2006. Increased investments were made

for the purpose of building new cogeneration facilities at local agencies. These were offset by a reduction in investment in public lighting and other sectors.

As regards the central structure, investments decreased by over 10%. The most significant reduction regards the computer systems which were completely overhauled over the last few years. Significant investments also regard those for the construction and renovation of company premises (Euro 12.9 million) and for the renewal of the operating fleet and waste collection bins (Euro 10.3 million).

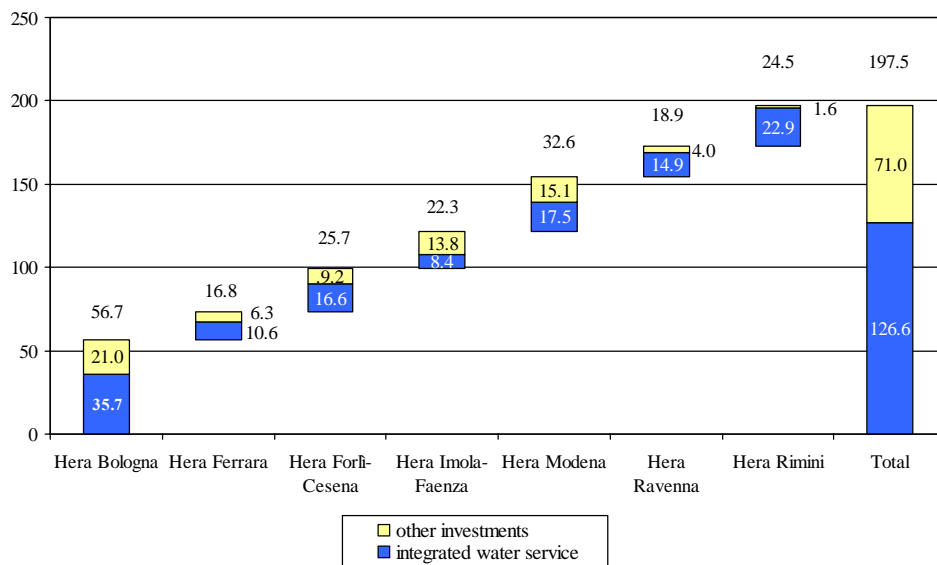
### Financial equity investments and acquisitions

(millions of euro)	2005*	2006	2007
Investments	15.6	183.7	7.8

\* Pro-forma data including the Meta Group.

In 2007, financial equity investments were also made for Euro 7.8 million, aimed at increasing power in the energy sectors, both through investing in new plants (for example, Galsi) and through a joint venture in energy trading. We should note that the acquisition of the former Enel Modena network for Euro 106.6 million, the acquisition of SAT Sassuolo for Euro 34.5 million, and the former GDG Riccione gas distribution network for Euro 14.5 million, formed part of the 2006 financial investments.

### Total investments in Territorial Operative Companies (millions of euro)



64% of investments by the Territorial Operative Companies regards the integrated water service

## Financial statement ratios

	2005*	2006	2007
ROI (EBIT/Net Capital Employed )	8.8%	8.6%	7.4%
ROE (Net Profit/Shareholders' Equity)	7.3%	6.6%	7.1%
Leverage (Net Financial Position/Shareholders' Equity)	65.4%	77.4%	92.6%
Turnover per open-ended contract employee as at 31/12 (thousand €)	355.8	371.2	468.3
EBITDA per open-ended contract employee as at 31/12 (thousand €)	65.4	68.5	74.2
Net profit per open-ended contract employee as at 31/12 (thousand €)	18.4	16.1	18.0
Open-ended contract employees (no.)	5,904	6,227	6,114

\* Pro-forma data including the Meta Group.

ROI (Return on Investment) is used to gauge corporate profitability, i.e. the ability to provide incomes, and via these incomes, to provide returns on the capital invested by shareholders and third parties. ROE (Return On Equity) is a further profitability ratio gauging the company's capacity to provide returns on the capital invested by shareholders.

Leverage is an index indicating the extent of borrowing with respect to shareholders' equity.

## 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 (social 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 and the information presented in the previous Sustainability Report, the portion of value allocated to financial institutions was calculated considering the balance of financial income and charges, as this was 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. The indicator is therefore a useful instrument for understand the economic impacts of the company. Secondly, in this manner, we can bridge the gap between the Sustainability Report and the Financial Statements. In this sense, production and allocation of value added provides an instrument by means of which we can reconsider the corporate Financial Statements from the vantage point of stakeholders.

The GRI G3 guidelines also include among the indicators the economic value generated and distributed to stakeholders. This indicator varies from the amount of value added

indicated in this paragraph mainly because it also considers the distribution of economic value to suppliers, which in 2007 amounted to Euro 2,279.4 million. Of this value, the share destined for suppliers of raw materials (methane and electrical energy destined for sale) amounted to Euro 1,495.8 million.

### Production of value added

(millions of euro)	2005*	2006	2007
Revenues	2,100.5	2,311.5	2,863.3
Change in inventories of finished products and work in progress	2.2	2.7	-4.2
Other operating income	44.9	50.3	46.0
Grants received from public institutions	-14.1	-12.3	-10.9
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	-1,014.8	-1,146.7	-1,613.9
Costs for services	-515.7	-569.8	-653.3
Bad debt provisions	-6.1	-7.5	-26.4
Accruals to provisions for contingencies and other provisions	-19.9	-22.2	-30.1
Other operating costs	-20.8	-9.9	-12.2
Capitalised costs	144.3	194.5	238.2
<b>Gross value added</b>	<b>700.5</b>	<b>790.6</b>	<b>796.5</b>
Write-back of technical fixed assets	15.5	0	0
Portion of profit (loss) pertaining to associated companies	-0.6	1.8	1.2
<b>Gross overall value added</b>	<b>715.4</b>	<b>792.4</b>	<b>797.8</b>

\* Pro-forma data including the Meta Group.

Gross overall value added generated for stakeholders in 2007 came to Euro 797.8 million, an increase of Euro 5.4 million on the previous year (+1%).

### Distribution of value added to stakeholders

(millions of euro)	2005*	2006	2007
Workforce	270.1	296.7	300.9
Shareholders	78.5	91.5	96.3
Company	174.9	174.4	189.8
Financial institutions/Banks	41.3	53.9	79.3
Public administration	148.4	174.2	129.8
Local community	2.0	1.8	1.7
<b>Gross overall value added</b>	<b>715.4</b>	<b>792.4</b>	<b>797.8</b>

\* Pro-forma data including the Meta Group.

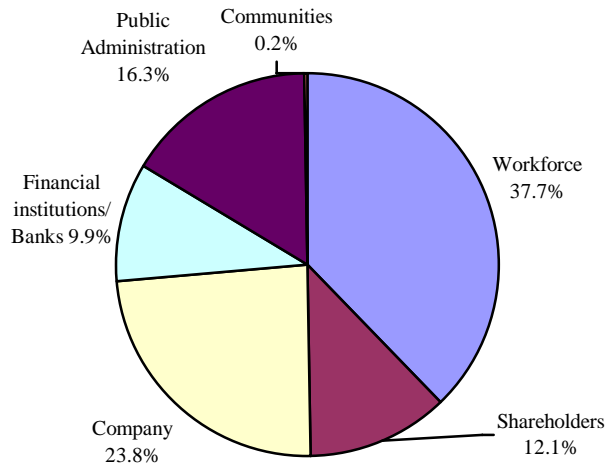
The portion of value added allocated to the **workforce** increased by Euro 4.3 million (+1%) compared to 2006. Compared to the total value added produced, this portion represents 37.7%, and consists in wages and salaries (including employer social security contributions and provision for employee leaving indemnities).

The portion allocated to the **shareholders** of Hera or of subsidiaries rose by Euro 4.8 million (12.1% of the total). Of this portion, Euro 82.6 million was allocated as dividends distributed to Hera S.p.A. shareholders, and Euro 13.7 million was allocated as dividend for minority shareholders of the subsidiaries of Hera S.p.A. A portion totalling 23.8% of the value added generated in 2007 was re-invested in the **Company**. This portion includes the net profit for the year not allocated to shareholders (Euro 13.6

million) and amortization of area investments effected by the company (Euro 176.2 million).

The portion of value allocated to **financial institutions** in 2007 came to Euro 79.3 million (9.9% of the total). This share comprises Euro 107.9 million in financial charges, and Euro 28.6 million in financial income.

### Distribution of value added to stakeholders (2007)



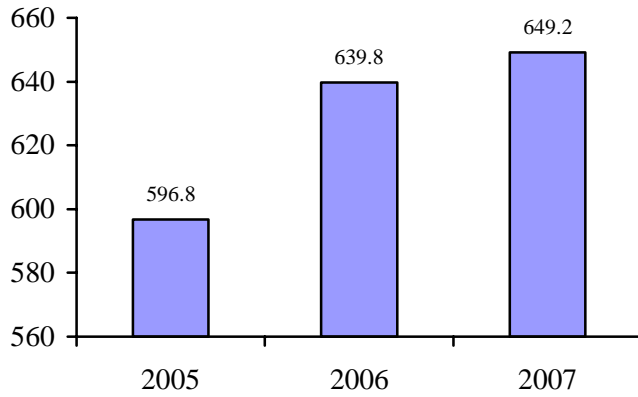
The portion distributed to **Public Administration** amounted to Euro 129.8 million, 16.3% of the total. Duties and taxes amounted to Euro 61.3 million (7.7% of the total value added distributed). Of the taxes and duties, Euro 32.3 million was allocated to the State, Euro 25.6 million to the Regional authorities and Euro 2.0 million to the Municipal authorities.

Operating grants received amounted to Euro 10.9 million; the most significant share regards grants for separate waste collection. This portion was subtracted from the portion allocated to the public administration.

The plants and installations used by the company are in part owned by shareholding municipalities (e.g. gas and water grids). Rental payments are made out for their use. In 2007, total payments for utility contracts and for use of the assets of shareholder municipalities came to Euro 79.4 million.

Lastly, Euro 1.7 million was allocated to **local community** donations (Euro 0.2 million) and **sponsorship** (Euro 1.5 million); details on these items can be found in the section "Local communities".

### Value added distributed to local areas (million €)



In 2007 value added distributed to stakeholders in the local areas amounted to Euro 649 million (+1.5% compared to 2006).

For 2007, this is composed of:

- employee salaries (46% of the total)
- dividends to local shareholders (8%)
- duties, taxes and fees to local authorities (16%)
- charitable donations and sponsorships (0.3%)
- resources re-invested in the company (29%)

If value added for local suppliers is also considered (which represents 62%, amounting to Euro 405 million), the total wealth distributed to local areas in 2007 amounted to Euro 1,054.3 million.



# Workforce

In 2007, Hera's workforce numbered an average of 6,699 (6,415 workers as at 31 December). 92.7% of the workforce have an open-ended contract; this percentage rises to 93.4% if Aspes is excluded.

In 2008, all employees of the Group will be involved in a training and awareness-raising session on the new Code of Ethics approved by the Board of Directors on 12 September 2007. 173 employees of the Group have been identified, who will be assigned the task, following suitable training, of circulating the contents of the Code to their co-workers and contractors.

## Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> <li>• Continue developing initiatives aimed at improvement, involving the entire workforce (“Improvement Groups”).</li> <li>• Disseminate the new Code of Ethics through internal training meetings following the approval of the Code by the Board of Directors.</li>   <li>• Provide 130,000 hours of training, equal to 21.5 hours per capita.</li> <li>• Continue the “School of Trades” project, applying the experience acquired and doubling the number of workers involved compared with 2006.</li>   <li>• Improve the accident frequency index compared to the total 2006 figure. The target is to reach a frequency index of 43 in 2009.</li> <li>• Begin the process for obtaining OHSAS 18001 occupational safety certification in 2008.</li>   <li>• Improve the internal communication tools through the involvement of the workforce.</li>   <li>• Carry out the second internal climate survey in 2007.</li> </ul>	<ul style="list-style-type: none"> <li>• In 2007, a total of 15 improvement groups were conducted (of which 13 were concluded) (see p. 36).</li> <li>• The new Code of Ethics was approved by the Hera S.p.A. Board of Directors on 12 September 2007. Training activities were launched in November, and will terminate within the first half of 2008, involving the entire workforce (see page 66).</li> <li>• 150,126 hours of training were provided, equal to 24.3 hours per capita (see page 63).</li> <li>• In 2007, four further projects were launched, involving typical trades which had not yet been considered. Over 1,300 employees were involved, compared to 174 in 2006 (see p. 67).</li> <li>• The accident frequency index amounted to 42.3, compared to 47.5 in 2006 (see p. 73).</li>   <li>• The process has been initiated: the objective of obtaining certification within 2008 has been confirmed (see p. 72).</li> <li>• The House Organ was modified, taking into account the six employee focus groups conducted (see p. 78).</li> <li>• The second internal climate survey was conducted in September 2007: the answer rate was 46%, compared to 48% for the first survey (see p. 34).</li> </ul>

**We shall...**

- Develop the improvement actions defined following the second internal climate survey (see p. 37).
- Continue developing initiatives aimed at improvement, involving the entire workforce, extending the Improvement Groups to the various Divisions.
- Involve the entire workforce in the dissemination of the new Code of Ethics, through internal training meetings with a “trickle down” structure.
- Effect a meeting point between the demand and offer of work to improve management of internal mobility.
- Provide 130,000 hours of training, equal to 21.5 hours per capita.
- Develop the School of Trades even further: provide 27,400 hours of training, involving 1,415 employees.
- Further improve the accident frequency index: reach an accident frequency index lower than the total value 2007 (42.4).
- Obtain OHSAS 18001 workplace safety certification in 2008.
- Complete the feasibility study for the introduction of SA 8000 certification.
- Define and launch specific measures aimed at enhancing the skills and potential of differently-abled workers within the Hera Group.
- Carry out further internal communications initiatives to promote sustainable conduct.

## Breakdown

### Staff figures the close of the year

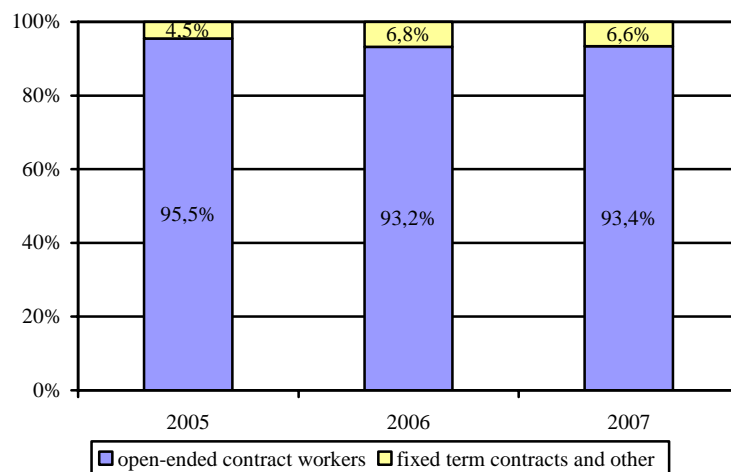
(no.)	2005	2006	2007
Executives	93	99	109
Managers	245	252	286
Administration	2,458	2,535	2,700
Manual	3,108	2,998	3,019
<b><i>Open-ended contract employees</i></b>	<b><i>5,904</i></b>	<b><i>5,884</i></b>	<b><i>6,114</i></b>
Fixed-term contract workers	48	73	117
Job training and entrance contracts, apprenticeships and seasonal workers	55	87	108
<b><i>Fixed-term contract workers</i></b>	<b><i>103</i></b>	<b><i>160</i></b>	<b><i>225</i></b>
Staff leasing contracts	0	135	70
Freelance contracts	2	0	0
Project based contract workers	4	15	6
<b>Total</b>	<b>6,013</b>	<b>6,194</b>	<b>6,415</b>

The tables set forth in this chapter include the Aspes Group starting from 2007. As at 31 December 2007, the Aspes Group workforce amounted to 397 of which 334 with open-ended contracts.

At the end of 2007, total workers with open-ended contracts in Group companies amounted to 6,114.

Excluding Aspes, we note an overall decrease of 2% in the numbers of workers with open-ended contracts, with respect to 2006. This decrease affects blue-collar workers above all, compared with an increase in other positions. The decrease in blue-collar workers is mainly due to the move from the role of blue-collar worker to white-collar worker, retirement, voluntary resignation and Hera Ferrara’s transfer of extermination and parks services to another company.

## Workforce numbers (average)



Data excluding Aspes.

On average, 93.5% of workers have an open-ended contract. This percentage falls to 92.7% if Aspes and its subsidiaries is considered.

We confirm the Group's intention to limit use of flexible contracts exclusively to situations of urgency (seasonal needs, non-routine peak and temporary workloads such as those resulting from the implementation of the new information system customer management, which continued in 2007 in Ferrara and Modena, replacement of workers who are temporarily absent). However, the employees hired through flexible contracts provide a priority recruitment pool for hiring with open-ended contracts.

It is important to point out that, while the percentage of workers without open-ended contracts is stable compared to 2006, the breakdown of these workers has changed. On a like-for-like basis, thus, not considering Aspes, the average number of employees with staff leasing contracts decreased by 20% compared to 2006, while employees with fixed-term contracts, job-training and entrance contracts and apprenticeship contracts increased by 20%.

### Open-ended contract employees (breakdown by function)

(no.)	2005	2006	2007
Grid services	2,011	2,001	2,060
Waste management services	2,128	2,014	2,046
Other services	416	409	419
Commercial	413	401	458
Coordination	936	1,059	1,131
<b>Total</b>	<b>5,904</b>	<b>5,884</b>	<b>6,114</b>

Of the workforce, 33% operate in the waste management sector and 34% in grid services (gas, electricity, district heating, and water service). Of the workforce, 7% are employed in the commercial structure and 7% in other services (information technology management, fleet management, laboratories). Coordination activities absorb 18% of the Group workforce.

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

<b>No.</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Number of workers	458	481	520
<i>of which resident outside the province of service</i>	207	207	166

Approximately 9% 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 2007, 22 managers lived outside the province of service.

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

<b>(no.)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Hera Bologna area	1,749	1,763	1,762
Hera Ferrara area	593	579	549
Hera Forlì-Cesena area	495	500	501
Hera Imola-Faenza area	440	439	454
Hera Modena area	989	965	930
Hera Ravenna area	762	749	730
Hera Rimini area	859	866	836
Aspes Pesaro area	-	-	335
Other	17	23	17
<b>Total</b>	<b>5,904</b>	<b>5,884</b>	<b>6,114</b>

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

### **Open-ended contract employees by educational qualification and position (2007)**

<b>(no.)</b>	<b>Executives</b>	<b>Managers</b>	<b>Administration</b>	<b>Manual</b>	<b>Total</b>
Primary education			12	64	<b>76</b>
Junior secondary education	4	5	498	1,859	<b>2,366</b>
High school diploma	13	101	1,716	880	<b>2,710</b>
University degree	86	164	376	2	<b>628</b>
<b>Total</b>	<b>103</b>	<b>270</b>	<b>2,602</b>	<b>2,805</b>	<b>5,780</b>

Data not including Aspes.

The level of education has increased, and reached a total percentage of high school and university graduates equal to 58%, compared to 57% in 2006.

### **Average age and average years of service by position (2007)**

<b>years</b>	<b>Age</b>	<b>Years of service</b>
Executives	49.7	12.6
Managers	46.8	15.2
Administration	43.8	15.1
Manual	45.8	14.9
<b>Total</b>	<b>45.1</b>	<b>15.0</b>

Average age and average years of service of employees are 45.1 and 15 years, respectively. These indicators have progressively increased over the last two years.

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

<b>(hours)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Sickness	67.9	67.8	70.2
Maternity	21.1	27.1	23.0
Accidents	11.3	13.7	13.6
Strikes	4.3	4.8	1.4
Meetings	1.8	1.7	2.3
Union leave	7.5	7.5	7.0
<b>Total absences (h)</b>	<b>114.0</b>	<b>122.6</b>	<b>117.5</b>
Regular hours worked	1,513.4	1,555.0	1,534.2
Overtime hours worked	57.7	64.0	67.8
<b>Total hours worked</b>	<b>1,571.1</b>	<b>1,619.0</b>	<b>1,602.0</b>

The data refer to the following companies: Hera S.p.A., Territorial Operative Companies, Famula, Uniflotte, Hera Comm, Hera Trading.

In terms of absences, there was a slight decrease compared to 2006, mainly due to a decrease in absences for maternity leave and strikes. The use of overtime continues to be a small share of the total hours worked (approximately 4% of the total, less than 6 hours per capita per month).

## **Turnover**

---

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

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

### Hired during the year (breakdown by position)

(no.)	2005	2006	2007
Executives	7	7	0
Managers	7	11	11
Administration	58	77	86
Manual	43	31	17
<i>Open-ended contract employees</i>	<i>115</i>	<i>126</i>	<i>114</i>
Fixed-term contract workers	106	130	164
Staff leasing contracts	271	341	219
Job training and entrance contracts	33	51	38
Project based contract workers	35	61	27
Freelance contracts	5	2	0
Seasonal workers	1	6	12

In 2007, 114 employees were hired with open-ended contracts, compared to 126 in 2006. New employees are generally hired for top-ranking professional positions (both specialised and operative), which are difficult to cover with internal personnel. Selection took place by internal research for white-collar and blue-collar jobs. External employment selection agencies were called in for top ranking professional positions.

In 2007, 11,000 CVs were sent to Hera, and 663 job interviews were held.

The company confirmed its commitment to use flexible contracts only for temporary needs, stipulating 149 new flexible contracts in 2007 compared to 341 in the previous year.

### Job leaving by open-ended contract workers by reason

(no.)	2005	2006	2007
Resignation	97	76	87
Retirement	79	65	92
Death	5	6	5
Dismissal	1	3	6
Incapability	34	13	15
Transfer to other investee	44	40	22
<b>Total</b>	<b>260</b>	<b>203</b>	<b>227</b>

In 2007, there were 227 cases of job leaving (of which 15 in Aspes). 22 cases derived from the transfer of employees to other companies, due to the transfer of several services which were previously managed by Hera (specifically, in Ferrara) or the exit from the scope of consolidation of several companies.

### Turnover rate for open-ended contract workers by role

%	2005	2006	2007
Executives	9.7%	11.1%	5.5%
Managers	5.7%	6.3%	4.2%
Administration	3.7%	2.6%	3.0%
Manual	4.7%	3.7%	4.2%
<b>Average</b>	<b>4.4%</b>	<b>3.5%</b>	<b>3.7%</b>

### **Turnover rate for open-ended contract workers by gender**

<b>%</b>	<b>2006</b>	<b>2007</b>
Men	3.6%	3.9%
Women	2.8%	2.9%
<b>Average</b>	<b>3.5%</b>	<b>3.7%</b>

### **Turnover rate for open-ended contract workers by age**

<b>%</b>	<b>2006</b>	<b>2007</b>
Under 30	2.8%	4.2%
From 30-50 years of age	2.0%	1.9%
Over 50	8.3%	8.9%
<b>Average</b>	<b>3.5%</b>	<b>3.7%</b>

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)**

<b>(no.)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Executives	3	5	9
Managers	27	18	28
Administration	269	406	521
Manual	236	215	286
<b>Total</b>	<b>535</b>	<b>644</b>	<b>844</b>

In 2007, for the first time in the last four years, no executives were hired from outside the company. On the contrary, career advancement which resulted in Group employees covering executive roles increased.

### **Ad interim positions covered**

<b>(no.)</b>	<b>2006</b>	<b>2007</b>
Ad interim positions at the beginning of the year	41	23
Ad interim positions covered	25	16
<i>of which by internal personnel</i>	<i>21</i>	<i>15</i>

Data regards Hera S.p.A., the Territorial Operating Companies, Hera Comm Srl, Hera Trading.

In the company organisational chart there are several organisational positions which are currently empty. Until these roles are assigned, the activities falling under these organisational positions are carried out by another person on an ad interim basis.

Specific attention was focused on reducing the number of “ad interim” positions in the organisation, by promoting internal resources. With regard to the 23 ad interim or open positions for executives and managers at the beginning of 2007, during the year, 16 positions were covered, almost exclusively using internal personnel.

In the last year, 269 Group employees (excluding Aspes) changed their workplace. For 90 employees, the company they work for changed: for most of these cases, this was a

consequence of the completion of the organisational integration of Meta Modena into the Hera Group. Internal mobility is a direct consequence of the reorganisation that the Group has been carrying out since it was formed. In order to improve the management of this mobility, and limit its impact on employees, the Group has launched a specific project in order to effect a meeting point between the demand for and offer of jobs.

## Diversity and equal opportunities

### Equal opportunities

The group is fully aware of the issues relating to equal opportunities, and is committed to avoiding all forms of discrimination. In its relations with the workforce, as a part of its personnel management and work organization practices, and in its dealings with all stakeholders, the group is committed to making sure no discrimination takes place in the workplace.

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

### Female staff (breakdown by position)

%	2005	2006	2007
Executives	8.3%	8.6%	11.9%
Managers	25.0%	26.9%	28.7%
<i>Total managers and executives</i>	<i>19.9%</i>	<i>21.9%</i>	<i>24.1%</i>
Administration	41.0%	39.5%	38.8%
Manual	7.2%	6.2%	4.9%
<b>Total</b>	<b>21.2%</b>	<b>20.9%</b>	<b>21.1%</b>

Female staff levels among open-ended contract workers reached 21.1% in 2007, a slight increase on the last few years.

Female personnel levels among managerial and executive positions have risen by 4 percentage points over the last two years.

### Personnel by age

%	2006	2007
Under 30	3%	1,9%
From 30 to 50	74%	72,4%
Over 50	23%	25,6%
<b>Total</b>	<b>100%</b>	<b>100,0%</b>

There are over 1,500 open-ended contract employees over 50 years of age.

### Part-time contracts

(no.)	2005	2006	2007
Men	65	50	39
Women	158	175	172
<b>Total</b>	<b>223</b>	<b>225</b>	<b>211</b>

Data not including Aspes.



Part-time arrangements, as regulated by current labour agreements, are considered a valid instrument in providing a response to labour flexibility needs both in terms of organisational and employee needs. Part-time arrangements are made voluntarily and can be revoked.

They are made compatibly both with the technical, organisational and productive needs of the company and with the needs of worker.

Family and health needs, the need to help others with handicaps, and cases of serious illness (duly certified as such) are our priority considerations in assessing applications.

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

#### **Absence for maternity (hours)**

<b>(hours)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Total hours of absence due to maternity	128,472	154,707	137,977
Hours of absence due to maternity per capita	21.1	27.1	23.0

The data refer to the following companies: Hera S.p.A., Territorial Operative Companies, Famula, Uniflotte, Hera Comm, Hera Trading.

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

In January 2007, the first Hera Group crèche was opened in Cesena, in order to aid in the reconciliation of work/family time, experimenting with possible closeness and balance between the roles of parent and worker. The project was directly managed by workers, assisted by expert consultants. The project applied bio-architecture and educational systems aimed at favouring children's socialisation and the development of their ability to play and relate with the environment in a positive way. The crèche can hold 23 children aged between 12 and 36 months: in 2007, three of these children were children of Hera employees.

In May 2007, the event "Bimbi in Hera" (Children in Hera) took place throughout the company's territory. This event is part of "Celebrating Working Mothers", promoted by the *Sole 24 Ore* and *Corriere della Sera* newspapers, sponsored by the Ministry for Equal Opportunities. This initiative was developed in order to present to employees' children their parents' company and working environment, and resulted in the collection of used clothing and toys which were donated to the "Help the Children" non-profit foundation. This initiative was a great success: approximately 500 children visited the various offices.

#### **Persons belonging to protected recruitment quotas**

<b>(no.)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Persons belonging to protected recruitment quotas	273	272	287

Data regards Hera S.p.A., the Territorial Operative Companies, Aspes, Hera Comm, Famula on-line, Uniflotte, Ecologia Ambiente, and FEA.

In all areas in which the group is operational, Hera complies with the obligations of Law 68/99, 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.

**“Developing resources”: enhancing the value of diversity**

At the end of 2007, Hera launched a project aimed at differently-abled employees, in order to enhance their skills and potential. The objective of this project is to assess the introduction of new approaches and technical tools enabling the company to understand the potential of differently-abled persons in order to find the best professional role for them, by attributing the most suitable duties.

The project will be developed during 2008, with the support of the ASPHI Foundation, a non-profit association which promotes the integration of differently-abled persons in schools, the workplace and society through the use of ICT technology.

## **Training**

During 2007, a total of 150,126 man/hours of training were provided, involving an overall increase of 22.5% when compared with 2006; this bears witness to the growing commitment both of an economic nature and with regards to resources which the Company dedicates to the achievement of training activities.

The main areas covered involved managerial and specialised training; since 2005, the courses that are part of the “Scuola dei Mestieri” [School of Trades] project have more than doubled.

The training activity supporting the SAP project mainly involved the launching of the new system for the Modena and Ferrara areas. Further consolidation activities took place in other areas as well.

**Training hours (total)**

<b>(hours)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Executives	1,087	2,146	3,559
Managers	6,226	6,869	10,808
Administration	62,901	73,068	85,681
Manual	42,471	40,447	45,517
Non open-ended contract employees	-	-	4,561
<b>Total</b>	<b>112,685</b>	<b>122,530</b>	<b>150,126</b>

The information does not include Aspes. As from 2007, the workers without open-ended contracts that had been included in previous years under the “Administration” category were placed in a separate category.

### Total training hours per area

(hours)	2005	2006	2007
“Scuola dei Mestieri” and critical skills	12,154	26,461	26,126
Quality, security, environment	15,644	16,691	14,343
specialised training (incl. hands-on training)	16,742	24,194	33,923
Managerial training	32,039	35,177	39,513
Basic information technology	5,595	6,516	8,369
Training in support of new IT system	30,802	13,491	27,852
<b>Total</b>	<b>112,976</b>	<b>122,530</b>	<b>150,126</b>

The information does not include Aspes.

24.3 training hours per capita were provided, as opposed to the 2007 target of 21.3 hours (+14%) and the final figure for 2006 of 20.1 hours (+21%).

In 2007, Aspes provided 2.708 hours of training, equal to 8.4 hours per capita.

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

(hours)	2005	2006	2007
Executives	11.4	21.2	33.9
Managers	25.0	26.1	39.2
Administration	23.9	27.0	30.5
Manual	13.6	13.3	16.0
Non open-ended contract employees	-	-	32.3
<b>Average</b>	<b>18.5</b>	<b>20.1</b>	<b>24.3</b>

The information does not include Aspes. As from 2007, the workers without open-ended contracts that had been included in previous years under the “Administration” category were placed in a separate category.

The trend was for training courses to be attended by more women (32 hours per capita against 22.7) and younger employees. Employees aged under 30 received 56.9 hours of training per capita, while those over 50 received 20.9 hours.

### Training in man hours per organisational unit

(hours)	2005	2006	2007
Hera S.p.A.			
- Central bodies	21.7	23.3	25.8
- Waste Management Division	16.8	12.0	16.6
- Networks and R&D Division	28.6	27.7	21.1
- Services Division	9.1	6.1	10.8
- Sales Division	32.7	28.1	30.4
- District Heating Division	26.1	51.1	31.1
- Large Plants Division	13.2	15.6	13.0
Hera Bologna	18.2	28.1	32.6
Hera Ferrara	28.7	25.0	40.1
Hera Forlì-Cesena	27.9	18.5	15.0
Hera Imola-Faenza	35.3	22.9	25.9
Hera Modena	10.0	15.4	28.7
Hera Ravenna	18.3	23.4	21.5
Hera Rimini	14.0	15.7	15.3
<b>Average</b>	<b>18.5</b>	<b>20.1</b>	<b>24.3</b>

The information does not include Aspes.

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.

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

#### **% of workforce attending at least one training course**

<b>Number</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Executives	70%	100%	100%
Managers	76%	97%	100%
Administration	86%	100%	97%
Manual	75%	84%	84%
Non open-ended contract employees	-	-	100%
<b>Total</b>	<b>79.8%</b>	<b>92.5%</b>	<b>92.1%</b>

The information does not include Aspes. 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.

The percentage of the workforce involved in at least one training course has remained constant.

#### **Assessment of training**

<b>%</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Degree of satisfaction of trainees (perceived quality)	78%	83%	79%
Outcomes (correspondence with needs)	76%	74%	70%

The 2005 figures do not include Meta. The information does not include Aspes. The degree of coverage of the 2007 outcomes involves 53% 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. In the above table, the average assessment results are presented according to a 0-100 scale.

Outcomes (correspondence with needs) are, instead, based on assessments provided by the department managers that involved their staff during the training assessment stage. The reported percentage values indicate scores of 4 or 5 (1-5 scale).

### Total training cost per area

thousands of €	2005	2006	2007
“Scuola dei Mestieri” and critical skills	106.6	197.8	125.0
quality, safety, environment	88.3	126.6	86.5
specialised training (incl. hands-on training)	176.6	187.1	220.7
Managerial training	221.9	272.1	321.5
Basic information technology	27.8	43.8	56.2
Training in support of new IT system	357.9	113.0	182.0
Other (costs for development and support activities)	145.4	142.8	91.2
<b>Total</b>	<b>1,124.5</b>	<b>1,083.8</b>	<b>1,083.1</b>

The information does not include Aspes.

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

Training costs incurred by Aspes in 2007 amounted to Euro 59 thousand.

### Key training programmes

Role training for co-ordinators took place in 2007, which aimed to develop managerial skills, collaborator motivation and development abilities so as to facilitate understanding of the processes through development of relations with internal customers. This initiative which unrolled in 2006 in Bologna, Ferrara and Ravenna continued in 2007 throughout the other areas.

Over the last years, the Hera Group has launched significant training initiatives aimed at improving relations with customers. The integrated management course on business processes for the mass market area was taught four times (the business area was covered in 2006). Two seminars were held that were specifically tailored to all salespeople, which aimed to increase awareness and sensitivity to the code of commercial conduct governing the sale of electricity and natural gas to end customers.

Following approval of the new Code of Ethics, the phase involving the design and distribution of its contents to the entire corporate body began: from November 2007 to January 2008 training was provided for Hera S.p.A. and the seven territorial companies through 4 brief seminars for managers and officers (72 persons over a total of 288 hours) while the course for co-ordinators (173 persons over a total of 1,384 hours) was taught 10 times.

### AlphabETHICS the ABCs of the Code of Ethics

AlfabEtico (AlphabETHICS) began in November 2007 and is a training course aimed at introducing the entire corporate body to the principles and rules of the code of Ethics, instil the responsibility in managers to distribute the Code to their associates and develop attitudes and dispositions for facing ethics "issues" as they apply to corporate operations.

To assist in instilling corporate-wide responsibility to disseminate the principles of the Code and their impact on the corporation, a top-down training procedure has been adopted according to which each manager (who has in turn been trained accordingly) trains his/her own associates, while a computer adaptation of “chutes and ladders” has been adopted as a teaching instrument to facilitate the training through a guided,

structured learning process. The game is an enjoyable and effective way of ensuring that "what you need to know and do" insofar as the Hera Code of Ethics is quickly learned, while it combines the training activity with a competitive team game, in a positive way.

The classroom training will take place until June 2008 and will involve all Group employees.

Insofar as the OHSAS 18001 safety certification process which began in 2007, the following specific training activities were carried out:

- seminars for managers of organisational units (9 seminars totalling 1,456 hours of training for 182 employees); "OHSAS 18001 and compulsory legal aspects" (3 courses totalling 424 hours for 53 employees);
- "Internal Safety Auditors" course (2 seminars totalling 744 hours of training for 31 employees);

Among the actions aimed at further increasing the level of gas safety, Hera launched for its emergency service personnel a structured program consisting of training initiatives set up and implemented according to the logic and the instruments of the *Scuola dei Mestieri* which will commence in 2008 and be gradually extended to cover other areas as well. The activities that took place in 2007 amount to approximately 8,000 hours. Furthermore, 12 courses on the management of tenders were taught to 534 persons.

### ***La Scuola dei Mestieri (the School of Trades)***

*Scuola dei Mestieri* 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.

Following the initial projects concluded in 2006, the trade exercise books have increased and are quickly becoming a proper editorial series.

The *Scuola dei Mestieri* project is not only executed through the pilot project, but through increasing attention to the transfer of knowledge derived from the direct work experiences of the workforce from worker to worker, with a view to maintaining and monitoring the technical and operational skills to be found within the Hera Group.

During 2007, specific trade seminars were held in order to illustrate the methodology and content of the Pilot Projects carried out during 2006, and further projects were launched, involving roles which had not yet been dealt with: management of water treatment and purification plants, management of electricity distribution stations, emergency intervention, branch and call center activities.

During 2007, between the activities relating to new worksites and coaching courses, over 26,000 hours of training involving more than 1,300 employees were completed according to the *Scuola dei Mestieri* model.

The transfer of knowledge derived from direct work experience from worker to worker will continue to be specifically monitored in order to ensure that the skills which characterise the main roles in the company increase and are constantly updated, with a view to maintaining corporate know-how.

### **The Scuola dei Mestieri is a finalist for the Sodalitas Social Award**

Following the triumph in 2006 with the RAB of Ferrara project that involved the local community, Hera was one of the finalist companies



competing for the Sodalitas Social Award prize with its “Scuola dei Mestieri” project, for the “CSR programmes for favouring the development of human capital” category.

### ***Progetto Laureati (graduates project)***

In the three year period from 2004 to 2006, approximately 80 young graduates joined the graduates’ project and were hired by various Group companies through an 18 month entrance contract . The degree subjects required were technical and engineering (65%) and humanities and economics (35%).

Based on the new scope of the project defined for the three year period from 2007 to 2009, during 2007 another 13 high potential young graduates were added. After attending the orientation course, they will complete the institutional training required by the Graduates’ Project by participating in a basic management course.

### **The Hera Group Professional System**

Once the Professional System and the supporting IT system were implemented , the new competence mapping activities began as from the initial months of 2007. In this initial phase, the IT personnel was involved (over 100 employees of subsidiary Famula On Line) as was the Marketing-Sales-Customer Management, Research and Development, Planning, Construction and Management-Maintenance personnel, which undertook to carry out high impact activities according to their areas of specialisation, in the areas of quality, safety and environmental impact (approximately 1,500 employees of the Hera S.p.A. Divisions and those of the territorial companies).

Based on the mapping, an analysis of the degree of coverage of the expected skills was carried out, and specific training requirements on an individual, professional and organisational unit level were identified following a competence gap analysis before the appropriate training initiatives were set up.

### **Agreements with Universities**

The Hera Group has reached an agreement with the University of Bologna providing incentives for the training of undergraduates and recent graduates, with a particular emphasis on water, energy and environmental issues, through the assignment of six-monthly scholarships for final year students, and twelve-month scholarships for recent graduates.

The Group has also reached a Framework Agreement (open to tacit renewal every year) with the Department of Industrial Chemistry of the University of Bologna, which will provide young graduates or final year students the possibility to benefit from curricular training, vocational training or orientation.

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 6 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.

Similar collaboration took place with the LUISS University of Rome: in 2007, 3 graduates in law and economics were hired on 12-month contracts.

The experience of 4 graduates hired under an apprenticeship contract as part of the PMA - Percorso MaSTeM Project (1<sup>st</sup> level Masters degree in Science, Technology and Management), which is organised by the University of Ferrara.

## Internships

(no.)	2005	2006	2007
Interns hired over the year	188	151	186
of whom aged under 18	-	-	39
Interns recruited following internship	10	13	7

186 persons had an apprenticeship with Hera in 2007. Of these, 7 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 0.5% of average employees in 2007); employees with staff leasing contracts have the same economic conditions as those provided in the contracts applied to employees with open-ended contracts (including the productivity bonus).

### Relation between minimum pay and salary conditions according to labour agreements and Hera pay and salary levels (Federgasacqua contract – 2007)

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	2,338	2,604	11%	3,749	60%
Administration	1,325	1,368	3%	2,113	59%
Manual	1,325	1,352	2%	1,861	40%

The data refers to the following companies: Hera S.p.A., Società Operative Territoriali, Famula, Uniflotte, Hera Comm, Hera Trading.

The above table illustrates the gaps between gross monthly pay/salary levels at Hera and those specified by the Federgasacqua labour agreement (this contract covers 42% of 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 11% for managers and 3% for white and blue collar workers. The average salary, on the other hand, is 60% higher than the minimum labour agreement conditions, 59% higher for white-collar workers and 40% higher for blue-collar workers.



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

<b>Euro</b>	<b>2007</b>
Minimum according to labour agr. (A)	4,231
Hera minimum (B)	4,612
Gap % (B:A)	9%
Average Hera compensation (C)	8,186
Gap % (C:A)	93%

The information does not include Aspes.

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 93% 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 7% lower than the market salaries for managers, as these are reported in the Hay Compensation Report – Total Cash Italia 2007.

### **Gross average productivity bonus (per capita)**

<b>Euro</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Managers	1,986	1,365	1,559
Administration	1,412	1,162	1,328
Manual	1,187	1,078	1,232
<b>Average</b>	<b>1,320</b>	<b>1,128</b>	<b>1,290</b>

The data refers to the following companies: Hera S.p.A., Società Operative Territoriali, Famula, Uniflotte, Hera Comm, Hera Trading.

Regarding the productivity bonus, it is now the second year in which a uniform system is applied to all Group personnel, based on one bonus for all employees, a single system of profitability and productivity indices and a series of quality indices which are diversified according to the various territorial companies.

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. The quality indices (which affect 20% of the bonus) include the water network losses, the percentage of separate waste collected, the accident indices, compliance with the quality standards set by the AEEG, the percentage of calls for gas emergency services with response time of less than sixty minutes, the percentage of investigations for leaks in the water service network, the waiting times at branches, the waiting time at call centers and the maintenance of certifications.

### **Other incentive systems**

Starting from 2006, the incentive system for executives of the Hera Group is linked to the balanced scorecard.

The variable component of individual compensation for senior management staff is calculated as a percentage value of gross annual salaries on the basis of results obtained relative to the objectives set at the start of the year.

The individual balanced scorecard assigned to each executive is broken down into three areas.

- the first 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 (for example: organisation, commitment, control, efficient use of the contributions of workers).

In 2007, the balanced scorecard system involved 82% of the managers compared to 52% in 2006. The variable remuneration of the managers was linked to achievement of specific projects-objectives as these were set forth in the strategic map, assessment of specific organizational behaviours and, where significant, adherence to an assigned budget.

The balanced scorecard system has provided closer links between strategy and projects assigned to individual managers and greater coverage for the operational objectives included in the industrial plan.

### **Employees that received an incentive bonus**

<b>(no.)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Executives	73	81	95
Managers	89	153	191
Administration	252	259	292
<b>Total</b>	<b>414</b>	<b>493</b>	<b>483</b>

The information does not include Aspes.

8% of all employees received an incentive bonus in addition to the productivity bonus. A bonus was also paid out to 292 management staff members. In this case, it is the director who proposes the candidate, in compliance with group policies.

The incentive bonus for 2007 was provided as a meritorious wage increase for 146 employees and 23 managers.

### **Pension funds**

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

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

The Hera Group has three main pension funds created through national collective labour agreements: *Pegaso* for employees under the Federgasacqua and Federenergia national collective labour agreements, *Previamente* for employees under the Federambiente national collective labour agreement, and *Previndai* for executives.

### **Yield by pension fund (balanced subfund)**

<b>%</b>	<b>2006</b>	<b>2007</b>
Pegaso	3.28%	1.80%
Previambiente	4.02%	0.80%
Previndai	3.87%	1.63%

The law reforming the supplementary pension system which became effective in January 2007, resulted in increased participation in the pension fund: from 2,410 in 2006 to 4,076 in 2007. Concurrently, there was an increase in the charges borne by the company for pension funds: from Euro 1.1 million in 2006 to 1.7 million in 2007.

## **Health and safety**

---

In 2007, the Hera Group began the process for certification of the safety management system according to OHSAS 18001 standards, by completing the document checks in May and the preliminary compliance checks in October and November. Therefore, the compilation and review began of the Group processes applicable to Hera S.p.A. and the seven Territorial Operative Companies, aimed at the creation of an OHSAS 18001 compliant safety management system to be integrated into the existing system. The objective for 2008 is to receive OHSAS 18001 certification for Hera S.p.A. and the seven Territorial Operative Companies.

The development of the safety management system started with the creation of Group procedures along several major axes, including:

- risk management;
- health monitoring for workers;
- management of the provisions addressing personal protection;
- investigation of accidents, incidents and near-accidents;
- management of contractor agreements;
- analysis of accidents by third party companies

In addition, a plan was developed for the monitoring of system performance as were operating plans for the resolution of the evidence encountered during the preliminary verification phase.

The monitoring plan for the Safety Monitoring System provides for:

- the reconstruction and collection of all documentation proving compliance in the work premises (suitability, plant certificates, blueprints and plans);
- the continual updating of risk assessment documents (including in the light of recently introduced regulations); the systematic control of compliance with procedures and the operating instructions through verifications on the job and the work-sites,
- operational monitoring of the work of suppliers, goods and services through verification on work sites and the work that relates to the services rendered;
- the training activity for increasing the overall awareness level of the role of each individual in matters involving health and safety;
- training aimed at improving response capacity in the case of an emergency (first aid, fire, evacuation);

- the carrying out of internal cross-checks to maximise efficiency of the audits by dividing up competences and sharing knowledge among the professional skill levels of the Group; the launching of a system which has already been described as a Group procedure, to investigate and analyse the “near accidents” so as to have the ability to intervene before problems surface.

The efforts of the Group will concentrate in the upcoming months on the following major areas:

- reduction of the accidents involving the employees of Hera and its suppliers;
- improvement in the work conditions to increase the well being and the satisfaction of workers;
- reduction of the probability of accidents occurring with damages to persons and property;
- the creation of a safety culture that will make safer and more responsible attitudes come naturally.

### Accident indices

	2005	2006	2007
Frequency Index (no.)	50.1	47.5	42.4
<i>of which for on going accidents (n)</i>	4.9	8.1	7.5
Severity index (days)	1.1	1.5	1.1
Rate Index (no.)	7.9	7.5	6.7

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

In 2007, the performance of accident indices of the Group has been good and in particular the accident frequency and rate indices has been dropping constantly since 2003.

The severity index, which in 2006 had increased, has begun to drop again to 2005 levels in relation to the average value which has also dropped. The number of accidents that took place going to and from work that continue to significantly affect the overall data (approximately 17%) has also dropped,

Actions for improvement involve the monitoring of injuries caused by accidents during commutes or transfers during working hours, which for Hera, as an example, covered approximately 42%, the period analysis of the trend in accidents, the adoption of consequent corrective actions and the initiation of a procedure for monitoring “near-accidents” and the computerisation of the data collection for analysis.

In Hera S.p.A. and the Territorial Operative Companies, there are 36 workers’ health and safety representatives.

### Frequency index (breakdown by area of activity)

Number	2005	2006	2007
Grid services	42.6	36.9	33.6
Waste management services	90.3	77.9	69.6
Other services	13.5	16.3	19.4
<b>Average</b>	<b>50.1</b>	<b>47.5</b>	<b>42.4</b>

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

The tables containing the frequency indices per area of activity show an improvement in the rate of accidents related to the operational divisions (network and environmental services) and an increase in staff and management activities. The magnitude of the indicators by grid and area reflects the risk class of the corresponding activities.

#### **Frequency index (breakdown by area)**

<b>(no.)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Hera Bologna area	58.0	42.3	37.5
Hera Ferrara area	35.9	39.4	37.0
Hera Forlì-Cesena area	23.2	32.4	28.2
Hera Imola-Faenza area	35.9	33.8	18.7
Hera Modena area	38.3	42.2	41.9
Hera Ravenna area	41.3	31.7	29.1
Hera Rimini area	93.1	100.5	88.2
<b>Average</b>	<b>50.1</b>	<b>47.5</b>	<b>42.4</b>

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

The frequency index analysis by local area shows that the amounts for all the areas are lower compared to 2006. The magnitude of the accident rates for the Rimini area is higher than the other areas on account of the increased presence of elements that carry greater risk, though the improvement has increased compared to previous years.

#### **Accident indices of a number of subsidiaries (2007)**

	<b>Ecologia Ambiente</b>	<b>Uniflot te</b>	<b>FEA</b>	<b>Hera Comm</b>	<b>Nuova Geovis</b>	<b>Hera Luce</b>	<b>Aspes</b>
Frequency Index (no.)	23.8	57.7	40.5	16.9	39.2	33.8	79.6
Severity index (days)	1.3	1.8	0.5	0.3	1.2	0.4	2.8
Rate Index (no.)	3.9	9.3	6.7	2.4	7.4	5.7	13.2
Workforce (no.)	77	162	45	207	27	87	334

Insofar as the accidents of the subsidiaries that were taken into account, for Ecologia Ambiente and Nuova Geovis we note an improvement in the frequency index and a decline in the severity index (the latter data was influenced by accidents going to and from work for Ecologia Ambiente). FEA reports similar values to 2006 while the indices for Hera Luce and Uniflotte are clearly decreasing.

As Hera Comm is a sales company, it cannot be directly compared with the other companies, as it does not fall within the same risk class as the others that have a greater operational component.

The overall frequency index were to be calculated for all the companies (Hera S.p.A., Territorial Operative Companies and the main subsidiaries included in the table), is 43.8.

#### **Health monitoring visits carried out**

<b>(no.)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Hearing tests	1,472	1,354	1,252
Respiratory tests	2,011	2,007	2,150
Laboratory tests	1,351	1,761	1,659
Sight and eye tests	400	491	1,066
<b>Total check-ups performed</b>	<b>2,774</b>	<b>3,228</b>	<b>3,641</b>
<b>Total workers examined</b>	<b>2,507</b>	<b>2,820</b>	<b>3,641</b>

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

The tests indicated in the table refer to the employee health monitoring pursuant to law, performed by a qualified doctor. The sight and eye tests for the most part regard employees who work with video terminals; the rest of the tests involve the operating personnel.

The content of employee health monitoring is defined based on the results of the valuation of specific risks of the work activities, regarding single positions/duties. The management of occupational medicine is carried out through the application of the Health Protocol, drafted by the qualified doctor based on the risks indicated in the risk evaluation document (art. 4, Legislative Decree 626/1994), which sets forth the checks to be carried out and their frequency. The check-ups are performed with variable frequency, also once every few years, depending on the legal requirements associated with the risks. During 2008, the monitoring and visitation schedule will be computerised.

In 2007, 49 workers were declared to be unsuited following monitoring visits.

#### **Work-site safety: Hera Imola-Faenza and the Tavolo 494 Association**

The purpose of the Association, which was founded in 1999, is to handle the problems ensuing from safety in construction sites so as to achieve full compliance with regulations, uniform conduct and fewer accidents. Business, labour and professional associations of the Imola Circondario are involved, while the Imola AUSL (Local Health Authorities) and INAIL (National Institute for Insurance against Accidents at Work) are permanent guests at meetings. The association provides consulting on safety to companies by organising training activities that are gradually involving technical and professional schools more and more.

## **Industrial relations**

---

The trade union activity continued in 2007 along the lines set forth in the collective labour agreement of 22 March 2006, which mainly centred on organisational alignment and social responsibility.

The trade union negotiation was concluded with the signing of a specific agreement, on the rationalisation of the Group's analytical laboratories for water and waste management. The main objective of the project was to reorganise the Group's twelve laboratories that are presently decentralised, and create a structure based on three laboratories. The goal is to achieve increased qualification of the processes with the consequent evolution and specialisation of the staff.

Another trade union agreement was concluded on setting uniform working hours in the Waste Management Division, for white and blue collar workers. The different working hour slots for employees dropped from 13 to 2 and just one working hour slot for blue-collar staff. In order to achieve an optimal life-work balance, the agreements concluded on this subject (including for the Large Plant Engineering and Electricity Grid Coordination divisions and that of Hera Ravenna) provide for specific measures in terms of flexibility in working hours both in terms of the clocking in time and lunch breaks. The Ravenna agreement also regulated the terms of use for leaves granted for

doctors' visits or therapy, including also first degree relatives that do not share the same residence and spouses and partners.

The agreement defining the rules governing the National Collective Labour Agreements currently in force having regard to the goods/products sectors managed was completed; implementation is currently underway and will be concluded within the first half of 2008.

A new organisational model for securing availability in the management of emergency services for grids and fluid networks was presented to the Group's trade union representatives, which aims to guarantee improved, uniform worker, plant and community safety. The application phase of the model will begin in the territorial companies, with consideration given to the relative particularities, through a preliminary phase to be assessed by trade unions at the local level.

The issue of social responsibility has been covered in a management manual on contracting agreements, pursuant to the provisions of the Group's Supplementary Collective Labour Agreement. The manual is an operating instrument through which the commitments take their concrete form, as per the aforementioned Supplementary Agreement, while the measures and procedures for launching and monitoring that contracted work is carried out as per regulations are set forth and applied. The objective is to apply standardised treatment to the staff used by the contractor while also complying with the staff safety measures.

Various meetings with trade unions were carried out in order to involve the unions in some areas that are connected to corporate Social Responsibility (as set forth in the March 2006 agreement): Sustainability Report 2006, new Code of Ethics, assessment and feasibility of SA 8000 certification, internal climate study model and the relative results.

**Union membership (breakdown by trade union)**

<b>(no.)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
CGIL	2,404	2,395	2,465
CISL	555	553	605
UIL	676	660	662
CISAL Federenergia	116	96	46
FIADDEL	-	-	61
RDB	-	-	32
UGL and other	6	4	5
<b>Total</b>	<b>3,757</b>	<b>3,708</b>	<b>3,876</b>
<b>Percentage of entire workforce</b>	<b>64.5%</b>	<b>64.8%</b>	<b>62.4%</b>

The 2005 and 2006 figures do not include Ecologia Ambiente, Hera Luce, Medea, Nuova Geovis, Akron.

Overall membership in unions has decreased in percentage terms. This development relates to job-leaving as well as to changes in the structure of the staff as a whole, with higher quotients of managerial and white-collar staff (classes with weaker ties to trade unions in terms of membership rates: approx. 59%) and a lower quotient of blue-collar workers (with an average union membership rate of approx. 69%). There has been an increase in the non-confederation unions.

## Strikes (hours)

(hours)	2005	2006	2007
Total time on strike (hours)	26,576	27,449	8,442
Time on strike (per capita)	4.4	4.8	1.4

The data refers to the following companies: Hera S.p.A., Società Operative Territoriali, Famula, Uniflotte, Hera Comm, Hera Trading.

There were three strikes in 2007: one in Ferrara to protest against the reorganisation of the laboratories, one national strike promoted by independent unions against the Welfare Protocol of 23 July 2007 and another national strike to protest against the failure to renew the Federambiente national collective labour agreement.

## Litigation with the workforce

Number	2005	2006	2007
Litigation pending at the close of the year	21	24	29

The information does not include Aspes.

At the close of 2007, 29 cases of litigation were pending, with specific balance sheet provisions made in view of the potential costs. In 2007, 20 cases of litigation with employees were pending, including one case of collective litigation involving a total of 79 workers, relating to the conditions applying to the laundering of work clothing of staff. On the same issue of the laundering of work clothing of staff, 1 case of collective litigation is still pending. The other cases involve seniority issues and the alleged failure to apply contractual terms. Of the 29 cases pending at the end of the year, two lawsuits on appeal, and one at the first instance were brought by the company. Furthermore, during 2007, one case was brought for alleged anti-union conduct, which was concluded in favour of the company.

There were 2 cases pending as at 31 December 2007 in the Aspes Group.

In 2007, 142 disciplinary measures were taken against Group employees, 3 of which were from Aspes, in compliance with the applicable national labour agreements. They mainly involved oral or written reprimands (80 cases), withholdings on salary (33 cases totalling Euro 680) and temporary suspensions from work (27 cases); in two cases, it was necessary to resort to termination without notice.

## Internal communication

During 2007, new instruments of communication with the workforce were introduced, while new initiatives were created for the purpose of enhancing cohesion in the name of transparency, involvement and openness.

The most significant sign of the commitment to sharing of company management was the publication in the House Organ, of the results of the internal climate survey and of specific projects implemented in order to respond to specific issues.

In the initial months of 2008, for the third year in a row, 17 meetings with the Chairman and the Managing Director were held with the entire workforce of the Group, in order to



illustrate the Industrial Plan. Following the presentation by management, a question and answer session was held. This double-focus activity for engagement is unique for companies in the national panorama.

To promote a higher sense of pride and belonging to the company it was decided to organise a “5 years with us” party in December to celebrate the fifth birthday of the Hera Group at Christmas with a large scale, convivial event. The initiative provided the first plenary meeting with all the top management and the employees of the Hera Group and approximately 3,000 employees were present from all the territories.

The House Organ (HO), an internal newspaper first published in 2004, was further enhanced in 2007 with improved contents and graphics to facilitate reading and use, in application of the results of the internal communications analysis. The analysis actively involved workers at different levels in focus groups. Effort was made to report in-depth on the issues most important to employees (mainly related to integration) and to give greater space to interviews, so as to increase knowledge of the company’s internal functions. Periodical updates on the TFR (employee leaving indemnities), in depth presentations on the items composing the wage slips, reports on the meetings with employees and articles to bring out the talents within Hera. It was also considered pertinent to periodically provide for inserts and special sections dedicated to leisure time (columns on books, events and special dates). The number of pages varies from 8 to 12, with a section that is common to all 7 issues, and 2-3 pages for each Territorial Operative Company, which vary from issue to issue.

#### **The distributors of fair trade products in the Cesena branch**

Next to traditional basic commodities, the Cesena branch also has coffee, tea and chocolate from fair and equitable trade ranges, which ensure better purchasing conditions for small business owners and production cooperatives located in less developed countries.

The initiative, which was well received after the initial interest, is a further action promoting behaviour that is in line with corporate guidelines.

Video Hera, plasma video screens placed in areas frequented by employees on a daily basis, have been enriched with new contents and more frequent updates on news from Hera and the world.

PIA, the Group intranet, was expanded with new sections (About us, House Organ, From the Charter of Values to the Code of Ethics, First Steps in Hera, Energy Saving), with the idea of creating a Hera on-line community which covers various geographical areas and job roles.

The "Formula Risparmio" (savings solution) offer, which is offered to all the Group’s employees for electricity at advantageous conditions, was channelled through all of Hera's internal communication channels (HO, PIA and VideoHera).

On 15 February 2007, on International Energy Saving Day, the “Positive Energy” campaign was launched in support of actions aiming to promote energy saving within the company.

In order to more easily set up opportunities for meetings between the colleagues belonging to the different territorial companies, a decision was made to make available to employees reduced price tickets for exhibitions and shows in the local area, thanks to initiatives such as *C'è uno spettacolo per te* [A Show for You] (Ravenna Festival, Alberto Sughì, Silvestro Lega) and the “Chaplin” review, while the second photography

contest for prizes “Your Hera 2007” was set up, with over 200 photographs competing in a contest judged by 3 employees that are amateurs of photography from different local areas.

A closer cooperation was formed with company cultural associations including following the setting up of the *Coordinamento Circoli Interaziendali Hera* Coordination of Hera Group Intercompany Associations). Indeed, the “Hera Cup” was organised in May 2007. This was the first Hera Group bicycle race, in which employees from all the local areas participated.

## Cultural associations

The workforce can take part in the activities organised by the cultural associations of the various areas, set up in order to foster relations among employees.

The associations are dedicated to cultural and recreational activities, sporting and tourism. Special commercial agreements are also stipulated with these groups. The associations organise dinner parties, outings, Christmas and carnival events, competitive sports events, fishing competitions and ski excursions. Theatre season ticket booking and book-lending services are also available.

For their members, the associations contribute a portion to book spending on the part of student workers and the children of employees. Other contributions are available for courses or sporting activities.

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 Hera Group contributes to the activities of the associations and guarantees the resources envisaged as a part of national collective labour agreements and of locally stipulated agreements. The group provides space at its main locations for the association, for recreational activities or for management of these activities which are also promoted through the internal communications instruments and the House Organ.

### Participants in the activities organised by cultural associations

(no.)	2005	2006	2007
Sports	1,811	2,214	1,849
Tourism	1,977	2,162	1,749
Cultural activities	775	1,814	1,273
Recreational activities	7,501	6,398	3,333
Activities for young people	1,571	1,827	1,421

The information does not include Aspes.

5,003 employees are members of the circles. The activities of the circles have been financed with contributions by the company (approximately Euro 608 thousand) and the employees (Euro 53 thousand).

### Hera Pratica and ProntoHera?

Hera Pratica is a radio show designed to present the services managed by Hera in the Rimini area. It is a “direct line” between the managers and officers of Hera and its

customers, which are also given the opportunity to report to the company using this medium. The show was broadcast each week from March to December 2007.

“ProntoHera?” (Hello, this is Hera) is a television show during which several issues involving the service managed by Hera in the Rimini area were covered. In addition to the Hera managers and officers, public administrators, representatives of various sectors and local opinion leaders were also featured. The show was broadcast for 5 weeks.

# Customers

The customer base served by Hera totals more than 2.9 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.

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. Numerous other initiatives took place in 2007 involving listening to customer views in order to improve the quality of the services offered.

## Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> <li>• Issue the new bill for residential customers within 2007, and for business customers within 2008, simplifying its contents and reducing the number of pages.</li> <li>• Activate in 2007 bill payment via the Web and the possibility of subscribing to commercial offers on-line.</li> <li>• Reduce waiting times at branches (20 minutes in 2009) and improve the company image by engaging employees and customers.</li> <li>• Reduce call center waiting times to 30 seconds in 2007.</li> <li>• Reach 100% compliance with specific commercial quality standards for gas and electrical energy services within 2009.</li> <li>• In agreement with the Waste and Water Regulatory Authorities, define a single services charter for all areas served by waste management and water services.</li> <li>• Further improve the gas distribution service safety by extending the action plan defined for Hera Bologna to the other Territorial Operative</li> </ul>	<ul style="list-style-type: none"> <li>• The residential customers began to receive the new bill in September 2007. In February 2008, the new bill was extended to business customers (see page 91).</li> <li>• Bill payment through the web started in September 2007. From November 2007 residential customers were able to sign up for the new electricity offer on line (see page 103).</li> <li>• The waiting times dropped from 23.7 minutes in 2006 to 21.9 minutes in 2007. In September 2007 the new branch in Bologna was inaugurated and its layout was defined with the assistance of the staff and customers (see page 104).</li> <li>• The call center waiting times have dropped from 70.2 seconds in 2005 to 34.5 seconds in 2006 and 46.2 seconds in 2007 (see page 103).</li> <li>• The percentage of compliance to specific standards in 2007 was 94.7 compared to 94.2% in 2006 (see page 92).</li> <li>• The water services Charters were approved by the ATOs of Bologna, Ferrara, Forlì Cesena and Rimini and contain standards that are not uniform in some cases. The environmental services Charter was approved by the ATOs (Water and Waste Regulatory Authorities) of Ferrara (see page 94).</li> <li>• The grid inspections increased in 2007 and the determination began of areas that are critical insofar as geological and seismic problems. A new</li> </ul>

<p>Companies, taking into account specific local requirements.</p> <ul style="list-style-type: none"> <li>• Publish data regarding the quality of drinking water on the website.</li> <li>• Circulate and monitor the Services Charter for the district heating service.</li> </ul>	<p>organisational model was defined for availability and specific new training activities were launched (see page 98).</p> <ul style="list-style-type: none"> <li>• As from March 2008, the data on the quality of drinking water were published on the website in a homogenous, uniform manner for all Territorial Companies (see page 94).</li> <li>• In 2007, the services Charter was approved and disseminated for all territories using district heating. Monitoring will take place in 2008. (see page 94).</li> </ul>
<b>We shall...</b>	
<ul style="list-style-type: none"> <li>• Reduce waiting times at branches (21 minutes in 2008 and 20 minutes in 2010).</li> <li>• Restructure the branches in Forlì and Cesena in 2008 and extend the new layout to all major branches of the Group by 2010.</li> <li>• Reduce waiting times at call centers: 30 seconds in 2008 for residential customers and 25 seconds in 2008 for business customers.</li> <li>• Further improve compliance with specific commercial quality standards for gas and electrical energy services.</li> <li>• Begin monitoring of quality standards as these are set forth in the approved service Charters.</li> <li>• Safety of the gas service: increase the percentage of the grid inspected compared to 2007 (to gradually reach the benchmark levels set by the AEEG (Authority for Electricity and Natural Gas) by 2010) and the percentage of emergency calls with response times of less than 60 minutes.</li> <li>• Introduce in 2008 the option of receiving an electronic bill rather than a printed bill.</li> <li>• Promote the dispute resolution procedure so as to prevent in court disputes with customers.</li> </ul>	

## Breakdown

### Energy services customers

thousands	2005	2006	2007
Gas customers	939.6	1,003.1	1,018.7
Electricity customers	177.5	263.7	273.2
<i>of which non-eligible / only distribution</i>	<i>165.8</i>	<i>246.2</i>	<i>247.4</i>
<i>of which eligible</i>	<i>11.6</i>	<i>17.5</i>	<i>25.8</i>

The information includes Aspes as from 2006.

### Integrated water service customers

thousands	2005	2006	2007
Total customers	914.0	982.4	1,015.0

The information includes Aspes as from 2006.

### Urban hygiene services

	2005	2006	2007
Municipalities served (no.)	135	143	145
Citizens served (thous.)	2,294	2,439	2,443

The information includes Aspes as from 2006.

There was an increase in the customers of all services in 2007.

This increase 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 territories 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 center and the web; to be socially responsible and contribute with our activities to the growth of the territory and of the local communities;
- low cost and transparency; to make our offers always competitive and clear and adapted to the needs of all customers (over thirty offers are currently available, many of which can be customised further).

### **The sales policies and management channels**

The sales strategy has different focuses depending on the customers: families, small and medium sized companies, large companies, condominiums and public bodies.

In July 2007 the electricity market was liberalised thereby allowing families to select their supplier. Following this, Hera launched the *Formula Risparmio* (Savings Formula) offer.

The offers that Hera Comm developed for sales of electricity to companies, whether alone or in conjunction with gas (dual fuel offer), also include the *Energia Verde* (Green Energy) option of acquiring energy produced from renewable sources as from November 2007.



The sales relation with business customers is handled by Hera Comm through preferential relationship channels that feature key account handling for the "large companies" and "condominium" segments, dedicated agents for the "small and medium sized company" segment and a dedicated call center. The latter provides customers with a single channel and contact point for all services provided. At the end of 2007, Hera's business customer base will number approximately 35,500.

### **Customer loyalty building**

2007 was a year in which the customer loyalty initiative *Club Hera Insieme*, which began in 2005 in response to an onslaught of competition, was analysed and redefined so as to provide a renewed auxiliary service that would cover the requirements of Hera customers. The objectives of this initiative are:

- to provide instruments that strengthen the relationship and increase savings, which are able to express the proximity that is characteristic of Hera;
- to maintain the offers on the residential energy market, which was recently liberalised and opened to competition;
- to build customer loyalty.

The new services defined in the updated *Club Hera Insieme* is the result of tests carried out with residential customers (see "Dialogue with stakeholders"). The results obtained from the involvement of customers will be used to define the new *Club Hera Insieme*, which is expected to be launched in 2008. At the end of 2007, *Club Hera Insieme* had 46,877 members.

## Tariffs and billing

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

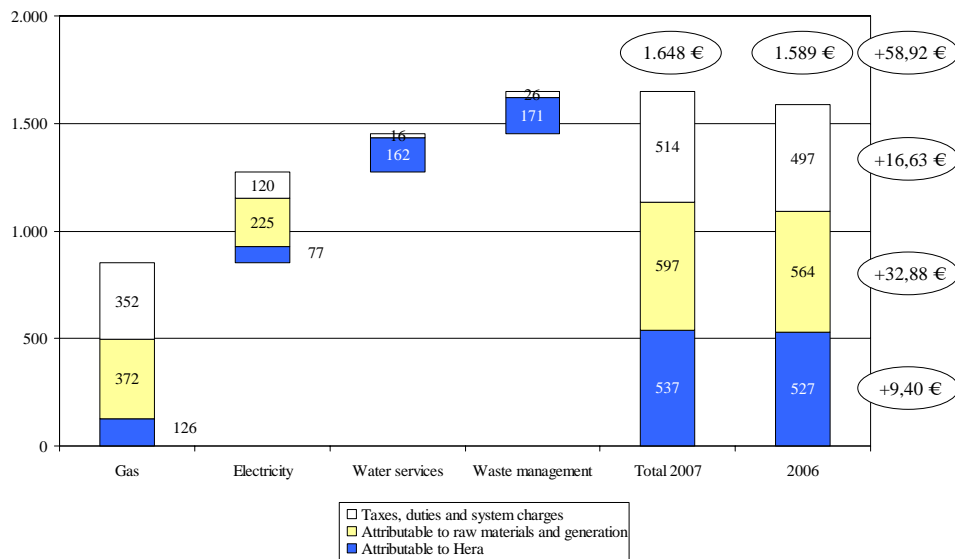
### On tariffs applying to water and waste services....

The Galli law and Ronchi decree establish the principle that the tariffs for integrated water services and solid waste, respectively, must fully cover service management costs while also providing appropriate returns on the capital invested by the operator for the services in question (via application of the so called “normalised method” for tariff setting). Within the area served by Hera, the tariff situation is fairly varied from this point of view. The environmental hygiene tariffs (*Tariffe di Igiene Ambientale – TIA*), paid currently by citizens served by Hera, cover 89.2% 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, 95.8% of the costs and the return on investment was covered by the tariffs that were effective in 2007.

### The costs of Hera services for an average customer

Euro	2006	2007	Change In Euro	Change in %
Gas	825.53	850.38		
Electricity	399.50	422.32		
Water services	170.44	178.22		
Waste Management	193.30	196.77		
<b>Total</b>	<b>1,588.77</b>	<b>1,647.69</b>	<b>+58.92</b>	<b>+3.7%</b>
<i>Of which attributed to Hera</i>	<i>527.48</i>	<i>536.88</i>	<i>+9.40</i>	<i>+1.8%</i>
<i>Of which attributed to raw materials and generation</i>	<i>563.88</i>	<i>596.76</i>	<i>+32.88</i>	<i>+5.8%</i>
<i>Of which taxes, duties and system charges</i>	<i>497.43</i>	<i>514.06</i>	<i>+16.63</i>	<i>+3.3%</i>

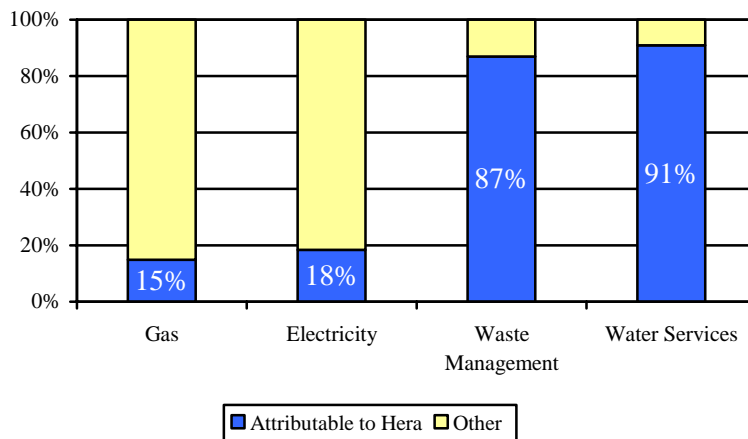
## The costs of Hera services for an average customer



In 2007, an average customer spent Euro 1,648 for Hera's services; of this amount, only 33% represents elements of the bills issued by Hera.

The increase in the average expenditure was Euro 59 in 2007, compared to 2006 and only Euro 9 were applicable to Hera's portion. Taxes, duties and system charges increased by Euro 17 while the major increase was for raw materials and generation: Euro 33 more than 2006. In percentage terms, Hera's portion increased by 1.8% compared to 2006 compared to increases of 5.8% and 3.3% respectively of the raw materials, generation and taxes, duties and system charges.

## Composition of Hera bills





## The gas bill

<b>Euro</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
Raw material component	269.92	342.75	371.92
Variable sale quota	23.59	23.60	23.60
Distribution tariff	103.67	101.92	102.73
Consumption tax	182.70	182.70	175.50
Regional tax	36.70	36.70	34.90
VAT (20%)	123.30	137.87	141.73
<b>Total</b>	<b>739.88</b>	<b>825.53</b>	<b>850.38</b>

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

The gas bill for the 2006-2007 thermal years is 15% higher than for thermal year 2004-2005. This increase is mainly due to the 38% increase in raw materials (which was affected by oil prices) and the ensuing increase in VAT.

However, this marked increase was offset by the trend relative to the billing components falling under the responsibility of Hera: the variable sales portion remained stable while the distribution tariff decreased slightly in the period under review.

It is necessary to specify that the distribution tariff in the bill above was calculated on the basis of AEEG resolutions n. 170/2004 and 122/2005. In March 2007 the AEEG resolution n. 53 defined the distribution tariffs to be applied in thermal years 2005-2006 and 2006-2007. The new tariffs were applied as an offset in the bills issued in 2007. To achieve a correct representation of the evolution of the bill for a "standard" customer over the three years considered, the distribution tariff of the 2005-2006 bill was modified (and therefore differs from the one which was published in the previous report) by applying the updated tariffs according to resolution AEEG n. 53/2007. The distribution tariffs were defined on a territorial basis by the AEEG with account taken of several parameters such as investments made, customers served and energy supplied. The distribution tariff affects the total bill by approximately 12% and is collected by the company that manages the gas distribution service.

The variable sales quota is set by the AEEG, in compliance with resolution no. 237/200, and is constant for the entire regulatory period 2004-2008. This quota regards the costs of sales activities (metering, invoicing, sending bills, etc.), incurred by the Hera Comm gas sales company.

The raw material component, as defined by the AEEG pursuant to resolution n. 195/2002 and then by resolution n. 248/2004, accounts for 44% of the total bill, and regards the cost of production, stocking and transport of gas on the national network.

Lastly, taxes account for approx. 41% of the total. These taxes are due to the State and regional local government authorities (revenue tax, additional regional tax, 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.

## The electricity bill

<b>Euro</b>	<b>2005</b>	<b>2006</b>	<b>1<sup>st</sup> half 2007</b>	<b>2<sup>nd</sup> half 2007</b>	<b>Total 2007</b>
Generation/energy quota	129.19	161.46	78.09	104.83	182.92
Dispatching quota	59.67	59.67	29.84	12.08	41.92
Distribution quota	78.92	78.92	41.32	35.05	76.36
Sales quota				1.07	1.07
System charges	27.00	40.77	30.58	28.73	59.31
Income taxes	22.36	22.36	11.18	11.18	22.36
VAT (10%)	31.71	36.32	19.10	19.29	38.39
<b>Total</b>	<b>348.85</b>	<b>399.50</b>	<b>210.10</b>	<b>212.22</b>	<b>422.32</b>

Bill for a residential customer with an installed capacity of 3kW, whose yearly consumption totals 2700 kWh. The grey areas refer to tariff components not falling under the responsibility of Hera. Was considered a customer of the market with the highest protection as from the second half of 2007.

For electricity bills of residential customers, the increase of the last two years (+21%) is a result of the increase in the cost of production of electricity, system charges (which do not represent revenues for Hera), slightly offset by the fall in the quota due to the local distributor, i.e., Hera.

As can be seen from the bill above, from the second half of 2007, concurrently with the completion of the liberalisation of the electricity market, the AEEG (Authority for Electric Energy and Gas) reformed the tariff for residential customers by attributing to the energy and dispatching quota a value that would allow the energy sales company (in our case Hera Comm) to completely recover the costs incurred for the procurement of the energy.

Furthermore, with resolution n. 135/2007, the AEEG provided, as from the second half of 2007, for the removal of the distribution tariff of the sales component for residential customers which was transferred to the sales tariff with resolution n. 156/2007 (sales quota) and applied to the market with the highest protection.

We would also like to stress that the steep increase in the quota for system charges (+119.6% over the three years considered) is in part due to the investments in the use of renewable sources for the production of energy.

The customers of the market with the highest protection are families and small businesses that are not entitled to tariff offers by sales companies; these customers are guaranteed energy supply at the prices set by the AEEG. To this end, we note the *Formula Risparmio* (Savings Formula) offer that Hera began proposing to residential customers following the complete liberalisation of this market sector that took place on 1 July 2007. By subscribing to Hera's offer, residential customers receive a 4% discount on the energy and dispatch quota: The effect on the bill shown above translates into approximately Euro 10 per year.

### The water services bill

<b>Euro</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Waterworks	80.83	83.65	87.65
Sewerage	15.66	16.40	17.38
Purification	43.78	45.63	47.47
Fixed quota	9.02	9.27	9.51
VAT (10%)	14.79	15.50	16.20
<b>Total</b>	<b>164.08</b>	<b>170.44</b>	<b>178.22</b>

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 m<sup>3</sup> of water. The grey areas refer to tariff components not falling under the responsibility of Hera.

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 sewerage and treatment quotas.

The average bill for a residential customer for 130 m<sup>3</sup> per year increased from Euro 164 in 2005 to Euro 178 in 2007, an increase of 4.6% over the last year, and 3.9% in the previous year.

The tariffs applied by Hera for the 2005-2007 period are resolved by the Waste and Water Regulatory Authorities, in accordance with agreements subscribed in 2004 and integrated in the three year period from 2005-2007. These agreements set out a tariff convergence process, in order to guarantee full coverage of costs and full recovery of the investments.

Beginning from 2007, tariff adjustments were made to cover the main costs sustained by Hera resulting from regional regulations with more stringent limits applied to the removal of mud produced from the purification of waste water; these limits made necessary a recourse to alternative, more expensive removal systems that required an increase in the tariffs for the Ravenna, Forli-Cesena and Rimini ATOs., which have traditionally been involved in the recovery of such mud from agriculture Furthermore, the Regional Law of 4 March 2007 provided for the insertion of the management of rainwater as part of the integrated water services starting from 2008 The same law also provided for adjustment of the tariffs in the 2005-2007 period, to cover charges already incurred for the management of rainwater; thus in the initial months of 2008 there were adjustments for customers residing in the Ravenna, Forli-Cesena (only the municipality of Cesenatico) and Rimini ATOs. These charges had already been included in the tariffs of the other territories. To correctly represent the evolution of the bill for a "standard" customer over the three years under review, the effect of these adjustments was considered by applying the tariffs increased by the main costs described above in each of the years.

The average expenditure for the integrated water service differs by geographical area, sometimes significantly, and this depends on the different cost structures in the various territorial entities, this being due in particular to the procurement of water from third party suppliers and the tariff structure set by the ATO, insofar as its own competences, which could affect domestic 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. In 2006, the tariff portion earmarked for investments aiming to guarantee a return on investment was 18% of applied tariffs. To this end, we note that in all ATOs

the applied tariffs do not yet allow for recovery of capital as set forth in the applicable legislation.

It is worth noting that in the study by Civicum-Mediobanca, published in 2007, Hera is the company with the highest levels of investment, with almost Euro 411 invested for each 1,000 m<sup>3</sup> of water invoiced. This study compared Hera with the companies controlled by the largest Italian municipalities, such as Turin, Brescia, Rome, Milan, Naples, Bari, Venice, Trieste and Padua

### **The cost of water in Italy and Europe**

The Report to Parliament on the state of water services for the year 2004 compares the water tariffs of the various member states of the European Union. “Limiting analysis to the cities of the European Union, the average tariff of the Italian water service is among the lowest: within the EU, similar tariffs are only to be found in Greece and England. In the other countries, expenditure is at least 50% higher.”

A study by Federutility published in 2005 discovered significant differences among the tariffs applied in Europe: tariffs range from those similar to Italy’s, applied in the main cities of Spain and Sweden, to tariffs almost 100% higher in Marseilles in France, or even 300% higher in German cities (Hamburg: Euro/m<sup>3</sup> 4.22).

According to the survey carried out by the Osservatorio Prezzi&Tariffe of the Cittadinanza association, the highest tariffs in Italy (which exceed the national average) are to be found in Puglia, Tuscany, Emilia-Romagna, Marche, Umbria, Sicily and Basilicata.

### **Billing for waste management**

<b>Euro</b>	<b>2006</b>	<b>2007</b>
Fixed quota	71.13	72.91
Variable quota	96.96	98.20
Additional province charges	16.81	17.11
VAT (10%)	8.40	8.56
<b>Total</b>	<b>193.30</b>	<b>196.77</b>

Arithmetical average of six bills for a household of 3 people, resident in the municipalities of Ferrara, Forli, Imola, Modena, Ravenna, and Rimini, in an apartment measuring 80 m<sup>2</sup>. The grey areas refer to tariff components not falling under the responsibility of Hera. The bill for 2006 takes into account the tariff adjustments approved in 2007 by the Water and Waste Regulatory Agency of Forli-Cesena and therefore differs from the one published in the previous Sustainability Report.

In 2007, Hera issued bills for waste management services (sweeping, collection and disposal of waste) in 63 municipalities covering 47% of the total of municipalities served (which corresponds to 62% of the population served, this figure rising to 64% with Aspes included). In the other municipalities, it is the municipal authority itself which issues bills to its residents and receives the TARSU (tax on solid municipal waste).

The “typical” bill is shown for waste issued in 2006, the first year that Hera issued the bill regarding the TIA in all of the main municipalities, with the exception of Bologna (still under the TARSU regime). On average, a household of 3 people, residing in an apartment measuring 80 m<sup>2</sup> paid approximately Euro 197 in 2007 compared to Euro 193 in 2006 (+1.8%).

The legal regulations include a specific criterion for setting the tariff to be applied to residents (the method termed the normalised method): the tariff must fully cover the

costs (including disposal costs) which the service provider incurs. Furthermore, the tariff must ensure an appropriate return on the capital invested for management of the service. The tariff is divided into a fixed quota and a variable quota, with a distinction regarding user class on the basis of criteria agreed on with the Water and Waste Regulatory Authorities. The TIA sum is regulated, and the Water and Waste Regulatory Agencies check on correct application of the normalised method and therefore also on the tariffs to be applied to the users.

TIA differs from TARSU also because an attempt has been made to apply the principle that “people who create more waste should pay more:” among the parameters used for calculation of TIA for domestic users, we have home floor space (m<sup>2</sup>) and the number of members of households. For non-domestic users, the type of activity is considered. The TIA also provides an incentive for separate waste collection since discounts are available for residents who conscientiously separate their waste. These discounts may be granted, depending on the area involved and the type of user, for drop off of separate waste at drop-off points, for individual collection, where foreseen, for the collective separate waste collection in “igloo” bins, and for the organisation of treatment of assimilated waste.

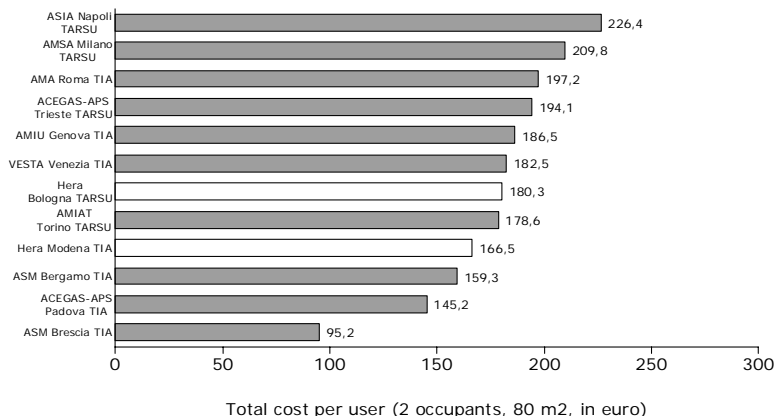
**Riciclando (recycling): the contest for prizes for those that deliver recycling materials to drop-off points**

The new *Riciclando* (Recycling), the contest open to citizens that deliver recycling materials to the 19 drop off points managed by Hera Ravenna, will be held from June 2007 to March 2008. For each delivery of paper or cardboard, glass, metal packaging, plastic packaging, car and motorcycle batteries, mineral and vegetable oil, discounts (8 Euro cents per kilo) will be applied to the environmental hygiene tariff and a card with which to compete in the prize drawing will be given.

In all the territories managed, Hera provides incentives for separate 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 Agencies and the Municipalities. For delivery to drop off points of 180 kilogrammes of waste in a year, a user will receive an average discount of approximately Euro 20, or 10% of the bill above.

**The cost of urban hygiene services in several Italian cities**

The study published in 2008 by the Mediobanca research department, regarding the companies controlled by the largest Italian municipalities compares the cost of urban hygiene services in the municipality of Modena (TIA) and in the municipality of Bologna (TARSU) for a typical household (2 occupants, 80 m<sup>2</sup>) with those of ten other Italian municipalities.



### **The district heating bill**

<b>Euro</b>	<b>2005-06</b>	<b>2006-07</b>
Meter rental	30.67	29.71
Variable quota	789.17	823.80
VAT (10%)	81.99	83.35
<b>Total</b>	<b>901.83</b>	<b>938.86</b>

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 m<sup>3</sup> 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 in 2007 as provided by the Financial Law of 2007. The grey areas refer to tariff components not falling under the responsibility of Hera.

The bill for district heating regarding thermal year 2005-06, the year in which the new methodology of a single tariff for the entire Group was implemented, is set forth above. The increase over the two thermal years under consideration is 4%.

Comparing the average expenses paid by a household for the district heating service with those which would be required for a methane gas system, it is clear that district heating brings about significant savings. These savings amounted to an average of 10%, and are substantially the same in the various areas in which the Group tariff was fully applied during the thermal year 2006-06. The exception was Ferrara, where savings reached about 30%, as customers in this area can take advantage of a “tax incentive” due to the prevalent use of geothermic renewable sources.

This savings is mainly due to the reduction in accessory charges related to the management of the domestic boiler, which can be quantified as Euro 300 per year (the annual quota for the purchase of the boiler and the related ordinary and extraordinary maintenance costs).

### **The new bill**

In September 2007, the new bill was presented. It was the result of a process that involved customers through focus groups that were held in December 2006. The requirements of customers together with those of the company resulted in a new bill that reduced the use of paper and makes the bill easy to read and understand. The new bill also makes it possible to insert dynamic messages to rapidly communicate with customers according to contingent requirements, thereby ensuring a better relation with the customer. An interactive audioguide on reading the bill is available on the Group’s website. From 1 February 2008 the new bill was adopted for business customers as well.

### **Social tariffs**

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

For **gas**, municipalities may decide to include in the tariff an added charge of 1.1% as “contribution for social ends.” These incomes are used by the municipality itself to support customers facing difficulties with regard to gas bill payments. Within the area

managed by Hera, 67 municipalities made use of this increase, covering approximately 74% of residents served,

For the **water service**, the tariffs set by the Water and Waste Regulatory Authorities of Bologna, 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 Modena and Bologna also provided incentives for disadvantaged families with ISEE income lower than Euro 7,000 and Euro 10,000 respectively.

For **waste management services**, the normalised method does not provided for the definition of social tariffs. In the municipalities under the TIA regime, the municipal authorities define the list of users (households, non-profit organisations, etc.) are entitled to a discount and the percentage discount on the total amount each year. The discounted amount is then reimbursed to Hera by the municipality.

For **electricity**, the competent authorities have not yet implemented the provisions governing the application of social tariffs.

## Service quality

---

### Electricity and gas

In the electricity and gas sector, the technical and commercial quality of the service is strictly governed by sector regulations and, in particular, by the integrated provisions of the Electrical Energy and Gas Authority in the matter of service quality (resolution no. 4/2004 and 168/2004 for gas).

The integrated provisions set out, for each service, minimum mandatory standards and, in some cases, a system of incentives and penalties in order to motivate operators to pursue quality levels that are higher than the mandatory standards. In order to control the quality and any penalties or sanctions for non-fulfilment, the sector Authority requires the monitoring, registration and periodic reporting of specific indicators, such as the interruptions of customers connected to the electricity grid and the times required to execute the connection to the local grid. Regulation of quality divides the standards to be met into “general” and “specific”. Failure to meet the latter due to causes attributable to Hera requires the payment of indemnities to customers, which may vary depending on the seriousness of the outage, the category of meter and the duration of the damage. Among the specific quality standards of the gas distribution service, we note the execution times of an estimate, connection activation.

### Compliance with specific quality standards – gas

%	2005	2006	2007
Total average	95.1%	94.2%	94.7%

The information does not include Aspes.

The table shows the percentage of specific standards calculated on the services that conform to the standards) over the total services rendered. In 2007, there was a reversal of the trend regarding the negative result of 2006, due to the implementation of the new information system for customer management.

### **Water and waste management**

In the management of the integrated water services and the municipal 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 Water and Waste Management Services that operate on the basis of criteria and parameters that are disseminated through the operator's Service Charter. The Emilia-Romagna Region Law no. 25/1999 assigns to the Water and Waste Regulatory Authorities the responsibility for providing "Service Charter frameworks" based on a framework developed by the specific local regulatory authority.

Pursuant to the framework developed by the competent Agencies and the indications of the regional supervisory authority, in upcoming years Hera will have specific obligations insofar as the quality of its services and failure to observe these dictates could be subject to compensation and penalties, including for non-energy services.

### **Key quality indicators – integrated water service**

	<b>2006</b>	<b>2007</b>
Time required for estimation of connection to water service	11.8	9.1
Time required for connection to water service	15.6	9.1
Time required to activate supply	4.9	5.3

The estimation and connection times refer to simple and complex work alike. The information does not include Aspes.

The main quality indicators of the integrated water service were on the average for 2007 less than the limits set by the already approved Service Charters.

The average estimation time in Aspes for 2007 was 3.4 days, the connection time was 15 days and the average supply activation time was 1.6 days.

### **Main quality indicators – urban hygiene service**

<b>%</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Bins – percentage filled	70.4%	70.0%	68.6%
Percentage compared to bin washing plan	86.1%	94.8%	97.1%

The information does not include Aspes.

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

The urban hygiene quality indicators in Aspes for 2007 were 66% for bin filling and 91% for observance of the bin washing schedule.

### **The service charter**

Based on the framework resolved by the competent Authorities, as well as indications from Regional Supervisory Authorities, Hera presented a proposal to the Authorities, for a Single Services Charter for the entire area served (both for the integrated water service and for waste management services), for the purpose of standardising quality



over the areas managed, while recognising the need to acknowledge local requirements where possible.

In 2007, the water service charters were approved for the Water and Waste Management Services of Bologna, Ferrara, Rimini and Forlì – Cesena. The standard times set forth therein are in line with gas standards, when the services are requested concurrently. If services are requested for the water service alone, these standards take account of local particularities, in some cases.

The environmental services Charter was approved by the Water and Waste Management Service of Ferrara, while talks are ongoing with the other agencies. The Water and Waste Management Service of Bologna has drawn up a charter that departs from Hera's proposal.

In 2007, the district heating services Charter was approved and disseminated for all areas served. Monitoring will begin in 2008.

## The 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 n.31/2001.

The controls are carried out by the service manager and the AUSL (Local Health Authorities) at the points where surface and underground waters are collected, the purification and accumulation plants and along the adduction and distribution grids.

Hera has developed a Group control plan which describes the various types of sampling points, the analytical parameters studied and the sampling frequency. The control plan has been developed along common guidelines for all Territorial Operative Companies: the chemical/physical and bacteriological characteristics of the water, compliance with requirements, the guarantee of providing a high quality product. 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 desired quality requisites.

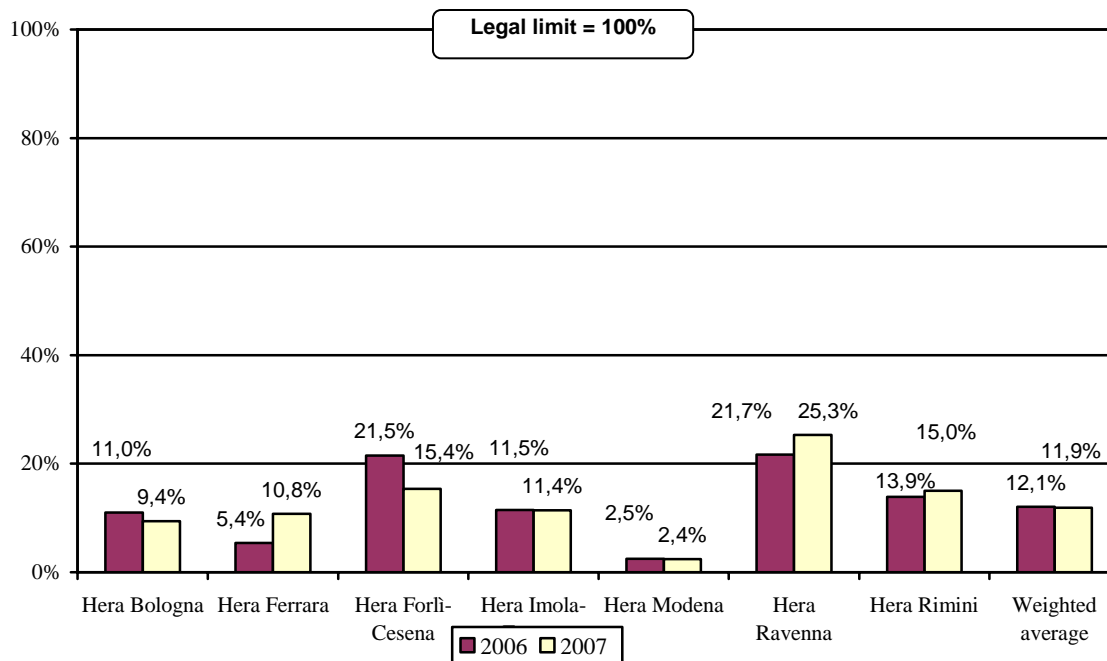


As from 2008, the average data recorded for the pH, total hardness, dry solids at 180°, chloride, fluoride, sodium, nitrate ion, nitrite and ammonium is made public every six months via publication on the Group's web site, in a uniform format for all

Group companies. 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.

Water quality also means controlling the quality of the treatment process. For example, chlorides are searched for, as a result of the use of chlorine dioxide as a disinfectant, given that the persistence characteristics of this agent, will, in the presence of residual organic substances (humic and fulvic acids), favour the formation of by-products. The concentration of chloride in the distribution network is kept under control through an analysis process in order to comply with the new legal limit of 0.7 mg/l, which took effect from January 2007 and is in line with European regulations.

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



In the chart, the quality of Hera drinking water is compared with the legal limits. The relation between the measured concentrations of three analytic parameters (chlorites, trihalomethanes and escherichia coli) and the maximum permitted concentrations of these parameters in the drinking water supplied, resulting from the 2,850 analyses carried out, was calculated. These parameters were added to others that are considered more critical at the local level (the additional testing carried out in 2007 involved: trichloroethylene and perchloroethylene in Bologna, total antiparasites in Ferrara, aluminum and iron in Forli-Cesena, aluminum, iron, trichloethylene and perchloroethylene in Imola-Faenza). Significantly positive results were obtained, which remained considerably stable during the period in question in all local areas. On average, the concentration of these parameters are lower than the limits set by the law by 88%. With account taken of the various causes that could affect water quality (such as the consequences of a drier climate), there were some improvements compared to last year (Bologna, Forli-Cesena, Imola-Faenza and Modena) and some decreases in quality (Ravenna, Rimini and Ferrara), though the quality level remains good in these latter areas as well.

Considering several significant parameters in terms of assessing water quality (aluminium, cadmium, chlorites, escherichia coli, iron, manganese, nitrates, lead and trihalomethanes-total), in 2006 a total of 44,330 analyses were performed. Of these analyses (over 100 per day), 99.3% 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.

The dryness of the climate in 2007 made additional treatments necessary (i.e., higher doses of sodium hypochlorite and chloride dioxide) because of the lesser quality of the original waters used. To this effect, we quote the document “*Linee guida per le Aziende Unità Sanitarie Locali della Regione Emilia Romagna: analisi e gestione del rischio sulla potabilità dell’acqua in periodo di siccità*” (Guidelines for the Local Health Units

of the Emilia Romagna Region: analysis and management of the risks to the drinking water in periods of drought”), 14 August 2007. In this document, the possibility is suggested that for some parameters, during periods that are particularly critical insofar as supply, there could be excesses the magnitude of which would not compromise suitability for drinking. The water emergency which gave rise to the Ordinance of the President of the Council of Ministers 3.598/2007 affected Romagna particularly and had negative effects on the quality of the water that was distributed, starting from the water provided by the Romagna Waterworks managed by Romagna Acque S.p.A. During 2007, there were no departures from the limits set forth in Legislative Decree 31/2001 and no ordinances referring to unsuitable drinking water were issued by mayors.

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

	Mineral waters (min-max)	Legal limits L.D. 31/2001	Hera Bologna	Hera Ferrara	Hera Forli-Cesena	Hera Imola-Faenza	Hera Modena	Hera Ravenna	Hera Rimini
pH	5.8-8.1	6.5-9.5	7.4	7.5	7.4	7.6	7.4	7.9	7.5
Hardness (°F)	3-93	15-50*	31	21	29	32	38	20	32
Fixed solids at 180° (mg/l)	38-988	1.500	413	283	427	439	573	352	473
Sodium (mg/l)	1-62	200	19	16	30	33	20	52	32
Fluorides (mg/l)	0-0.56	1.5	< 0.10	0.09	0.20	0.07	0.06	< 0.20	0.16
Nitrates (mg/l)	0-7.12	50	8	8	8	12	22	9	13
Chlorides (mg/l)	0-92	250	29	28	31	41	75	41	56

\* recommended values

Comparison carried out using the data provided for 28 commercially available still mineral waters, published by the magazine, Altroconsumo (issue no. 184 July/August 2005). For pH and chlorides, the data indicated on the labels of nine mass market distributed mineral waters was used. The data regarding Hera water refers to the average values of 6,035 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.

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

In terms of almost all parameters considered, the average values for Hera water are comparable with those of commercial mineral waters. The only exception is nitrates, whose average values are, in any case, 55% to 85% below legal limits.

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

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

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

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

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

**Nitrates** are considered toxic. Nitrates are substances that reach aquifers through the soil either as a result of fertilisation (with chemical or natural fertilizers) carried out systematically and intensively on farmed land, or as a result of industrial activities.

**Chlorides** are salts which are important to the human body. If present in high concentrations, they can change the taste of the water, and if associated with an acidic pH, they favour the corrosion of metals in the water service network.

#### **How much does water cost?**

Consumption of mineral water is increasing greatly worldwide, and Italy is the highest consumer per capita with 183.6 litres of mineral water consumed per year<sup>2</sup>.

Leaving aside the increased environmental impacts generated by long-distance transport of bottled water, and the associated high levels of fossil fuel consumption, mineral water is an expensive product.

Considering an average yearly consumption level of 1,000 litres for a family of three, and an average price in Italy of 25 cents per litre for certain commercially distributed natural mineral waters, yearly expenditure for mineral water totals approx. Euro 250.. By contrast, yearly expenditure for the same quantity of mains water comes to 1 euro.

The use of asbestos, a common practice in construction and in other industrial sectors up to the end of the 1980's, was definitively banned in 1992. It has been officially recognised that the inhalation of asbestos fibres causes serious respiratory illnesses. 24.1% of the water systems managed by Hera (including also the Aspes area) is built with asbestos cement, a material composed of asbestos fibres within a cement framework. This material could deteriorate in the presence of "aggressive" water flows, but the characteristics of the water distributed in the water systems managed by Hera lead to the creation of a crust which guarantees the formation and maintenance of a layer of film inside the pipes which isolates the pipe walls from the water itself, and thus minimises the possibility of dispersion of fibres.

The current law in force regarding the quality of water destined for human consumption does not set limits regarding the presence of asbestos fibres: in particular, the ministerial decree of 14 May 1993, 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." However, the considerable concern over this issue has led Hera to

---

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

carry out constant checks on the state of the pipes and to implement a plan of controls to test for asbestos fibres in the water.

The results of these assessments, which were carried out in 2007, generally demonstrate the absence of fibres: these analyses, also assessed by the ARPA and the Local Health Authorities for each area, did not show the presence of fibres (the maximum limit proposed by the EPA (US Environmental Protection Agency) is 7,000,000 fibres/litre).

## **Service security**

---

### **Continuity of the electricity service**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Average number of outages per customer	0.84	1.59	1.31
Duration of outages per customer (threshold: 25 minutes which refers to the weighted average of the last two years)	14.73	17.45	12.78
Average duration of each outage	17.54	10.97	11.28

The figures in the table refer to outages for low voltage service, in areas with high concentration of customers, without advance notice, of duration longer than 3 minutes, and due to causes that are the responsibility of the operator. The 2006 data was updated so as to be in line with the definitive figures given to the AEEG.

The integrated provisions of the Electricity and Gas Authority regarding the service quality of distribution, measurement and sales of electrical energy for the regulatory period 2004-2007, approved with resolution no. 4 of 2004 governs, among other things, the continuity of the distribution of electricity, identifying indicators for measuring outages, monitoring systems and standards of reference. The integrated provisions define the reference indicator as “overall annual duration of unannounced long interruptions per client in low voltage grids,” referring to the outages originated in medium and low voltage grids and attributed to other causes. The objective set for the AEEG for the weighted average of recent years of this indicator is 25 minutes.

In the 2004-2007 regulatory period, the actual two year level of the reference indicator of each of the two high concentration areas served by Hera has fallen within the target levels set by the AEEG, with account taken also of the exclusion.

### **Gas distribution service safety and continuity**

The integrated provisions of the Electricity and Gas Authority regarding the service quality of distribution, measurement and sales of gas, approved with resolution no.64/2004, set out specific obligations and indicators for service safety, which distributors must respect. This resolution, among other things, sets a mandatory percentage rate of emergency call response times which has been set at 60 minutes.

## Gas emergency service

	2005	2006	2007
Average response time for arrival at the call location (min.)	37.0	36.0	33.0
Calls with arrival time at the call location within 60 minutes (%) (service obligation 90%, general level 95%)	94.7%	96.3%	96.8

The information does not include Aspes. The data regarding 2007 were currently being processed on the publication date of this Report.

In 2007, for 96.8 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%. The percentage of the grid inspected in 2007 was higher than the minimum, i.e., 57.2% for the high and medium pressure grid and 54.5% for the low pressure grid, compared to threshold levels defined by AEEG of 30% for the high and medium pressure and 20% for the low pressure.

In 2007, 105 leaks on the distribution network were located upon notification by third parties, per kilometre of network. In a study by Civicum-Mediobanca, published in 2008, of the seven companies considered, Hera had the second-lowest rate of leaks notified by third parties (0.082 leaks per kilometre of network in 2006, compared to 0.024 for Enel Gas which had the lowest figure and an average of 0.913).

## Inspections and leaks in the gas network

	2005	2006	2007
Percentage of total high and medium pressure network inspected (min. standard 30%. Benchmark level 90%)	32.5%	35.4%	57.2%
Percentage of total low pressure network inspected (min. standard 20%. Benchmark level 70%)	32.7%	36.1%	54.5%
Number of leaks on distribution network located upon inspection per kilometre of network	0.065	0.052	0.068
Number of leaks on distribution network located upon notification by third parties, per kilometre of network (min. standard 0.8, benchmark 0.1)	0.124	0.082	0.105

The information does not include Aspes. The data regarding 2007 were currently being processed on the publication date of this Report.

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

In addition to the usual activities of recognition and technological upgrading of the grids and installation, in adherence also to applicable provisions issued by the AEEG, the following activities took place in 2007:

- a significant increase in grid inspections for gas leaks, significantly over and above the requirements of the AEEG.
- experimentation and use of satellite radar systems for recording earth movements in the critical areas of the Bologna Apennines which high pressure grids pass through;
- Launching of the systematic identification within Hera's entire operational territory of the areas that are critical on account of hydrogeological and seismic problems (to be completed within 2008).
- The main actions envisaged for 2008 are:
  - further increases in the annual grid inspection rate;
  - launching of the Group's only remote control unit for fluids located in Forlì, which will also serve as an emergency services call center;

- pilot application at the only remote control unit for fluids of an expert system for real time forecasting of the flows coming into the gas grid, aimed at identifying and correctly interpreting potentially abnormal situations on the distribution grid.

### **Costs and investments for the safety of the gas service**

<b>Euro per km of grid</b>	<b>2006</b>	<b>2007</b>
costs	389	439
investments	513	746

The information does not include Aspes.

The investments in safety primarily consist of extraordinary maintenance of plants and networks, enhancement of plants and networks in order to render the distribution system more balanced and efficient, and remote control systems: in 2007, Hera invested over Euro 9.2 million for this purpose (+48%), equal to Euro 746 per kilometre of the grid managed.

Actions regarding accident prevention (search for leaks, periodic assessment of the efficiency of plants and networks, cathodic protection), and emergency intervention in case of notifications of gas leaks led to the following operating costs: in 2007, Euro 5.4 million (+17%), equal to Euro 439 per kilometre of grid.

### **Safety intervention plan for Hera Bologna: status**

In 2007, in close cooperation with the Bologna area Mayors that were met with several times following the 23 December 2006 San Benedetto accident, Hera Bologna, pursuant to the decision of the Hera Group top management and an unprecedented increase of notifications relating to gas problems (also due to psychological reasons), accelerated the improvements to technical and organisational processes that had been defined in order to pursue the improvement objectives insofar as gas safety and the standards defined by AEEG.

On the organisational front:

- the vehicle fleet was strengthened with the addition of sixteen new fitted vehicles, so as to make equipped media available to the emergency personnel that will enable them to reach the call location directly from their homes;
- the joint activation of the personnel responsible for grid management and the plant specialists whenever the notification originates from an area with low pressure as well as medium and high pressure grids;
- both the 24-hour on-call emergency services headquartered in Bologna, the staff of which increased from 32 in 2006 to 48 at the end of 2007 and the specialist staff employed in plant management were further strengthened with three new staff members.
- A special training schedule was set up and implemented according to the logic and the instruments of the Scuola dei Mestieri for emergency services personnel, aiming, for example, to impart to the operators of the distribution plants the knowledge necessary to carry out certain operations in the case of an emergency (such as intercepting and unloading) on the main installations and in particular along the medium and high pressure pipes: overall the activities that took place in 2007 amount to approximately 8,000 hours.

On the technical side, the evidence that emerged as from the initial phases of the appraisal activities following the San Benedetto incident, prompted the company to

organise and finalise an extraordinary control and analysis plan for all high pressure gas grids servicing the Apennine territories, with particular attention to urban areas. In particular, the establishment that the instabilities of the terrain that are critical to the integrity of the pipeline and its protective structures applied to urban areas as well, despite the fact that special clearing had been obtained from a geological point of view, led the company's technical structures to cross check and assess:

- the data from satellite monitoring relating to phenomena of superficial instability;
- information contained in mapping and thematic instruments elaborated by agencies in charge of hydrogeological defence for the Emilia-Romagna region;
- data from extraordinary field checks carried out by operating teams;
- data from extraordinary field checks carried out by geologists;

The evidence acquired allowed to separate the area under investigation into three classes according to ongoing, potential or inexistent criticality.

A general requalification plan of the mountain distribution system was therefore drawn up consisting of transfers of the gas grid outside inhabited areas, consolidations of terrains in which pipes are laid, reconstructions with replacements of pipelines and sheaths, decreases in pressure, extraction above ground of pipe interception valves, installation of a monitoring and remote signalling systems in the control room of gas leaks in the sheaths, design and installation of an experimental monitoring and signalling system for the stability of the terrains (remote inclinometers) and the status of the tensions of the pipes (remote extenders), to be extended in the event of a positive reading in 24 already identified areas.

The project development and the authorisation procedures provided by this plan have been scheduled in their entirety for 2008 and 2009; realisation is planned as part of the annual investment programs for extraordinary maintenance during the five year period from 2008-2012.

On the morning of 23 December 2006, in San Benedetto del Querceto, a village in Apennines near Bologna, a building collapsed as the result of an explosion caused by a gas leak, from an underground third series pipe laid in the roadway. In this accident, five people were killed and four people suffered serious injury.

Official investigations were launched to ascertain responsibility: twenty five people were involved with information security. Over the years, these persons have worked on the design, construction and maintenance of the piping and were involved in the emergency services on the morning of the accident. At the end of 2007, after the appraisers appointed by the District Attorney's office and the recipients of the information had submitted their respective appraisals, the investigators requested a six-month extension for completion of the investigations, in which Hera participated by constantly guaranteeing maximum availability and its own commitment, particularly insofar as the appraisal work. Possible indictments are expected in spring 2008.

The claims for damages following the event have already been dealt with to a great extent, for material damages as well as death and injury. Hera's insurance became operative as from the date of the accident in order to quickly handle all claims for damages.



### **Safety downstream of the meter**

Resolution 40/04 of the AEEG sets out procedures for inspections of the security of gas plants which fuel boilers for heating, water heaters, stove tops and other devices. Prior to activating the supply, the gas distributor must ensure that the documentation for the customer's installation is complete and technically correct. In all cases, the initial activation of gas supply is subject to the positive result of an inspection for the absence of leaks in the user plant of the final customer, performed by Hera operators. The figures for thermal year 2006-2007 confirm the significant results achieved by Hera: positive results were obtained from the inspections of over 19,000 user plants (including the former SAT area as well), hence, the existence and correctness of all documentation required by law was verified.

Hera also plays a central role for the security of user gas plants in case of failures downstream of the meter. When the emergency services locate a gas leak in the plant of a final customer, it suspends supply. The supply is reactivated only upon receipt of a declaration which certifies the intervention of a qualified installer and lack of leaks.

It is also worth noting that each domestic customer is automatically provided with insurance coverage for accidents, fire and third-party liability for damages connected to their gas installation and deriving from the use of the gas provided through the distribution grid.

### **Information security**

All the scheduled interventions following the risk assessment phase in 2006 were carried out in 2007. In particular, we note the new procedures relating to information security as being particularly significant: The information classification procedure and the procedure for the management of information systems on the user as well as the systems side.

### **Confidentiality**

The verification, maintenance and new adaptation to legislative decree 196/2003 "Code on the processing of personal information." Confidentiality is a primary objective for the Hera Group. The investments in training on confidentiality at various levels of the organisation and the setting up of a specific organizational unit within Hera S.p.A. which is in charge of coordinating confidentiality deserves special mention.

In 2007, the Italian Privacy Authority did not charge Hera with any violations to the privacy code.

## **Customer relations**

---

In 2007, 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 center for residential customers, the call center for business customers, branches, the internet and mail.

Currently, the Group has 8 main branches throughout the main cities served, 34 secondary branches managed by Hera personnel and 43 branches managed by third parties.

Insofar as the web, in 2007 the number of customers that select this channel in order to view and manage their supplies has increased. There are now over 2000 registrations each month. Registered customers have increased from 8,000 in December 2006 to 27,000 in December 2007. The service has been extended to cover all territories.

In September 2007, the new on-line credit card payment service was launched. This procedure makes it possible to pay bills securely, quickly and at no extra cost, directly from home, via the internet using major credit cards. The service ensures security of transactions, as it uses the most innovative technologies available on the market for on line payments guaranteed by partner SIA-SSB, the European leader in credit and debit card processing. In 2007 as well, payment through Sisal and Lottomatica systems was also introduced.

Again in 2007, a further means of communication involving self-reading by the customer was added to telephone communications, which were already offered: it is now possible to send a text message to announce self-reading.

In 2008, new on-line services are expected to launch, with different graphics, customised for the various types of customers. Electronic invoicing in replacement of paper-based invoicing will be among the new services that will be offered.

### **Call center quality**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Average waiting times at the call center for residential customers (sec.)	70.2	34.5	46.2
Calls with satisfactory outcomes for residential customers (%)	87.1%	94.1%	94.2%
Average waiting times at the call center for business customers (sec.)		43.9	26.8
Calls with satisfactory outcomes for business customers (%)		89.0%	97.6%

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. The information does not include Aspes.

2007 was marked by several significant changes impacting the Hera Group call center structures, such as the growth in the number of telephone contacts due also to the switch to new customer management systems by the operating companies of Modena and Ferrara and the problems that ensued, mainly with billing. These events resulted in significant pressure on the customer contact structures (call centers and on-line services) and resulted in a worsening compared to 2006, though performance still remained above 2005 levels. We also note that as from the second half of 2007, the call center started to propose to residential customers the “Formula Risparmio” (Savings Formula) option for electricity throughout the entire area served by Hera.

Several initiatives aimed at improving the call center are currently underway: change in the telephone platform, centralisation and reinforcement of the technological resources, extension of the freephone number to customers that had previously been served through SAT, reinforcement of the human resources structure (increased staff and training time) and, insofar as automated services, reinforcement of the sales structure in charge of selling electricity to residential customers.

### **Survey on call center quality**

In 2007, the AEEG disseminated the results of the pilot survey covering over three thousand two hundred customers in six of the major domestic multi-utility companies, in order to measure satisfaction. The Hera call center received a customer satisfaction index of 84.2 compared to the general average of 81.8.

The research published in 2008 by the Mediobanca research office on the companies owned by the major Italian municipalities put Hera in first place insofar as the performance of its call centers in 2006 (compared to the percentage of abandoned phone calls and the waiting times). Hera's waiting time of 35 seconds is significantly differentiated from other operators: Iride is in second place with 61 seconds while the other companies are significantly above 100 seconds and close to two hundred in some cases.

### **Waiting times at branches**

<b>min.</b>	<b>2006</b>	<b>2007</b>
Hera Bologna	21.5	16.9
Hera Ferrara	17.8	23.5
Hera Forlì-Cesena	28.0	18.5
Hera Imola-Faenza	29.7	18.8
Hera Modena	22.1	40.6
Hera Ravenna	21.0	18.4
Hera Rimini	25.8	16.4
<b>Arithmetical average</b>	<b>23.7</b>	<b>21.9</b>

The information does not include Aspes.

2007 was the year in which Hera Modena was moved to the Group's information system. In addition to a significant effort on the organisational level (Modena is the Group company with the highest number of customers managed), this resulted in several inevitable reductions in the quality of service at the branches.

With the Modena data removed, the values point to an average waiting time of less than 20 minutes. This result was achieved due to the adjustment of the information systems and the procedures, the lower influx of customers that ensued and stricter control of quality indices.

2007 also marked the beginning of the continuous business hours at main branches, which contributed to distributing access of customers along a broader time range, thus reducing the peaks at certain times.

The installation of a new management system that provides for differentiation of the queues in the major branches is scheduled for 2008. Furthermore, guidelines aimed at improving how influxes of customers are managed and achieving even lower average waiting times will also be defined.

### **Branch improvement project**

During 2007, a project began for the renewal of the layouts in the Group's major branches, along architectural lines that communicate the concepts of territoriality, proximity and respect for the environment and combining them with accessibility, liveability and service efficiency. The layout which was optimised on the basis of specific focus groups consisting of employees and customers was used for the first time

at the central branch in Bologna which was inaugurated in September 2007. The project is continuing in 2008 with the renovation of the branches in Cesena and Forli.

### Complaints received

	2005	2006	2007
Average complaint response time (days)	37.7	16.1	14.1
Percentage of complaints that were dealt with within 20 days (%)	48%	92.7%	93.1%
Number of complaints received (n)	3,695	2,631	3,609

A complaint is a request from a customer, in any form and using any procedure, communicating that something is not in line with the terms set forth in the contract and the regulations, the service terms, the Service Charter or applicable legislation. The 2005 figures do not include Modena. The information does not include Aspes.

There has been a net improvement insofar as complaints are concerned, as the handling time dropped from 16.1 days to 14.1 days and the percentage of cases dealt with within 20 days dropped from 92.7% to 93.1%.

The establishment of monthly reporting on the customer management quality indices, including the values of the complaints and increased supervision internally allowed to significantly improve results.

71% of the complaints relate to commercial relations (invoicing, call centers and branches, execution of work and observance of appointment times); 18% involve grid services (gas, water, district heating, public lighting) and 11% involve waste management services.

### Disputes with customers as at 31 December

	2006	2007
Energy services	15	13
Integrated water service	10	18
Waste management services	6	11
Other services	0	5
<b>Total</b>	<b>31</b>	<b>47</b>

The information does not include Aspes.

At December 2007, there were 47 pending cases of litigation with customers, of which 11 involved considerable amounts. The disputes mainly involve the application of the tariff system to the services provided or the recovery of amounts due to Hera.

### Out of court resolution of disputes

The resolution of disputes is a procedure for the out of court settlement of disputes that can be used by the parties in order to reach a speedier and less expensive agreement than they could using the court system. This procedure can have a positive effect on the relations between customer and supplier and is in line with the principles of social responsibility and Hera's new Code of Ethics.

In 2007 Hera announced participation in the experimentation phase of a national protocol for joint mediation for gas and electricity services: this experimental phase, for which an agreement has been signed between Confservizi Emilia-Romagna and the local consumer associations, is expected to begin in 2008.

# 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 25.000 private Italian and foreign investors (natural and legal persons active in non-financial activities) and 180 public shareholders (mainly the Municipalities of the Provinces within the local area of reference) and finally 368 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).

## The objectives and the results

We said we would...	We have...
<ul style="list-style-type: none"> <li>• Develop new technological communications tools to provide company performance data in interactive and useful formats for their users (Excel) in real time.</li> <li>• Continue increasing the visibility of Hera's social commitment within the financial community, through the dissemination of the Sustainability Report, the development and maintenance of relationships with ethical funds and promote the inclusion of the Hera share in ethical indexes.</li> <li>• Improve periodic communication to investors by continuing to publish the quarterly Newsletter.</li> <li>• Ensure the implementation of the plan to purchase treasury shares for the benefit of shareholders, in case of extraordinary financing transactions, as well as to control the fluctuation in the share price compared to the performance of its sector.</li> </ul>	<ul style="list-style-type: none"> <li>• The 2006 financial statements were made available in real time on the Hera Group internet site in html format (which is searchable and can be downloaded to excel) on the same day they were approved by the BoD. New "interactive financial statements" were developed that are available on line for comparison of the Group's historic results (see page 113)</li> <li>• Meetings with the managers of the various ethical funds took place and there was interest in adding Hera to certain ethical indices. Furthermore, relations were built up with the "ethical" financial analysts of CAI Cheuvreux that included Hera among the 5 most recommended "sustainable" securities in Europe by the investment bank (see page 112).</li> <li>• Quarterly newsletters were rapidly published for private investors, illustrating the Group's period results. . Furthermore, the use of financial statement figures through the internet was simplified through a section of the site in which the results of the last 4 years can be compared, including as graphs (see page 113)</li> <li>• During 2007, share purchase transactions were carried out in execution of the mandate received from the Shareholders' Meeting (see page 108).</li> </ul>

#### We shall...

- Further improve the on-line financial communications.
- Develop relations with private investors.
- Maintain the momentum of our relations with professional investors.
- Develop new relations with ethical funds.

## Breakdown

Hera has been listed on the Milan Stock Exchange in the Blue Chip segment of the Mercato Telematico Azionario (“MTA”) [the electronic equity market].

Hera’s share capital of 1,016,752,029 ordinary shares was not affected by the merger with Meta S.p.A. which took place in 2005. As from 1 January 2008, as a result of the merger by incorporation of SAT of Sassuolo and the acquisition of other smaller entities, Hera’s share capital increased to 1,032,737,702 ordinary shares, each with a par value of Euro 1.

The most significant category of Hera investors is the “Municipalities and Public Bodies” which holds 58.2% of the share capital.

One characteristic that distinguishes Hera from the other Italian utility companies is the lack of one shareholder with a controlling share (Hera’s largest shareholder is the Municipality of Bologna which holds a 15% share).

The public sector shareholders which consist of over 180 Municipalities of the Emilia-Romagna provinces in which the Group operates, have concluded an agreement, the “Shareholders’ Agreement,” which binds them to maintaining equity investments representing 51% of the share capital, as stipulated in the company Articles of Association.

### Shareholders

(no.)	2005	2006	2007
Municipalities and other Entities	156	183	183
Professional investors	333	286	368
Private investors	32,159	26,173	24,888
<b>Total</b>	<b>32,648</b>	<b>26,642</b>	<b>25,439</b>

Data refer to dividend registration date. Data source: Hera processing of data from Servizio Titoli S.p.A. The classification of the investors relating to 2005 and 2006 had been aligned to the current year’s criteria.

### Shares held (breakdown)

%	2005	2006	2007
Municipalities and other Entities	55.1%	58.4%	58.2%
Professional investors	27.7%	28.5%	32.4%
Private investors	17.2%	13.1%	9.3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total shares (million)</b>	<b>839.9</b>	<b>1,016.8</b>	<b>1,016.8</b>

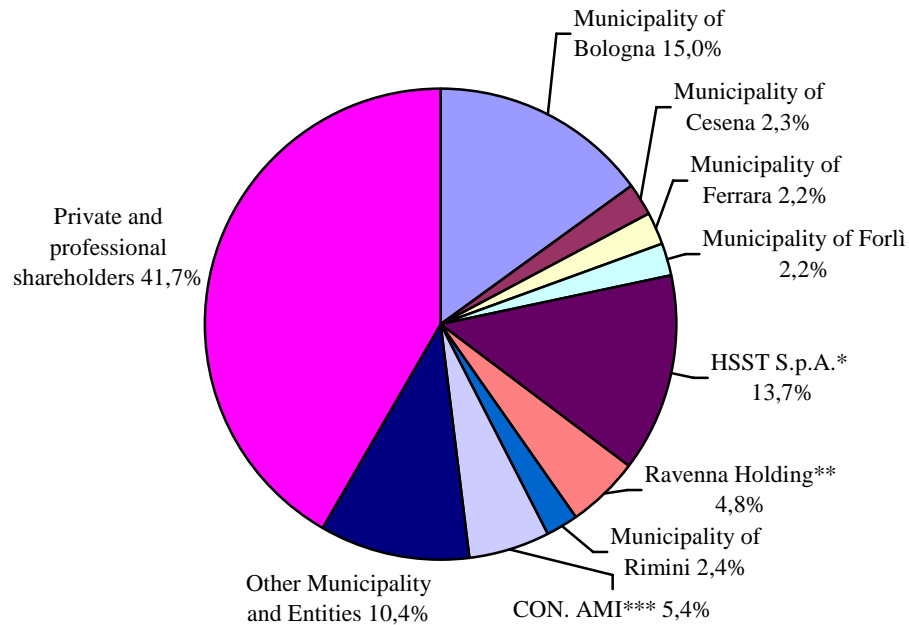
Data refer to dividend registration date. Data source: Hera processing of data from Servizio Titoli S.p.A. The classification of the investors relating to 2005 and 2006 had been aligned to the current year’s criteria.

Private and professional investors who represent the “non-public” component of the Hera shareholder base, are the most numerous categories and they hold the remaining 41.8% of Hera’s share capital.

In the last three years, the percentage of the share capital held by professional investors reached 32.4% also a result of the strong relations maintained with the international operators (that hold 16.5% of the share capital), which are mutual funds, pension funds, banks, banking foundations, insurance companies and hedge funds.

On the dividend payment date in 2006, Hera held 400,000 treasury shares totalling 0.04% of the share capital.

**Shareholder breakdown as at 31.12.07**



\*HSST S.p.A. (Holding Strategie e Sviluppo dei Territori modenesi), comprised of: Comunità montana del Frignano, Unione terre dei Castelli (comprised of the Municipalities of Castelnuovo Rangone, Castelvetro, Savignano sul Panaro, Spilamberto e Vignola), Municipality of Castelfranco Emilia, Frassinoro, Guiglia, Lama Mocogno, Marano sul Panaro, Modena, Montefiorino, Palagano, Pavullo, Polinago, Riolunato, San Cesario sul Panaro, Sestola, Zocca and Acquedotto Dragone Impianti.

\*\* Company fully owned by the Municipality of Ravenna.

\*\*\*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.

The private investors have decreased their share over the past three years but they continue to hold a significant percentage and are still the most numerous Hera shareholder category (almost 25,000 people). Most of these investors have demonstrated a high level of loyalty as 66% have held their shares at least since 2005. Furthermore, 44.7% of the private investors reside in the areas in which Hera is active.

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

<b>(no.)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Hera Bologna area	6,992	5,606	4,658
Hera Ferrara area	523	413	430
Hera Forli-Cesena area	2,154	1,711	1,546
Hera Imola-Faenza area	1,993	914	1,242
Hera Modena area	791	1,138	1,321
Hera Ravenna area	1,618	1,574	1,301
Hera Rimini area	911	696	621
<b>Total of shareholders resident in areas served</b>	<b>14,982</b>	<b>12,052</b>	<b>11,119</b>
Total private shareholders	32,159	26,173	24,888
<b>Total of shareholders resident in areas served</b>	<b>46.6%</b>	<b>46.0%</b>	<b>44.7%</b>

Data refer to dividend registration date. Data source: Hera processing of data from Servizio Titoli S.p.A., The classification of the investors relating to 2005 and 2006 had been aligned to the current year's criteria.

## **Corporate Governance and safeguards for shareholders**

Since the time of its foundation, the Hera Group has adopted a Corporate Governance system in order that all shareholders and yields may be protected, according to the terms of the Code of Conduct promoted by the Italian stock exchange agency, Borsa Italiana Spa. The Group ensures full transparency with respect to its decisions, by providing information fully, correctly and in a timely manner so that investor decision-making procedures may be conducted in the light of the strategic decisions of the company, of business performance and of the foreseen levels of profitability with respect to the quantities of capital invested.

The yearly publication of the calendar of corporate events allows the company to provide information in advance regarding the most important dates for company life: approval and publication of financial statements, quarterly and interim reports, industrial plans and significant operations carried out by the Group. Communication of information is carried out in compliance with the criteria laid down in the resolutions issued by Consob (Italian Securities and Exchange Commission) on price sensitive information.

The corporate departments in charge of investor and external relations report to the Chairman of the Board of Directors, thus ensuring that their interests are taken care of directly by top management.

The Hera Shareholders' Meetings are generally well attended by shareholders with over 60% of the share capital represented at each meeting. Over time, the participation in meetings of professional investors, including foreign, has gradually increased as well: in the last Shareholders' Meeting held on 16 October 2007, the latter represented over 6% of Hera's share capital.



## Distribution of dividends

### Distribution of dividends

oEuro	2005	2006	2007
Earnings per share (Euro cents)	10.0	8.9	9.5
Dividend per share (Euro cents)	7.0	8.0	8.0
Price/earnings	22.5	37.2	32.3

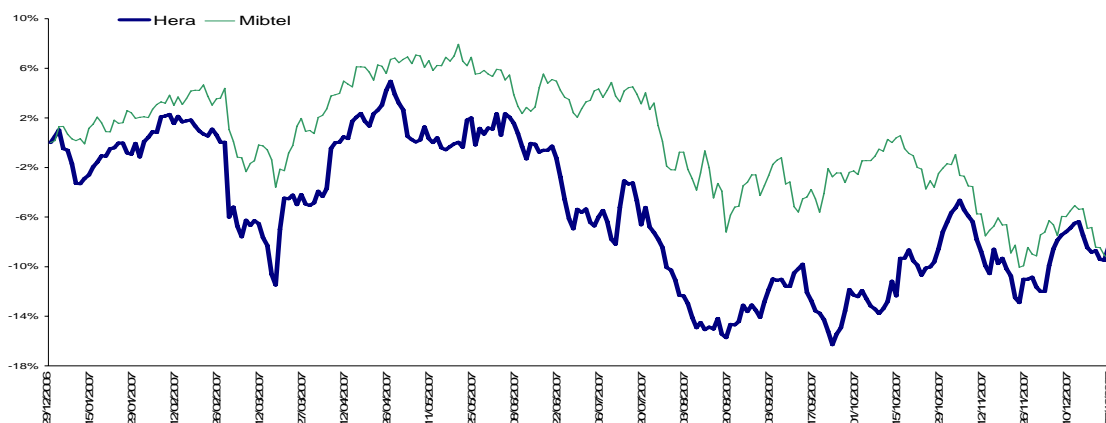
The 2005 data includes the extraordinary absorption of Meta. The 2005 data are pro-forma. The price/earnings ratio expresses the relation between the share price as at 31 December divided by Group earnings per share.

Based on a consolidated net profit of Euro 109.9 million in 2007 (of which Euro 13.7 are minority interests), the decision was for the distribution of a dividend to shareholders for 2007 of 8 Euro cents per share, which is in line with 2006. The dividend is highly attractive in the light of the investments that were made during the year, which will contribute significantly to economic results only as from the next financial year and the negative effect on results of the extremely mild winter weather during the first half of the year.

## Stock exchange share performance

In 2007, the performance of financial markets was very volatile, as the macroeconomic factors influencing the markets were less positive than in the past, while there was also a bullish trend that was particularly long lasting. Fear of increased inflation, interest rates and higher oil prices, initial signs of weakening of US economic growth and the concerns over subprime loans were the main factors affecting the difficult financial context in 2007 and producing significant volatility in the financial markets.

### Stock exchange share performance



In this context, the Hera share performed in line with the market, closing the last session of the year at an official price of Euro 3.055 (-7.3% compared to the beginning of the

year), a performance that was slightly better than the Mibtel's performance which closed 2007 at -8.2%. This performance shows a low risk profile for the "Hera investment" (reflected in the Beta index at approximately 0.6) which was only partially influenced by the macroeconomic uncertainty which heavily influenced the performance of shares of companies operating in other sectors.

The average level of the liquidity registered from exchanges of the Hera share continued to increase thanks to the improving economic-financial results, Hera's perceived central role in the sector's future consolidation process, the positive objectives set as communicated in September with the presentation of the new 2007-2010 Industrial Plan and lastly, the strong relations with Italian and international investors whose interest in the Hera share remained very high.

### Official share price and average traded quantities in 2007

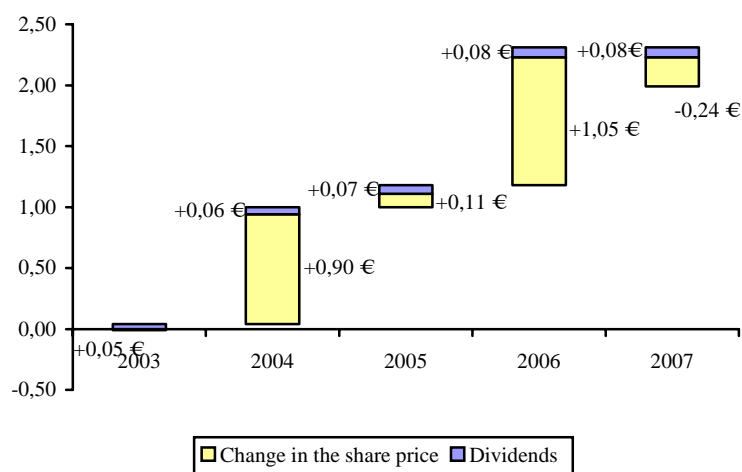
	Q1	QII	QIII	QIV
Official price at close of period (Euro)	3.166	3.110	2.890	3.055
Average volume traded (thous.)	1.700	3.234	1.723	1.776

The average value of the daily transactions involving the Hera share in 2007 increased compared to 2006, from Euro 5.9 million to over Euro 6.5 million (+10%), while it almost doubled in the last two years.

### The Mibtel index

The Mibtel is the Borsa Italiana index which includes all the shares listed on the Mercato Telematico Azionario (MTA), to which the MTAX market (where shares, bonds and warrants with high growth perspectives were traded) was added on 3 March 2008: the Mibtel index is recalculated at every minute during the trading of securities according to the prices of the latest contracts executed on each share comprising the basket. As it is a price index, the Mibtel does not take into account dividend payments or any periodic amounts paid by the companies that are included in the index.

### Yield of the share compared to the price of the share at listing



The percentages are calculated with reference to the price of the share at listing.

Despite the fact that the capital gains for 2007 were negative, the overall yield remains particularly attractive for shareholders as it is 172% of the listing price.

### **Stock exchange indices**

The Hera share is listed on the “Dow Jones Stoxx TMI” and “TMI Utility” and the “MSCI Small Cap” indices, and from 25 March 2008, it will be included in the Dow Jones Stoxx 600 index. Hera continues to be included in the ethical indices “Axia Ethical Index” with a maximum rating (A+++) and the “Kempen SNS Smaller Europe SRI Index.”

### **The Dow Jones Stoxx 600 index**

The Hera share will be added to Dow Jones Stoxx 600 index on 25 March 2008, following a review of the basket that is currently being used and to which 9 new companies will be added, Hera being the only Italian one, in substitution of another 9 companies that will be removed.

The Dow Jones Stoxx 600 index consists of a basket of 600 small, medium and large capitalisation companies operating in European countries. There are currently only thirty Italian companies in the index and only 5 that belong to the utilities sector.

### **Credit ratings**

The ratings for Hera issued by Standard & Poor’s (A for long term debt and A-1 for short term debt) and Moody’s (A1) with stable outlook reflect the group’s financial solidity and good profitability. The principal grounds for the award of this rating lie in the fact that the company features a strong business profile, with a very balanced portfolio and provides excellent service levels in one of Europe’s richest regions while enjoying share solidity and financial liquidity. In 2007, Hera concluded with Deutsche Bank AG London a loan called a “put bond” for Euro 100 million and a bond loan with BNP Paribas London of Euro 200 million called an “extendable put bond”, which was assigned an “A” rating by Standard & Poor’s.

### **Share coverage**

The Hera Group maintains relations with over 1000 operators in the financial market. The information on the Group which is provided to investors derives from analyses carried out by financial analysts who have a professional, independent opinion. Hera has developed and continues to maintain contacts with 14 financial analysts, half of which are employed by international companies: Axia (ethical analysis), Banca IMI, Banca Leonardo, CAI Cheuvreux, Cazenove, Euromobiliare, Intermonte Securities, Kepler, Mediobanca, Merrill Lynch and Santander. In the initial months of 2008, Banca Akros and Dresdner-Kleinwort also began to cover Hera.

### **What is a credit rating?**

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

## **Relations with investors and financial analysts**

---

Within the Hera Group financial communications are considered to be a critical success factor creating value for its shareholders: therefore each year relations are maintained with domestic and international operators on the market.

In 2007, there were over 360 international investors present at the presentation of the financial statements, the 2007-2010 Industrial Plan and the conferences organized by brokers. The Investor Relations department has gradually placed more and more emphasis on relations with ethical investors to further leverage Hera's sustainable development policies.

In 2007, efforts were made to improve the “rapidity and usability” of the information conveyed to the market.

- the financial statements for 2006 were produced in a searchable format (html) and placed on the website on the same day they were approved by the Board of Directors;
- the HTML format allows information and financial statement data to be downloaded directly onto spreadsheets thereby reducing processing time and facilitating analysis by analysts and professional investors.
- for private investors, quarterly newsletters were produced to illustrate the results achieved by the Group, which were also placed on the website on the same day they were approved by the Board of Directors;
- the Sustainability Report for 2006 was distributed to all institutional investors met within 2007 (over 300 persons) and to some ethical funds.

This communication activity and the Group's strong commitment to involving stakeholders contributed to the prestigious "Oscar di Bilancio 2007" award being awarded to the Hera Group.

The backbone of our financial communication is presented on the Group's website ([www.gruppohera.it](http://www.gruppohera.it)) that includes the Investor Relations section dedicated to financial market operators. This section is continually updated to provide, in real time, all the financial information reprocessed so as to make it easier to use by the various investor groups:

- ethical investors can find all the Sustainability Reports of the Hera Group and the Code of Ethics adopted by the company;
- bondholders can find all information relating to the bond loans issued by the company;
- private investors can view the quarterly Newsletter which is compiled especially for them and compare the historical performance of the company in graphic form through the interactive financial statements, which were presented in a new format.

On line financial communication was further improved in 2007 and this resulted in a better position in the Hallvarsson & Halvarsson 2007 Webranking, to reach sixth place (from eighth place in 2006), thus placing Hera in line with the best practices of major Italian companies with special mention in the executive summary of the aforementioned ranking.

### **Hera in 6th place in the Hallvarsson & Halvarsson Webranking**

The Hallvarsson & Halvarsson web ranking, which has been published for the sixth time in Italy, is based on studies carried out by the Swedish firm Hallvarsson & Halvarsson in collaboration with Corriere della Sera and its aim is to identify the best on line financial communication: There are 125 criteria organised into ten sections that measure both the technology and the design (structure, searchability, interactive functions) as well and the corporate and financial content. In 2007, Hera received the highest rating among Italian multiutilities and ranked in sixth place among the top ten, jumping from 45th place in 2004. The reason: “increasing attention to the quality and transparency of the communication, particularly on-line communication.”



## Financial Institutions

The Group continued with its policy of providing financial institutions with fully transparent and correct information as part of its communication activities.

The main loans raised by the Group with lending institutions concerned 25 banks. There is a balanced distribution of debt: apart from the European Investment Bank, no bank assists the Group in relation to more than 20% of total debt. Despite the significant rise in interest rates and spreads, and partly thanks to a series of innovative transactions conceived internally, Hera managed to maintain the cost of money at an overall average level of 4.3%, well under that of the market.

The net financial position reported an increase, when compared with 31 December 2006, passing from Euro 1,173.3 million to Euro 1,424.1 million as at 31 December 2007. The increase was mainly due to the regular progress of the scheduled investment plan.

The tendency towards balancing the Group's asset structure was consolidated, offsetting the high level of fixed assets with a net financial position mainly comprising medium/long-term debt which, as at 31 December 2007, covered around 98% of total indebtedness.

Hera SpA maintained its long-term ratings with "A1 stable" from Moody's and "A stable" from Standard & Poor's. The Group intends to continue its commitment towards maintaining these outstanding ratings in the future.

### Major loans (breakdown) as at 31 December

%	2005	2006	2007
European Investment Bank	0.0%	0.0%	31.7%
Banca Intesa	20.3%	19.1%	16.1%
Banca OPI	16.3%	15.9%	12.5%
Unicredit	10.2%	9.8%	9.1%
Dexia Crediop	0.2%	0.1%	8.2%
Cassa depositi e prestiti	5.6%	5.5%	4.5%
Banca Popolare di Milano	1.2%	1.2%	3.3%
BNL	0.1%	0.0%	2.5%
Other institutions	46.1%	48.3%	12.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## Net financial indebtedness

(in millions of €)	2005	2006	2007
Cash on hand	189.1	213.6	211.0
Other current loans	8.4	12.8	10.0
Current financial indebtedness	-647.8	-450.9	-249.1
<i>net current financial indebtedness</i>	<i>-450.3</i>	<i>-224.5</i>	<i>-28.1</i>
Non-current loans	53.4	19.2	6.6
Financial assets from derivative instruments	3.4	0.0	7.8
Non-current financial indebtedness	-580.5	-968.0	-1,410.4
<i>Net non-current financial indebtedness</i>	<i>-523.7</i>	<i>-948.8</i>	<i>-1,396.0</i>
<b>Total net financial indebtedness</b>	<b>-974.0</b>	<b>-1,173.3</b>	<b>-1,424.1</b>

During 2007, re-financing transactions were carried out for the purpose of both consolidating the short-term debt as long-term and reducing the related cost.

The transactions were conceived internally so as to fully meet the Group's needs and in the meantime obtain extremely competitive costs without exposing the Company to hazards, risk rate or additional cost. They included the following:

- on 17 May 2007, Hera Spa issued a Bond entitled "Put Bond" which was assigned an "A" rating by S&P Standard & Poor's, for a total of Euro 100 million fully subscribed by Deutsche Bank AG London. The Bond – the first launched in Italy in the related market sector – is regulated for the first three years at the 3-month Euribor rate less 29 basis points. In the event the put option is not exercised by the bondholder at the end of the third year, the bond will be regulated for a further 10 years at a fixed rate of 4.593% uplifted by Hera's credit spread. In this case, Hera will have the possibility to exercise a call option on the entire issue during the residual period. If, however, the put option is exercised at the end of the third year, the bond will be redeemed at par.
- On 2 August 2007, a Bond was issued for Euro 200 million, the "Extendable put-bond"; it obtained a rating of "A" from Standard & Poor's and was fully subscribed by BNP Paribas. For the first 5 years, the Bond is not redeemable and the coupon is quarterly at a floating rate index-linked to the 3-month Euribor rate reduced by a spread of 45 cents; for the following 15 years, the coupon will be regulated at a fixed rate of around 4.85%, uplifted by Hera's two-year credit spread. The bondholder will therefore have the possibility every two years to request redemption at par or to continue for the next two years under the above conditions and Hera will always have the possibility to redeem it in advance at market prices.
- On 28 November 2007, a loan very similar to the one above was stipulated with Barclays Bank Plc, with the sole difference that the spread reducing the Euribor rate for the first three years comes to 0.46%, while the fixed rate for the additional 10 years is 4.44% (again uplifted by Hera's two-year credit spread with a Cap of 0.45%). The floating rates for the first periods of the two Put Bonds have been swapped to a fixed rate and no financial covenants are envisaged except for a rating reduction under the investment grade level.

In conclusion, Hera SpA has a Bond outstanding which totals Euro 500 million and has a fixed rate coupon of 4.125% falling due in February 2016

# Suppliers

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

Hera's pool of suppliers numbers around 16,800: These suppliers are mainly located in the region served (66%). The group's positive impact on the local economy is therefore enhanced. In 2007, Hera raised orders with more than 6,000 suppliers.

## Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> <li>• Carry out communications activities with suppliers, regarding the Code of Ethics, following approval of the new Code by the Board of Directors.</li> <li>• Continue the e-procurement project for the use of Internet for supply activities.</li> <li>• Include a reward system in the supplier selection manual, based on whether the suppliers possess quality and environmental management systems.</li> <li>• Extend application of the tender award criteria according to the most economically advantageous bid.</li> <li>• Perform a feasibility analysis for the introduction of a system for green purchases.</li> <li>• Set out a procedure for verifying that suppliers regularly pay taxes (DURC – Tax Compliance Certificate).</li> </ul>	<ul style="list-style-type: none"> <li>• In March 2008, a letter was sent out to more than 12,000 active Group suppliers. Reference was made in the letter to the approval of the new Code of Ethics and its availability on the website (see page 127).</li> <li>• Supplier qualification, on-line purchases and public tenders will be handled via the web as from the first few months of 2008 (see page 124).</li> <li>• The project has been postponed until the first half of 2008 since priority has been given to the definition of a manual for handling tender contracts for aiding those responsible for the control and supervision of the activities of the contracting companies (see page 126).</li> <li>• 50% of the value of the tenders above the EU threshold have been awarded using the most economically advantageous bid method. In 2006, the percentage was 16%. (see page 123)</li> <li>• A trial for the procurement of goods and services with “green” requisites will be launched in 2008.</li> <li>• A procedure was approved in 2007 which envisages that approved suppliers will be checked at least annually even in relation to consignments involving modest amounts (see page 125).</li> </ul>
<b>We shall...</b>	
<ul style="list-style-type: none"> <li>• Start-up the use in 2008 of the Internet for supplies (e-procurement): handle supplier qualification, on-line purchases and public tenders on-line.</li> <li>• Update the supplier selection manual, including regulations for appointment involving sustainability criteria.</li> <li>• Further extend application of the tender award criteria according to the most economically advantageous bid.</li> <li>• Launch a trial for the procurement of goods and services with “green” requisites by the end of 2008.</li> <li>• Establish guidelines for appointing social co-operatives with services.</li> </ul>	



## Breakdown

### Pool of suppliers

(No.)	2005	2006	2007
Goods	9,143	9,337	9,443
Services	9,387	9,886	10,350
Job orders	1,080	1,197	1,297
<b>Total</b>	<b>15,815</b>	<b>16,170</b>	<b>16,780</b>
<b>of which suppliers who received at least one order during the year</b>	<b>6,758</b>	<b>6,346</b>	<b>6,024</b>

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. Data relating to the Group companies whose suppliers are handled via the SAP computer system: Hera S.p.A., Territorial Operative Companies, Hera Luce, Famula On Line, Uniflotte, Ecologia Ambiente, FEA, Ambiente 3000, Recupera.

The pool of group suppliers includes around 16,800 businesses that provide goods (components for maintenance of industrial plants, materials, chemicals, vehicles etc.), services (waste management, information technology consultants, organisation consultants etc.) and job order work (grid maintenance work, industrial plant construction etc.). A number of suppliers in the pool belong to more than one class.

The data provided here, as with all the data in this section, refers to all Group companies with which the Purchasing and Tender Contracts Department manages supplier relations via the SAP IT system. In 2007, at least 6,000 suppliers received at least one purchase order. Most fall into the goods and services classes. 5.34% of suppliers regard work, while turnover for the works represents approximately 24.78% of the total acquired.

### Supplies from social cooperatives

	2006	2007
Social cooperatives (number)	38	43
Value of supplied goods/serv. (in thousands of €)	18,491	22,982
Persons facing hardship hired (number)	461	590

Among the persons facing hardship hired, workers employed for less than one year were also counted. Data relating to Hera S.p.A. and the Territorial Operative Companies.

Social sustainability is firmly placed among the Hera Group's aims and in this sense it has decided to contribute in real terms to the social cohesion, by means of a memorandum of understanding with the representatives of the social cooperatives (Legacoop and Confcooperative), signed in November 2004.

On the basis of this memorandum, Hera must:

- promote stipulation of special agreements with consortiums of social cooperatives for direct contracts regarding environmental services of an entity below the EU threshold;
- produce a set of uniform regulatory and organisational conditions regarding the Hera appointments;
- include, in public invitations for tenders for assignment of services (of an entity above the EU threshold), score criteria that significantly foster work for individuals.

For their part, the consortiums are committed to:

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

In 2007, the value of the main supplies requested from social co-operatives came to around Euro 23 million, involving an increase when compared with 2006 of more than 24%. The number of parties (social cooperatives and consortiums) dealing with Hera also rose, by 13%. Growth in persons facing hardship involved in services awarded by Hera was also significant, more than 28%. The growth trend in these indicators with respect to 2006, contributes towards confirming Hera's desire to operate in observance of the commitments envisaged in the afore-mentioned agreement.

The current agreements at Hera Forli-Cesena led to the hiring of 152 persons facing hardship in 2007. Hera Rimini has agreements providing employment for 116 persons facing hardship. In Hera Modena, 139 persons were provided with employment. Hera Ferrara has several agreements, which led to the hiring of a total of 81 people in 2007. In Hera Imola-Faenza, 26 people facing hardship were employed in contracts awarded to social cooperatives in 2007. In Hera Ravenna, 31 people were hired. Lastly, Hera Bologna hired 45 people.

In 2007, five public invitations for tenders were published, to be awarded by means of the most economically advantageous bid method where a part of the score was for the projects providing work for persons facing hardship. These are invitations for the awarding of the street sweeping service in Ferrara and Ravenna, for the waste collection and transportation service in Fiorenzuola (province of Piacenza), for the waste collection and street sweeping service in Mordano (province of Bologna) and in the area of Hera Rimini. With regard to the 30 points reserved for the technical bid, those relating to the assessment of the work induction projects varied within a range of between 3 and 7 points. The score reserved for employment within Hera Rimini by contrast came to 20 points out of the 45 envisaged of the technical bid.

In November 2007, new operating instructions were produced, used to define the methods for qualifying social cooperatives, discipline the related awarding of supply contract, work and services, and monitor the appointment for the purpose of creating a pertinent company database.

### **Raw material supplies**

The natural gas sold by the Hera Group in 2007 in the areas in which it is operational was mainly (72%) purchased from Eni Gas & Power. Approximately 2% was purchased from Enel Trade, 2% from other minor national operators and 24% via Hera Trading (which, in turn, mainly purchased gas from VNG of Leipzig, Eni and ASM-CENTREX).

With regard to the electricity market, sales to end customers were 50% covered by the production from high-efficiency thermoelectricity power stations of companies in which Hera holds investments (Tirreno Power, Calenia and SET); 41% was covered by bilateral purchases from other operators of which, 15% from imports. The remaining 9% was sourced on the electricity exchange.

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 49 GWh were acquired, so as to comply with the obligations envisaged by the Bersani Decree.

As regards the water sector, in 2007, the Group (net of Aspes) ensured approx. 83% coverage of needs by withdrawals from its own plants (springs, river and lake withdrawals, well fields): the remaining 17% was provided by Romagna Acque and other minor suppliers. Romagna Acque has many shareholders that are also municipal shareholders in Hera. It also manages the Ridracoli dam in the province of Forlì-Cesena.

#### **Organising procurement at Hera**

The Hera Group has adopted a structure for procuring goods, services and work, excluding raw materials, divided up over two organisational levels: Procurement and Tender Contracts Management Division (Hera SpA) and various Procurement and Tender Contracts Management Business Units established in each Territorial Operative Company. The top level engages in qualification and assessment of suppliers, guidance and coordination, procurement planning and management via Group agreements, tender bids for the assignment of goods, services and works above the EU threshold, procurement for the Divisions of Hera S.p.A. and for the Group companies which use the SAP computer system, as well as an internal advisory service for the Group and the 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 Territorial Operative Companies. 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

### Suppliers (breakdown by geographic area)

(No.)	2005	2006	2007	% 2007
Hera Bologna area	3,141	3,161	3,224	19.2%
Hera Ferrara area	835	860	878	5.2%
Hera Forli-Cesena area	1,559	1,600	1,647	9.8%
Hera Imola-Faenza area	824	867	851	5.1%
Hera Modena area	1,573	1,701	1,805	10.8%
Hera Ravenna area	946	987	994	5.9%
Hera Rimini area	1,416	1,585	1,665	9.9%
<b>Total area</b>	<b>10,294</b>	<b>10,761</b>	<b>11,064</b>	<b>65.9%</b>
Other provinces of Emilia Romagna	441	453	484	2.9%
Other Italian regions (Regioni)	4,932	4,795	5,063	30.2%
Other European nations	105	113	122	0.7%
Other	43	48	47	0.3%
<i>of which countries at risk</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0.0%</i>
<b>Total</b>	<b>15,815</b>	<b>16,170</b>	<b>16,780</b>	<b>100.0%</b>

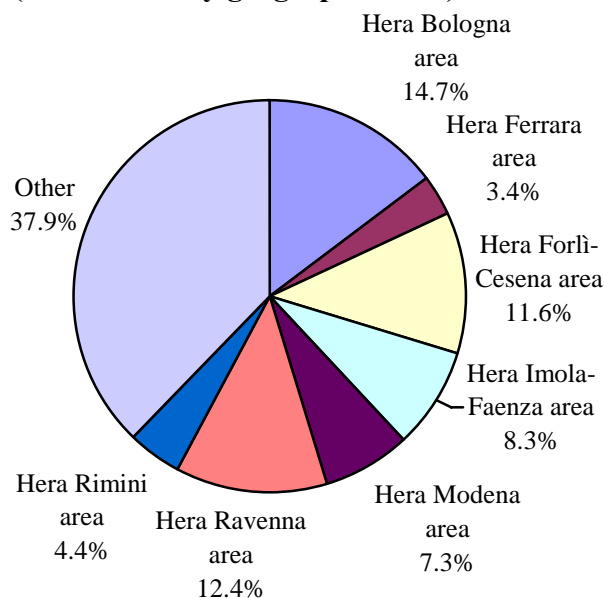
Data relating to the Group companies whose suppliers are handled via the SAP computer system: Hera S.p.A., the Territorial Operative Companies, Hera Luce, Famula On Line, Uniflotte, Ecologia Ambiente, FEA, Ambiente 3000, Recupera.

Also in 2007, 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. 66% of Hera suppliers were made up of businesses with commercial headquarters in the area covered by Hera.

In 2007, the Hera Group issued job orders worth Euro 405 million equating to 62.1% of the total, to businesses based in the same area as that covered by Hera. The decrease in orders requested by suppliers with respect to 2006 (from 70% to 62%, particularly in the Bologna area) was the result of exceptional purchases for large infrastructures made from suppliers in other regions and abroad. Excluding said purchases, the percentage of local suppliers remained more or less unchanged.

No Hera suppliers are based in countries “at risk” with regard to the violation of fundamental human rights.

### Value of supplies (breakdown by geographic area)



## Qualification and selection of suppliers

Supplier assessment has been implemented at Group level and it involves quality controls regarding technical, economic and organisational aspects. Controls are currently conducted on delivery of goods. With regard to services and job orders, controls take place during performance of the tasks assigned (six-monthly reporting).

In 2007, the Group carried out inspections at the premises of goods suppliers. In some cases, conduct which was not fully compliant was found, highlighted and corrected in a short time, working closely with the supplier. Subsequently, the effectiveness of the corrective action required was checked.

When selecting and assessing suppliers, Hera also considers such aspects as safety measures, attention towards environmental impacts and Social Responsibility. These aspects will become increasingly important in the future and contribute to enhanced service quality. However, greater economic commitments are also required. As from 2006, during the qualification stage suppliers are required to accept the regulations contained in the Code of Ethics.

### Qualified suppliers (breakdown by type of certification)

(No.)	2005	2006	2007
Quality certification (ISO 9001)	1,046	1,400	1,744
Qualification by certificate on execution of public works (SOA)	277	418	532
Environmental certification (ISO 14001-EMAS)	100	155	230
Lab analysis quality certification (SINAL)	23	29	34
Measurement instrument calibration quality certification (SIT)	13	21	30
Occupational safety (OHSAS 18001)	10	18	36
Social certification (SA 8000)	3	3	8

Data for 2005 do not include the Meta Group.

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

(in thousands of €)	2005	2006	2007	% of 2007 supplies
Quality certification (ISO 9001)	249,558	347,580	445,944	68.3%
Qualification by certificate on execution of public works (SOA)	133,666	154,313	186,308	28.5%
Environmental certification (ISO 14001-EMAS)	6,200	89,340	118,568	18.2%
Occupational safety (OHSAS 18001)	0	550	35,111	5.4%
Lab analysis quality certification (SINAL)	1,303	1,617	8,458	1.3%
Social certification (SA 8000)	0	0	3,141	0.5%
Measurement instrument calibration quality certification (SIT)	175	274	563	0.1%

Data for 2005 do not include the Meta Group.

The considerable increase in the number of certified suppliers is the result of direct action undertaken by the company via systemic inclusion of possession of ISO 9001 quality certification as an obligatory requirement in the public invitations for tenders or the supplier approval stage. This increase was also the result of a greater awareness acquired by the system of the businesses aware that qualitative growth is a component of competitiveness. A particularly noteworthy development is the increase in the number of suppliers with quality certification (+ 25%) and environmental certification (+ 48%).

In 2007, work was carried out to standardise the tender bids for the supply of goods, services and works, with specific reference to environmental certification. A system of in-house and external monitoring of suppliers was implemented for the purpose of checking the compliance with requested quality levels. During 2007, 16 inspections were carried out at suppliers in order to assess the compliance of the supply production processes with ISO 9001 and 14001 standards.

**Tenders for contracts awarded on the basis of the most economically advantageous bid approach.**

Since 2006, the most economically advantageous bid approach (envisaged by Article 83 of Italian Legislative Decree No. 163/2006) has been the main method followed by Hera when awarding tender contracts. Therefore, over the last two years, Hera has progressively introduced bid assessment methods within the awarding of the most significant tenders; these methods assign a score to the aspects associated with the quality of the supply, the works safety present in the operating methods hypothesised and the correct handling of the environmental aspects. In certain cases, the score on these aspects has undertaken equivalent importance to that concerning the price.

### **Public procedure tenders for contracts adopting the economically most advantageous bid method**

	<b>2006</b>	<b>2007</b>
Value of the public invitations for tenders published (in millions of €)	6.9	36.8
% of total value of public invitations for tenders published	16%	50%
No. of public invitations for tenders published	1	8

During 2007, the Hera Group published 38 public invitations for tenders, of which 7 concerned calling for Qualification Systems and 31 tender contracts for the awarding of work and services. The total amount under tender for these 31 tender invitations amounted to Euro 73.5 million. Of these 31 publicly called tenders, 8 were awarded using the most economically advantageous bid method (compared with one tender out of 30 publicly called, awarded using this method in 2006). These were the tenders involving the most significant amounts, since they totalled nearly Euro 36.8 million. In particular, these tenders included that for the contracting out of work associated with the emergency support services for maintaining the gas, water and sewerage networks which amounted to more than Euro 20 million a year, and was set up as a Group tender having standardized the services required of the contracting companies in a single tender document applicable to all the operating companies of the Hera Group.

Furthermore, again at central level a tender was implemented using the economically most advantageous bid method for the awarding of the Global maintenance and management service for Hera Group real estate property and plant, for a total of Euro 7.8 million.

50 points were assigned to the technical component of the bid in the emergency services contract for network maintenance. Out of these 50 points, 12 points were assigned to technical-specialist and safety-related training, 4 points to technological innovation, 10 points to the management systems, with particular reference to the procedures and reporting for dealing with emergency situations, the containment of environmental impacts and for the handling of waste produced. By contrast, in the tender for the global maintenance service, 40 points were assigned to the technical component, of which 20 relating to the organization of the service with particular attention paid to the handling of the emergencies, the organization of the call centre, and the presence of a quality and safety plan.

#### **E-procurement**

The new IT technologies, in relation to the prolific use of the Internet, are changing dealings between the business, customers and suppliers, with important effects on the sources which generate competitive advantage and therefore on the economic and financial performances. Within this new scenario, e-procurement has been introduced within Hera permitting the on-line purchase of goods and services via use of the Internet.

Since March 2008, the involvement of the Group suppliers was launched, by means of a written communication informing of the changes deriving from e-procurement and providing all the instruments necessary for using the system.

As the new system is brought onto stream, all the qualifications requested can be directly forwarded by via Internet, via use of the Group's new purchasing portal, and solely for the supplies in relation to which Management has assessed the need to extend

the number of suppliers enrolled in the register. Again via Internet, qualified suppliers may acquire the bid applications for supplies of goods, services and work from Hera, present bids, and receive notification on the awarding of contracts.

All this taking place gradually. As a point of fact, a transitory period has been envisaged for permitting all the suppliers to acquire a sufficient level of awareness of the new electronic instruments: even if today Internet has achieved an extremely high level of diffusion within Italian companies, Hera will permit those requesting to do so, to continue communicating via fax.

## **Contract management**

---

The terms of business applied by the Hera Group aim to provide guarantees with respect to competitiveness, correct conduct, compliance with the corporate Code of Ethics and financial compatibility. Decidedly market-oriented components are price, delivery times and logistical considerations (where applicable).

In 2007, confirmation took place of the innovations introduced during the previous year with regard to the general contract terms and conditions contained in the Group tender specifications for work, services and supply contracts and installation work. Some of the innovation introduced:

- the indications regarding tenders, deriving from signing of the Hera Group supplementary collective labour agreement, were implemented, including, specifically, the obligation to notify the labour unions - in the event of contracts for services - of the name of the contracting company and the national collective labour agreement applied to personnel;
- the obligation was included for the contractor to fill out and deliver to Project Management the specific accident report forms and annual summaries of the accidents occurring on-site;
- it was made obligatory in all Hera tenders for the personnel of the contracting company to use ID badges;
- the DURC (Tax Compliance Certificate), which certifies tax compliance is requested from all contractors, before the settlement of each payment for services provided to the Hera Group.
- Furthermore, in 2007 the regulations concerning safety and environment were updated adapting them to the requirements of Italian Law No. 123 dated 3 August 2007, which introduced the obligation to attach the Risk Assessment Document to tender contracts for risks deriving from interference and the economic quantification of the related costs.

Activities for checking tax and contribution compliance led in 2007 to the request for 2,654 D.U.R.C. (Tax Compliance Certificates) of which 2,346 compliant and 158 non-compliant. With regard to the latter, 73 were rendered compliant by the related suppliers who took steps to settle the outstanding payments, 28 are pending settlement, while within the remaining 57 cases there are both new companies which have not obtained qualification since the D.U.R.C was negative, and companies already qualified which, lacking the due payment compliance documentation, have been put on hold.



### **Tax Compliance Certificate (DURC)**

Within the sphere of its corporate social responsibility, the Hera Group assigns the Tax Compliance Certificate (D.U.R.C.) a value which goes beyond the mere legal implication. The application of the obligations associated with the Certificate, and the related screen-based acquisition methods, have been used as an instrument for identifying and bringing into stream a checking and verification process which responsibly involves all the corporate chain affected by the handling of suppliers. The Certificate is used for accomplishing the duties, which Hera has in its capacity as customer, for checking within the sphere of the public tender contracts for work, services and supplies.

The Certificate is requested in relation to various stages of the public tender contracts for works, services and supplies, in particular: checking the self-certification presented at the time of the tender, awarding to the tender contract, stipulation of the contract, issue of the order, stage of completion of the work, final settlement and due execution.

### **Tender contract management manual**

On 23 November 2007, the Tender contract management manual was approved with the aim of identifying the tasks of the individuals in charge of checking and supervising the activities of the contracting companies, with particular regard to aspects concerning the protection of the workers employed in the tenders.

Particular attention was paid in the manual to the concept of “internal tender” introduced by the 2007 Finance Bill into the Italian legal system. It involves tenders pertaining to the production cycle of the Hera Group companies, such as those linked to the distribution and management of water, gas, sewage, treatment, electricity, district heating, waste collection and disposal networks and plants. Within the sphere of these tenders, the efficacy and precision of the controls is fundamental for ensuring both the quality of the service provided and the remunerative, contribution safeguards and safety in the workplace measures in relation to the workers of the contracting companies. The legality conditions of the tender are defined in the manual, in order to avoid improper use thereof, detrimental to the rights of the workers employed by the contracting companies. The aspect of the institute of the sub-contract tender takes on particular relevance with regard to this matter, and is minutely normed with regard to all its aspects so as to standardize the operations of the individuals in charge of supervision and control of the activities contracted out.

With the aim of improving the supervision of the supply quality, during 2007 a series of check lists were drawn up with the intention of guiding the checks carried out daily and documenting the results. These involve assessment forms which include both the main elements which make it possible to check the compliance of the supply with the contractual specifications, and elements pertaining to work safety, the correct handling of environmental impacts or the working conditions of the employees belonging to the supplier. 11 forms have been drawn up for specific types of services (for example: manual street sweeping, mechanical street sweeping, meter reading, network sites, mechanical maintenance of plants, sample taking for analysis) as well as three standard schedules for the supply of work, services or goods, each one with specific operating instructions for their correct compilation. The check lists will be introduced for a trial period until March 2008, on conclusion of which results, supplements and further amendments of the documents experimented out in the field will be produced. In 2008,

preparation is envisaged of at least half-a-score of additional specific forms for supplies such as electro-instrumental plant maintenance, refractory material maintenance, office cleaning services, non-industrial building maintenance, maintenance of open areas, waste disposal, waste transportation, surveillance.

#### **Times of payment as per contract**

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

## **Supplier relations**

---

#### **Information and communication**

The Internet site includes a section dedicated to suppliers, providing access to public invitations for tenders and application forms for inclusion in the list of suppliers. In 2007, the Internet site featured 38 public invitations for tenders. Around 285 suppliers applied for inclusion in the list of suppliers.

At the beginning of 2008, a detailed presentation was sent via letter to more than 12,000 Hera suppliers, concerning both the Group's new Code of Ethics and the new information system for qualification and handling of supplier relations, e-procurement. In the letter:

- suppliers, Hera's fundamental stakeholders, are required – as requested by selection and qualification criteria, and the same contracts and tender specifications of the Group – to accept and observe the provisions contained in the Code. This is so as to ensure not only a commitment to observe the law, but above all else, a commitment by the suppliers to share positive values and conduct which must be implemented within the relationship used by them to contribute towards the achievement of Hera's aims;
- suppliers are introduced to the use of the Group's new system for qualifying and responding to the bids.

#### **Litigation with suppliers**

At the end of 2007, there were 57 pending cases of litigation with suppliers, of which 31 involved considerable amounts. The cases mainly concerned issues regarding tenders.

# Public Administration

## Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> <li>• Implement uniform periodic reporting targeting all water and waste regulatory authorities on water and environmental services</li> <li>• Improve the Newsletter Sindaci (Mayors' Newsletter) using the results of the satisfaction survey.</li> </ul>	<ul style="list-style-type: none"> <li>• Economic and quantitative reporting has been standardised. The reporting of performance data is difficult to standardise, considering the technical procedures and standards in effect in the various water and waste regulatory authorities (see page 133)</li> <li>• Following the telephone survey conducted in 2007, the Newsletter Sindaci (Mayor's Newsletter) introduced in-depth studies on various themes (see page 130)</li> </ul>
We shall...	
<ul style="list-style-type: none"> <li>• Work together with the Water and Waste Regulatory Authorities (ATO) of Bologna in developing a unique application for reporting of environmental services (Glicine project) and support its extension to other Water and Waste Regulatory Authorities (ATO).</li> </ul>	

## Breakdown

Hera is a service provider for more than 200 municipalities (nearly all are Hera shareholders).

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 Electrical Energy and Gas Authority (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 public administration. For this reason, the Group has adopted, and is constantly updating, 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 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 Oversight Body . The protocols also encompass relationship management with the Authorities, public loans, and donations and gifts.

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.

### **Participation in the development of public policies**

In order to safeguard its interests and to promote discussion in the development of local public services, the Hera Group is involved with the appropriate institutional offices both “indirectly” (by participating in developing the positions issued by the relevant associations), as well as, increasingly, individually, by direct involvement with the relevant public bodies (essentially the Water and Waste Regulatory Authorities, Electrical Energy and Gas Authorities, and the Ministers for the Environment and Economic Development) and by issuing opinions, position documents, and specific communications.

In the electricity and gas sectors, this involvement is institutionalised by regular consultations that the Authority must conduct before drafting new regulations. In 2007, the most important of these in which Hera has participated both indirectly (through associations) and directly (by issuing written positions) concerned:

- definition of new rates for electric energy distribution;
- economic conditions for providing electricity and gas to protected customers;
- quantifying the contribution for energy efficiency;
- the competitive framework for the market of protecting electricity (customers that would no longer be protected but that have not yet chosen a free-market supplier and that enjoy favourable conditions).
- In 2007 the “level of sharing” of Hera positions and proposals was satisfactory, with particular reference to the simplification of distribution rates (single national rate), a change in economic conditions for protected customers (share of gas sales and related components for the electrical market) more reflective of real costs incurred, and the continuation of the rate contribution for energy efficiency, confirmed at Euro 100/tep until full revision of the subject of Energy Efficiency certificates and beginning with “market competition” in the sector of protected electrical energy customers.

Hera has also directly participated in discussions with regional institutions regarding the revision of rate methods for integrated water services, regulated in Emilia Romagna by the appropriate regulations, by positively influencing the debate that ended with the recognition of fair compensation for the invested capital.

No less important was the direct and indirect contribution to the discussion on the overall reform of local public services, both in the phase of parliamentary discussion of the design of the “Lanzillota” law (local public services reform) as well as regarding the proposed reformulation of the normalised method for water rates. However, this relates to evolving issues that have not yet been resolved through regulation.

A growing part of the activities aimed at representing the company's interests and points of view are dedicated to European administrative offices, both by building consensus in the relevant associations (Eurelectric for energy, EUREAU for water services, and CEEP for general public services) as well as through dialogue and contact with representative organisations (i.e., business associations similar to FNSEM in France and WATER UK in Great Britain).

## **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.

Dialogue with mayors is becoming increasingly more structured: Hera Bologna meets bimonthly with the Coordination Committee of the Mayors of the Bologna area, just as Hera Forlì-Cesena meets quarterly with the Mayors Committee for the region. Hera Imola-Faenza meets quarterly, often together with the Con. AMI conferences, with all the Mayors of the region. Hera Modena meets on a monthly/bimonthly basis with the *Panel Comuni* (Municipalities Panel), which includes each of the Mayors, or his/her delegate, from all of the municipalities of the area. In 2007 in the Rimini area, a Regional Mayors Committee was established, after a process that identified a limited committee, consisting of the Mayors of the Municipalities of Coriano, Morciano di Romagna, Riccione and Verucchio, that defined and shared the articles of association and memorandums of understanding and regulation by means of a document audit and subsequent approval by Municipalities' Councils. Following this process, the articles were presented to the mayors of the other municipalities. In the 4 meetings held during 2007, initiatives in the area were discussed in depth and managed activities and services were monitored.

Furthermore, in 2007, 12 telephone interviews with municipality offices in the Hera service area were conducted with the support of an external specialist. The interviews represented a sample of the area served, helping to understand the functionality and utility of the Mayors' Newsletter and the interest in and use of the tool by the mayors. The tool is perceived as useful and well-done, but is under utilised primarily in the larger municipalities, in which there is a general surplus of incoming information, including via email, and there is not enough time to read it. In these cases, users prefer "relational" channels, or personal contact, with top management. The study led to further analysis and focus groups on subjects requested by the mayors (recycling, investments, work and support programmes for the network, customer services, etc.) including comparison tables and graphics.

Between June and July 2007, during the process of updating the Group's Code of Ethics, the Mayors of Bologna, Ferrara and Cesena, and the Managing Director of Ravenna Holding were involved in interviews to form an opinion on the initial draft of the document. Comments were added primarily in the section of the Code relating to relationships with the region, local communities and institutions.

### **Babonzo World: The Imaginary Creatures Museum**

In Forlì, more than 3,600 visitors and Euro 9,250 were collected for Africa on behalf of AMREF at Babonzo World, the fantastic “Imaginary Creatures Museum – Babonzo World”, that brought together the creative talents of Stefano Benni, the imaginative drawings of Altan, the genius of handcrafts expert Pietro Perotti, and the experience of AMREF.

The museum was held at Albertini Palace from 15 December 2007 to 27 January 2008, and 72 classes from the Forlì-Cesena area participated (approximately 1,500 children). The experience included guided tours and educational workshops on water, environment and Africa, and created beautiful imaginary creatures that will be used to enrich the next stop on the museum’s tour (April 2008 in Palermo).

### **Accords, agreements and memorandums**

In order to jointly define the methods for the realisation and management of Hera plants and services, Hera develops accords with local authorities, and economic and citizens’ associations. The subscription of these accords formally binds the parties to respect the regulations and schedules. These signed accords then take the form of agreements of memorandums of understanding, depending on the form considered most suitable by the signatories to ensure the fulfilment of reciprocal commitments and subsequent application. The following are a few examples of the main elements of some agreements:

- Regional Framework Agreement “For the development of activities of pre-treatment of RAEE (waste from electrical and electronic appliances) in prisons” between Techne, Hera, the Prison Superintendents Office for Emilia Romagna, the Bologna, Ferrara and Forlì-Cesena Provinces, the Bologna and Ferrara Municipalities, Tred Carpi, IT2 Social Cooperative Agency IT2, AmbientAzione Association, Bologna chapter of Cefal (European Association for Worker Education and Training), and the Ferrara chapter of the National Agency of Vocational Training. This agreement was directed at testing laboratories for the disassembly and pre-treatment of electrical and electronic appliance waste in the penal institutions of Ferrara and Bologna with the possibility of extending it to other prisons in the region (25 October 2007).
- “Programme Agreement for the performance of the 2007-2008 action plan for air quality” between Ferrara Province and municipalities and businesses that manage local public services in Ferrara Province, aimed at measures to reduce atmospheric emissions. Hera commits to reduce the impact of the commute between work and home of its employees and of its operating services, by introducing methane vehicles, Euro 4 vehicles, and shifting activities to timeframes that have less impact on traffic (approved on 29 October 2007).

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

The pre-treatment project for electrical and electronic appliance waste within the prison system began as an initiative from the partnership of Equal Pegaso project (a community initiative that works with the primary regional educational agencies, the Municipalities of Bologna and Ferrara, the Forlì-Cesena Province, and the Prison Superintendents Office of Emilia-Romagna, among others) and through the significant commitment of the Regional Prison Administration and Hera Group.

The project's objective is to create disassembly and pre-treatment laboratories for electrical and electronic appliance waste in the penal institutions of Bologna, Ferrara and Forlì. It is currently the leading national inter-prison project for prisoner work placement. Its conception and design involved more than 25 stakeholders (including authorities, businesses, associations, etc.) and was created specifically to be replicable in other penal institutions, considering the possibility of expanding the project to the whole Emilia-Romagna region.

The project envisages the management, in the first experimental phase in the prisons of Ferrara and Bologna, of 1,000 tonnes of non-hazardous waste per year with the aim of guaranteeing more than 80-85% of the weight in recycling or reuse of the components, materials and substances. In total, there are 10 prisoners involved in Ferrara and Bologna.

## **Relations with authorities**

---

### **Authority for Electrical Energy and Gas (AEEG)**

The Electric Energy and Gas Authority (AEEG) is an independent body established under Law 14 November 1995 no. 481 with regulatory and inspection functions in the electrical energy and gas sector. It is a public agency whose regulatory powers consist of determining rates, service quality levels, and the technical-economic conditions for access and interconnection to the networks, for services for which the market is not capable of protecting the interests of users and consumers due to technical or legal constraints or other restrictions that limit the normal functioning of competitive mechanisms.

2007 was marked by intense regulatory activity primarily related to the reception of the reference regulatory framework for liberalisation. Distribution rates for electricity (in force from 1 January 2008) and the regulated sales prices established for the protected band of consumers (essentially families and small business, the high protection market) were dramatically revised. If, on the one hand, the distribution side has reported considerable simplification favouring greater competition (with the application of a single national rate in place of the former options chosen by the operators and submitted for approval by AEEG), on the other hand, the segmentation of the various reference markets (free, safeguarded, and protected) results in a significant increase in complexity and the number of mandatory functions and communications that require greater attention to monitoring and compliance analysis.

During 2007 no sanction proceedings have been undertaken by AEEG. Hera was the subject of two preliminary proceedings (for compliance with regulation regarding inspections of the gas network and the application of the correction coefficients of gas measurement), however generalised to the gas distribution sector, for which Hera has already provided or will provide to the authorities the information required and any necessary clarifications.

In addition, in 2007 Hera received, for quality and continued service of electrical distribution in the prior year, a "prize" consisting of an incentive for continuity recovery of more than Euro 400,000. Based on 2007 results, 2008 will be the last year for application of the current adjustment for service quality and continuity. From 1 January 2008, with economic effects in 2009, new regulation will be in force that confirms the

logic of rewards/penalties by changing the service threshold and the criteria for recording interruptions.

Hera has not adhered to the equivalent system for service quality in gas distribution, which is voluntary in that sector. It is likely that, with the new regulation under discussion, the incentive system will also be made mandatory in the gas sector

### **Umbrella agencies for public services (Water and Waste 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 established of umbrella agencies for public services, with jurisdiction over integrated water services and management services for urban waste and related functions. The new agency has 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 Waster Regulatory Agencies 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.

### **HerArte: school in art and ... waste**

200 adolescents between the ages of 9 and 18 years participated in this project of Hera Bologna. It took place between March and May 2007, and involved the educational departments of Ca’ la Ghironda, the G. Nicoli Environment and Agricultural Centre and the extraordinary participation of Professor Giorgio Celli and the artists of the exhibition cycle “Art and Nature”. Using art, commitment and imagination, the students discovered how “trash” can become useful and reusable, used with different forms and functions than before.

HerArte ended with an exhibition-event showing the installations produced by the students. In addition, it was chosen by the creators of the RAI3 programme “E’



domenica papà” (It’s Sunday, Dad) as a powerful example of a high-quality proposal to convey to families the value of recovery, reuse, and recycling of waste.

As regards the reporting that Hera must periodically provide to the Water and Waste Regulatory Authorities, it should be noted that the specifics of individual conventions has not allowed us, during 2007, to completely standardise reporting, although important steps have been taken, in particular with regards to quantitative and economic data. As such, Hera participates in a project with the Bologna Agency with the objective of producing a single application called “Glicine” for environmental services statements. Glicine collects information supplied by operators and municipalities in a single database and automatically creates the necessary reports for compiling the digital MUD (annual report), statements to submit to other institutions, (regions, provincial waste oversight committees, etc.), description of services rendered in the municipality and calculation of the indicators for evaluating the services performed.

## Research projects

Hera Group’s research activities in 2007 chiefly concerned the development of environmental monitoring and control technologies, energy efficiency, optimisation of the network management, and the technological development of renewable resources.

Leading research projects during 2007 were:

- **CO<sub>2</sub> Capture Project.** The project got underway in 2005 with the objective of capturing the CO<sub>2</sub> contained in the gaseous emissions of the combustion process, its use in the anaerobic digestion process of purification sewage and the resulting reduction of sewage. The experimental phase was concluded in 2007 with verification that the expected results were achieved in terms of percentage of CO<sub>2</sub> capture and reduction of sewage, through the use of a pilot plant at the water purifier in Corticella near Bologna. Then the industrialisation phase was begun with the analysis of possible industrial applications within Hera Group, conducting technical and industrial feasibility studies, as well as forecasts of expected economic and financial benefits.
- **Emerging Pollutants Project.** The term “Emerging Pollutants” refers to various biologically active substances of anthropic origin such as medicines, psychoactive substances associated with drug addiction, their metabolites, and personal care products. These pollutants enter the 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 emerging pollutants in water systems (with particular attention on drinking water), to improve analytical methods for quantitative determination, and evaluate the effectiveness of removal from the current treatment systems (purifying and depuration). Hera takes an active part in the study group “Interfering endocrines and water intended for human consumption” ([www.edinwater.com](http://www.edinwater.com)) promoted by the AMGA Foundation of Genoa ([www.fondazioneamga.it](http://www.fondazioneamga.it)). Other Italian multiutilities, various university departments and the Italian Institute of Health are members of the study group.
- **Environmental Catalysis Project.** The project, started in 2007 with the collaboration of the University of Bologna and with the participation of the Italian Institute of Health, envisages checking the use of traditional catalytic converters used to

abate NO<sub>x</sub> 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. A prototype will be developed in 2008 that will be tested on the exhaust line of the new waste-to-energy plant in Forlì.

- **Electro-osmotic reclamation of sewage sludge project.** The aim of this project, started in 2006 in partnership with the University of Ferrara, is to apply electrokinetic techniques used for reclaiming polluted land to improve the features of sewage sludge. After promising results for the removal of the polluting contents obtained in the first tests in 2006 on a micro-prototype, tests were conducted on a larger-scale prototype in 2007. Provisional results show good capabilities of removing several organic and inorganic pollutants with substantial energy commitments.

- **Polluting Defence Project.** The objective is to monitor in real time and remotely several important water and air quality parameters, reducing pollution risks and laboratory analysis costs. After the positive experience in on-line monitoring at the water treatment plant in Val di Setta (Bologna), and Ravenna, the project was completed in 2007 with the installation of a similar instrument at the Ferrara treatment plant (Pontelagoscuro).

- **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. Tests will be conducted on a real site in 2008.

- **Ferrara Water Project** This project involves actions designed to support the management of the Ferrara water system via application of state-of-the-art technological solutions (mathematical simulation models and forecasting models for refurbishment of water pipes). In 2006 the mathematical model of the network was developed, the first measures for dividing the system into districts were undertaken, and research campaigns on losses were conducted using acoustic tools. In 2007 an optimisation model to plan actions for the refurbishment of the waterway network was set up.

- **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.

- **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. The cell was transferred to the Enea laboratories in Bologna in 2007 for testing, which will continue in 2008.

#### **Relining at Forlì: the non-invasive network intervention system**

1500 metres of the gas network in fibre cement were renovated and reclaimed in 2007 with innovative relining technology (introducing a pre-shaped polyethylene tube in the existing pipe) that allows the network to be reconditioned with a limited number of excavations which results in a reduction of problems due to dust, noise from construction vehicles and the partial closure of traffic in the related streets.

# Local Communities

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

## Objectives and performance

We said we would...	We have...
<ul style="list-style-type: none"> <li>• Launch the RAB of Imola and participate in other citizen engagement initiatives in local areas, regarding the industrial plants managed by Hera.</li> <li>• Redesign the website, based on the results from the stakeholder engagement activities.</li> <li>• Continue the communications programme on separate waste collection and water and energy savings.</li> <li>• Organise tours of the Bologna waste-to-energy plant.</li> <li>• Circulate the Sustainability Report to local stakeholders, also at specific events.</li> </ul>	<ul style="list-style-type: none"> <li>• RAB of Imola was created in April 2007. Hera participates in the RAB of Ferrara and other citizen engagement initiatives in Modena and Bologna (see page 42).</li> <li>• In March 2008 the new website was launched. The new design took into consideration the results of the satisfaction surveys conducted for the site in 2006 (see page 139).</li> <li>• In 2007 various initiatives were carried out of which the most important was “Hera Home”, a travelling event directed at increasing awareness of energy savings (see page 137).</li> <li>• The guided tour will be available in the spring of 2008 (see page 173).</li> <li>• In May 2007 the Sustainability Report was presented at a public event during which Hera gathered the opinions of nine stakeholder representatives (see page 44).</li> </ul>
<b>We shall...</b>	
<ul style="list-style-type: none"> <li>• Launch the RAB in Rimini in conjunction with the expansion of the waste-to-energy plant.</li> <li>• Repeat the “Science Well” initiative directed at spreading the scientific culture of environmental sustainability in schools and other youth groups.</li> <li>• Plan a guided tour of a relevant plant regarding water service.</li> <li>• Circulate the Sustainability Report to local stakeholders, also within specific areas.</li> </ul>	

## Breakdown

In Hera’s service area, there are nearly 2.9 million inhabitants. The provinces in which the company is operational host approx. 14,000 non-profit organisations.

Every year, Hera works together with approx. 550 schools (involving approx. 47,500 students in environmental education activities). Hera develops projects with many associations.

## Communication

### Social and environmental communication

The most important communication project of 2007 in the environmental sector was “Hera Home”, a travelling event that will continue in 2008 in which Hera travels with its “Home”, a structure in which people can learn about home energy consumption and can understand solutions to adopt to lower their energy bill, through a recreational-educational tour using bar code technology, and the value of energy-saving light bulbs, which are given away free of charge. And there is more: in Hera Home, you can receive information about techniques for saving water, through distribution of water flow regulators for taps, and how to dispose of waste properly. Hera Home started with the idea of dedicating a space to the people and reaching out to them, through personalised consultation. In Hera Home you can meet people, or listen to a famous architect explain what sustainable living means, spend an evening laughing with a comic, or let your children participate in environmental education workshops.

### Social and environmental communications costs

(thousands of €)	2006	2007
Social communication	248	348
Environmental communication	1,663	1,360
<b>Total</b>	<b>1,911</b>	<b>1,708</b>

Data include Aspes.

The Territorial Operative Companies of the Group have begun, usually in collaboration with the municipalities, extraordinary initiatives in public squares, distributing energy-saving light bulbs and water regulators for taps.

Projects were carried out at drop-off points and with mobile drop-off points, to allow residents to dispose of their bulky waste, electrical and electronic waste, and hazardous waste.

In association with World Water Day an important communication project was developed for newspapers to increase awareness of water conservation.

In all areas serviced, recycling was supported by promotional and informational materials to explain the local procedures: in particular, a publicity campaign was carried out in the city of Ferrara with the kick-off of clear glass recycling.

### Corporate Social Responsibility: the other side of competition.

A CSR convention organised by Hera was held on 26 June 2007 in Bologna. The convention was held in partnership with Impronta Etica, SCS Consulting, and DNV, and with the sponsorship of the Municipality of Bologna and the Emilia-Romagna Region. International experts on social responsibility and noted spokespersons from the Italian business world gathered at Palazzo Re Enzo.

The day-long convention, attended by over 350 people, was organised in two parts: The first part included speeches from noted experts such as Prof. Edward R. Freeman, Director of the Olsson Center for Applied Ethics of the Darden School of Business at the University of Virginia, and Simon Zadek, CEO of AccountAbility in London. The second part of the day featured a roundtable moderated by Alan Friedman, which included Sergio Cofferati, Mayor of Bologna; Gian Francesco Imperiali, President of

ABB; Emma Marcegaglia, Managing Director of Marcegaglia Group; Pietro Modiano, General Manager of Intesa San Paolo; Giulio Sapelli, Researcher emeritus of the Eni Enrico Mattei Foundation; Luciano Sita, President of Granarolo and Tomaso Tommasi of Vignano, President di Hera.

In the afternoon, three parallel sessions were held during which Hera was able to present its experience in three important and innovative issues: stakeholder involvement, with particular reference to its usefulness in combating the “Nimby Syndrome” (Not in My Backyard), ISO 26000 guidelines for a social responsibility management system, and EMAS registration, the European Union regulation regarding quality and transparency in environmental management systems.

### **Taking part in exhibitions and trade fairs**

In 2007, 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. Our activity focused on the promotion and circulation of the Environmental Declaration developed by the Group's Environmental Division in all waste treatment plants where there is EMAS registration. Our exhibition space is unique: instead of the classic stand, we use “Hera Home”, which is the ideal vessel for environmental issues and a privileged location for meetings with visitors.



### **“An Aperitif for the Future” and “Between the Lines”: culture and society at the centre of the initiatives carried out by Hera Bologna**

Conversations, encounters, and reflections around the world were organised by Hera Bologna on 6 dates between June and December with Patrizio Roversi and Syusy Blady, organisers of the initiative. Chats about water, waste, energy, sustainability, cleaning, and renewable sources, but also a sense of belonging and sharing of the spaces and community resources; all this, within the **Aperitif** that was brought to the people, in different locations and with many guests. Hera Bologna's focus in promoting culture, reflection and debate on current issues and collective interests was furthered solidified at the end of 2007 through a series of 4 meetings called “Between the Lines”, with authors, journalists, and noted Italian personalities from the world of science and culture. The project, in collaboration with Coop Bookstores, Il Mulino Publishing and with the patronage of the Municipality of Bologna, involved presenting books from the “Get an Idea” series, edited by *Il Mulino* newspaper, with free copies given away at the end of each meeting to the attendees. “Between the Lines” was hosted in the prestigious setting of Sala Borsa Library's covered square in Bologna.

### **Hera on the internet**

In 2007, Hera Group's online communication was enriched by further content that was custom developed for the various stakeholders, with particular attention to local communities, customers, and investors. Among the activities that improved quality and timeliness of institutional and financial information were the introduction of “interactive financial statements”, published the same day they are approved by the Board of Directors, that allow the comparison and analysis of annual and quarterly financial statements, stock price, and graphical views of data, results, indices, and performance.

The Sustainability Report is also available in HTML format, both in Italian and English. With a view to transparency and disclosure, as of June we have added to the website an important aspect in waste-to-energy: the daily emissions of all lines and the related parameters provided by law are available. Within the first months of 2008 the site will also make available data on drinking water quality with reference to each community served.

All of the workshops, science “cafes” and educational materials for the “Science Well” initiative have been published in order to promote environmental education.

New important customer service functionality has been added, including the ability to pay your bill over the internet. For business customers we have developed a dedicated commercial area to offer specific communication.

In 2007 the new Group site and the new e-procurement system were designed to communicate via the internet in a way that meets the numerous and growing needs of our various target audiences, as well as the economic and legal context. A specific work group was established for the design, that took into consideration the results of the website’s satisfaction survey that was conducted in 2006. The new website was published in March 2008.

In addition to having increased our rankings in Webranking 2007, Hera achieved further improvement in the Labitalia rankings, which are specific to Italian public utilities, reaching 2<sup>nd</sup> place (from 4<sup>th</sup> place in 2006).

In the first half of 2007 we began monitoring what was being said about us in forums, blogs and newsgroups, in discussions and comments regarding Hera, with particular reference to environmental issues (waste-to-energy, recycling), service quality, energy bills, Hera stock, and possible mergers. Analysing the data from the 4th quarter of 2007, for which there were approximately 700 references to Hera in discussions, we can say that there is substantial balance between the negative and positive comments. The main subjects of the positive comments were “RAEE in prisons” and meetings in local areas in support of recycling. Hera’s positions on door-to-door collection (an initiative which was appreciated), waste-to-energy plants, and possible effects on the environment and health were criticised.

### Website hits

(no.)	2005	2006	2007
Page views (monthly)	355,101	408,280	446,962

## Environmental education

At the beginning of each school year, the Territorial Operative Companies promote environmental education projects, in order to raise awareness in schools on issues related to services and to take part in the educational process, making available our business experience. The experiences across the local areas are structured differently and have varying characteristics from the point of view of content and relations with various local people involved. A coordination initiative for all environmental education projects was begun in 2006, which is known as “Tuttigiùperterra”, which seeks to standardise the Group’s activities by safeguarding the most positive and effective experiences.

### **Our turn!**

For the fourth consecutive year, Hera Rimini promoted in pre-schools, elementary and middle schools awareness of sustainability and respect for the environment by introducing for the first time experimental bi-yearly academic tracks known as “Let’s make a difference”. Through participative planning, a Bi-Yearly Action Plan will be developed for the structural management of waste in the scholastic complexes.

Hera promoted and organised, along with the Maino Golinelli Foundation of Bologna, “*Un Pozzo di Scienza*” (The Science Well), an event to contribute to public understanding of science with regards to water, the environment, and energy. The decision to dedicate one month to scientific and technical culture originated from the desire to contribute to the spread of an environmental and civic culture based on scientific knowledge and encourage deeper understanding and awareness of these issues. In the main cities in the areas served by Hera, adolescents from all the schools participated in educational workshops, meetings, and presentations on the environment, energy and water, for a total of 150 workshops and 20 meetings over 3 days . “Science Cafes” were organised for adults, meetings in which scientists, researchers and other guests held conversations with the participants on climate, energy sources, water consumption, waste production, and the relationship between ethics and the environment.

The event had the patronage of the Emilia-Romagna Region, the Regional Academic Office, the Provinces of the areas served, the provincial capital cities, and the Municipalities of Imola and Faenza. The 2007 Science Well event involved 7,012 students, 567 teachers, and nearly 300 different activities in 6 provinces, and approximately 600 people in the Science Cafes. Given the data from the first year of the project, it has been scheduled again for 2008.

The Group renewed its collaboration with BLOGmag, the monthly magazine for students in middle and upper schools that originated in 2006 in Bologna and became national in May 2007, reaching a level of 500,000 copies distributed in the major Italian cities, with a different version for each town in the Emilia-Romagna region. The project involves promotional space and permanent editorials dedicated to Hera in the magazine, and the production of the “Citymarket” comic, designed by Sandro Staffa with text written by the Mirada Association of Ravenna, that is an insert to the magazine. The comic was conceived by Hera as a way to communicate about the environment to adolescents of the new millennium. “Citymarket” was officially presented at the Comics Festival in Bologna in March 2007.

### **Guided tours of the plants for visitors**

With the objective of “making the invisible visible” and bringing to light the complexity, the experience and the trustworthiness underlying Hera’s services, the first new guided tour of the plants for visitors was developed in 2007. The project aimed to offer proof of the experience, innovative technology and the business responsibility that distinguishes Hera. The first tour was designed for the waste-to-energy facility in Bologna. Beginning in Spring 2008, the visitors accompanied by guides can discover the new facility through a tour marked by 10 large panels that highlight the key points of the waste-to-energy process.

## Environmental education projects

(no.)	2004/05	2005/06	2006/07
Schools involved	781	659	552
Students involved	33,505	37,622	36,014

Data relating to activities programmed by Hera S.p.A. and the Territorial Operative Companies.

There were approximately 36,000 students participating in the environmental education activity. In the Hera Imola-Faenza territory, approximately 18,500 students were involved in the seventh “Differentiate your School” event, at the end of which the schools with the highest quantities and best qualities of the materials collected through separate waste collection will receive awards.

### 16<sup>th</sup> “Materiality” school-city project

“Fantastication: The grammar of fantasy in waste” is the title of the 2007-2008 environmental education project promoted by Hera Ravenna, in partnership with the Municipalities of Alfonsine, Bagnacavallo, Bagnara di Romagna, Cervia, Conselice, Cotignola, Fusignano, Lugo, Massa Lombarda, Ravenna, Russi, and S Agata sul Santerno. The project offers initiatives centred around issues such as waste, recycling, and water and energy saving. Workshops, guided tours, meetings and exhibits were organised for the public.

## Media relations

Hera performs, with the support of an external company, bimonthly analyses of the press including national and local newspapers. The table below presents the results of the analysis, and in particular includes a division of the articles based on their tone (positive, neutral, critical) towards Hera Group.

### Hera news items (national press review)

%	2005	2006	2007
Favourable or highly favourable articles	77.9%	91.2%	84%
Neutral articles	21.1%	8.6%	14.1%
Critical or extremely critical articles	1.1%	0.2%	1.9%
<b>Total articles (no.)</b>	<b>285</b>	<b>420</b>	<b>576</b>

Data do not include Aspes.

Hera Group’s presence in national and regional press continues to increase at a sharp rate.

Our visibility has increased significantly at the national level, which confirms Hera’s increasingly important role in its sector in Italy. In quantitative terms (number of articles published), it grew from 420 articles in 2006 to 576 in 2007, with a growth rate of 37%, while in qualitative terms, the articles have been almost completely positive, with only 2% being negative.



### **Hera news items (local press review)**

<b>%</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Favourable or highly favourable articles	42.1%	45.7%	55.1%
Neutral articles	39.6%	33.1%	26%
Critical or extremely critical articles	18.3%	21.2%	18.9%
<b>Total articles (no.)</b>	<b>3,243</b>	<b>3,834</b>	<b>5,213</b>

Data do not include Aspes.

Additionally, in local press, there has been an increase in terms of number of articles in 2007: from 3,834 in 2006 to 5,213 in 2007, accompanied by a significant improvement in tone. This is the result of greater support to many initiatives carried out in the areas served and constant searching for opportunities to offer to the press.

Of the aspects that has certainly contributed to the improvement in the attitude towards Hera is that media, institutions and the public are aware that they can dialogue in a transparent manner with the company regarding community needs and the questions that these present. Internally, the management of media relations has been confirmed in the drafting of documents for top management on major issues within the utilities industry. Furthermore, interviews for background or certain crisis situations and Group position papers are developed in order to have concerted management and shared positions across the areas served.

The Press area of the internet site is updated daily to allow timely reference to articles. The number of journalists registered in their dedicated section is continually growing.

## **Sponsorship and donations**

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

In the area of culture, Hera has supported national events such as “Chapliniana”, an unprecedented event promoted by Bologna Cineteca, that made Bologna the site of the official celebrations to mark the thirtieth anniversary of Charlie Chaplin’s death on Christmas Day 1977. The “Chapliniana” event included an international exhibition called "Chaplin and image", the first integrated retrospective dedicated to the film star that also included seven film-concerts, a research conference and a tour programme of his most famous films in other cities in the region.

Hera sponsored the first International Comics Festival in Bologna.

At a regional level, we can mention Bologna's Community Theatre season, the Sughì exhibition in Cesena and the Silvestro Lega exhibition in Forlì. In addition, in Ravenna, "Felix Ravenna: The cross, the sword, the veil - The Upper Adriatic between the 5th and 6th centuries"

The partnership with “*ParchinMusica*” (Music in the Parks) is very important as it has created the opportunity for residents and tourists to discover the charm of the countryside through the union of music and nature. Appreciation for the area was increased through walks and guided tours followed by concerts in Emilia-Romagna’s parks with the assistance of expert guides.

Strong social values were evident in the sponsorship of “Music for Health” that was aimed at hospital patients, their relatives, healthcare workers, and external personnel. The project was carried out in hospitals in the provinces of Bologna, Modena and Ferrara with the aim of offering a period of distraction and relief, using music and words so that the hospital is perceived as a place of care rather than suffering.

In a more strictly local setting, Hera contributed to “Ferrara under the stars”, “Pink Nights” in Rimini, the “1947 Riccione Prize and Italo Calvino” in Riccione and the holiday project for disabled persons in the Municipality of Ravenna.

Hera is present through significant partnerships in cycling, which is very popular in Italy, and has a wide fan base in our region, (for example, the “Coppi-Bartali” race, the “Giro dell’Emilia” race, and the “Coppa Pantani” race).

### Sponsorship

(thousands of €)	2005*	2006	2007
Recreational activities	344	191	109
Culture	486	565	845
Sport	315	350	245
Social	71	149	149
Environmental	93	108	135
Other	124	62	41
<b>Total</b>	<b>1,433</b>	<b>1,425</b>	<b>1,524</b>
<i>Of which to local communities</i>	<i>1,375</i>	<i>1,366</i>	<i>1,441</i>
<i>Of which to areas not served by Hera</i>	<i>58</i>	<i>59</i>	<i>83</i>

Pro-forma data including the Meta Group. 2006 and 2007 data include Aspes.

### Donations

(thousands of €)	2005*	2006	2007
Recreational activities	80	0	11
Culture	55	56	75
Sport	0	3	1
Social	328	263	41
Environmental	2	3	26
Other	115	58	28
<b>Total</b>	<b>580</b>	<b>383</b>	<b>182</b>
<i>Of which to local communities</i>	<i>554</i>	<i>354</i>	<i>157</i>
<i>Of which to areas not served by Hera</i>	<i>26</i>	<i>29</i>	<i>25</i>

Pro-forma data including the Meta Group. 2006 and 2007 data include Aspes.

Together with the training and agriculture board, CEFA (European Committee for Training and Agriculture), an international voluntary work NGO, we took a new approach to solidarity by promoting a project for water withdrawal and water resource management in the Puntland region in Somalia. The project was completed following the construction of 24 aqueducts, 30 wells for shepherds, 300 sanitary services, and other sanitary structures in 100 villages.

Furthermore, we contributed to the water saving project "No water to lose" for the construction of the Mulumba aqueduct in Congo and the construction of a water purification facility for the Tosamaganga mission (Iringa, Tanzania).

## Environmental regulations and compensations at new Hera plants

The processes of defining the facility requirements and the subsequent studies prior to the issuance of necessary authorisation for the Group's main new plants include the definition of both technical regulations related to the plant itself as well as actions only indirectly linked to the work itself. The following is a summary of the environmental regulations and compensations envisaged for the main programmes currently underway.

<b>Expansion of the waste-to-energy plant in Ferrara</b>	
<b>Environmental Regulation</b>	<b>Status as at 31 December 2007</b>
<ul style="list-style-type: none"> <li>• Commissioning of the two new lines and the decommissioning of Line 1</li> <li>• Environmental impact monitoring through analysis of air, soil, and biometrics</li> <li>• Continuous mercury monitoring system</li> <li>• Continuous emissions sampling system for analysis, over the long term (up to 30 days) of micro pollutants emitted (dioxins and furans)</li> <li>• Establishment of an RAB to facilitate communication between the business and residents near the plant</li> <li>• Building a 6 hectare wooded area</li> <li>• Extension of the district heating to the outlying areas of Cassana, Mezzana, Porotto and Arginane, with a discount of 25% on connection</li> </ul>	<ul style="list-style-type: none"> <li>• After the two new lines are in operation, Line 1 will be decommissioned</li> <li>• To be completed</li> <li>• Completed</li> <li>• Completed</li> <li>• Completed</li> <li>• Completed</li> <li>• In progress, with a further discount of 20% for immediate connection to the network</li> </ul>
<b>Expansion of the waste-to-energy plant in Modena</b>	
<b>Environmental Regulation</b>	<b>Status as at 31 December 2007</b>
<ul style="list-style-type: none"> <li>• Decommissioning of the older Lines 1 and 2 and operation of only Line 3 and the new Line 4</li> <li>• Lines 3 and 4 with a catalytic system for reduction of nitrogen oxides</li> <li>• Lines 3 and 4 with continuous monitoring system for mercury and PM10</li> <li>• Lines 3 and 4 with continuous sampling system for analysis, over the long term (up to 30 days) of micro pollutants emitted (dioxins and furans)</li> <li>• Environmental monitoring</li> <li>• Planning and implementation of a district heating network for the use of the thermal energy generated</li> </ul>	<ul style="list-style-type: none"> <li>• Lines 1 and 2 will be decommissioned after Line 4 is operational</li> <li>• Planned for Line 3, in progress for Line 4</li> <li>• Planned for Line 3, in progress for Line 4</li> <li>• Planned for Line 3, in progress for Line 4</li> <li>• Active since 2004</li> <li>• The project has been planned, and must be presented to the Municipality of Modena</li> </ul>
<b>Construction of the new waste-to-energy plant in Forlì</b>	
<b>Environmental Regulation</b>	<b>Status as at 31 December 2007</b>
<ul style="list-style-type: none"> <li>• Construction of an 8 hectare wooded area, possibly along the Ronco river</li> <li>• Gradual substitution from diesel to biodiesel for fuel used in waste collection in Forlì</li> <li>• Construction of a noise-reducing barrier for a residence near the purification plant</li> <li>• Planning and implementation of a district heating network for the use of the thermal energy generated</li> </ul>	<ul style="list-style-type: none"> <li>• In planning</li> <li>•</li> <li>• 51% of the vehicles are biodiesel in 2007 versus 39% in 2005</li> <li>• In the purchasing and installation phase</li> <li>• The project was completed and is an integral part of the Forlì district heating development plan</li> </ul>

<b>Expansion of the waste-to-energy plant in Rimini</b>	
<b>Environmental Regulation</b>	<b>Status as at 31 December 2007</b>
<ul style="list-style-type: none"> <li>• Decommissioning of the older Lines 1 and 2 and operation of only Line 3 and the new Line 4</li> <li>• Lines 3 and 4 with a catalytic system for reduction of nitrogen oxides</li> <li>• Lines 3 and 4 with continuous monitoring system for mercury and PM10 in emissions</li> <li>• Lines 3 and 4 with continuous emissions sampling system for analysis, over the long term (up to 30 days), of micro pollutants emitted (dioxins and furans)</li> <li>• Environmental monitoring of air, soil, and groundwater components and biomonitoring.</li> <li>• Planning and implementation of a district heating network for the use of the thermal energy generated</li> </ul>	<ul style="list-style-type: none"> <li>• Completion of the decommissioning project within the first half of 2008</li> <li>• Included in the project</li> <li>• Included in the project</li> <li>• Included in the project</li> <li>• Active since 1997</li> <li>• Awaiting information from the surrounding communities</li> </ul>
<b>Construction of new cogeneration plant in Imola</b>	
<b>Environmental Regulation</b>	<b>Status as at 31 December 2007</b>
<ul style="list-style-type: none"> <li>• Introduction of TSP (Total Suspended Particles) and PM10 limits of 1 mg/Nmc, sole turbogas plant in Italy</li> <li>• Pre-operational environmental monitoring with two new detection devices meeting ARPA specifications</li> <li>• Acoustic monitoring pre-operational and during construction</li> <li>• Planning and development of a sustainable mobility pilot system for the city of Imola</li> <li>• Building of a wooded area to function as a barrier between the plant and the Zolino quarter</li> <li>• Creating a green area of one hectare in a zone to be identified by the Municipality</li> <li>• Introduction of emission limits for nitrogen oxide and carbon monoxide of 15 mg/Nmc and 10 mg/Mnc, equal to 1/3 the legal limit</li> <li>• Introduction of summer and winter water consumption limits</li> <li>• Providing incentives for the development of district heating and cooling through discounts</li> </ul>	<ul style="list-style-type: none"> <li>• Envisaged in the project as a quality objective, to be verified after one year of plant operation</li> <li>• Active since May 2007</li> <li>• Pre-operational acoustic monitoring concluded, acoustic monitoring during the construction phase is being initiated</li> <li>• Base project approved by the Municipality of Imola</li> <li>• Construction expected after the completion of work on the area currently used for stocking materials</li> <li>• To be finalised with the Municipality of Imola</li> <li>• Included in the SCR (Selective Catalytic Reduction) catalyst project</li> <li>• Use of hybrid cooling towers and development of district heating and cooling</li> <li>• Discounts from 50% to 80% on connection for the first 6 years are provided</li> </ul>

## **Associations and Hera membership**

---

Hera belongs to “Sistema Confservizi”, the grouping of associations and federations representing the interests of local public services. “Sistema Confservizi” includes the sector federations such as Federutility and Federambiente, and regional federations such as Confservizi Emilia-Romagna.

The Group is also a member of AIRU (the Italian association for Municipal Heating) ATIG (the Italian Technical Gas Association), APCE Reti gas (gas networks), 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, the Florence School of Regulation). Hera is also a member of the ASPHI Foundation that serves people with disabilities.

## **Pending legal proceedings**

---

At the close of 2007, there were 142 pending cases of litigation (excluding litigation with employees, customers and suppliers, covered in other sections of this report), regarding different cases which primarily involve claims for damages connected with Hera's main operations. At the end of 2007, there were also 80 criminal law proceedings pending. Most of these proceedings regard non-compliance with environmental requisites or regulations, without significant damage to the environment. Among the proceedings indicated, the incident at San Benedetto del Querceto that occurred in December 2006 was included. Moreover, 11 administrative proceedings relating to environmental violations found by the competent oversight bodies were noted. In addition, environmental sanctions for a total of Euro 6,185 were paid.

Relative to the waste-to-energy plants, various litigation is underway related mainly to the authorisation system. In particular, for the Ferrara plant, the Italian Arbiters Association suspension request brought forward by Hera was temporarily granted, awaiting the outcome of the review proceedings initiated by the Province for self-protection. On 11 March 2008, upon completion of the review proceedings, the Province has published the Italian Arbiters Association act modified from the preceding version dated 30 October 2007 for which the emissions limits were revised. Following this proceeding, Hera waived its suspension request previously presented to the Regional Court Administration. The suspension request brought forward by the WWF was not granted.

The Regional Court Administration has granted the recourse presented by the WWF. This decision was challenged by Hera, the Province and the Municipality of Modena before the Council of State. The hearing was set for 1 April 2008.

# 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

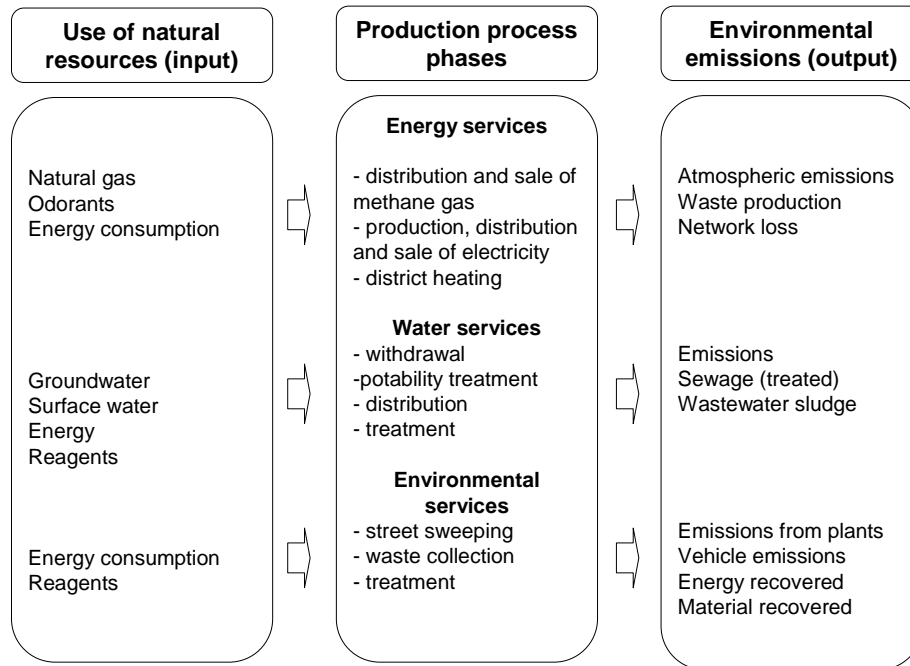
We said we would...	We have...
<ul style="list-style-type: none"> <li>• Reduce use of landfills as a means of disposal for municipal waste, while increasing separate waste collection and waste-to-energy treatment. The objective is to reduce the share of municipal waste directly disposed of via landfills to 15% by 2009.</li> <li>• Increase separate waste collection: reach 35% in 2007 and 40% in 2009.</li> <li>• EMAS registration: obtain registration for 8 more waste treatment and disposal plants during 2007</li> <li>• EMAS registration: extend Hera Ferrara EMAS registration to the integrated water service</li> <li>• Continue the implementation of the water loss detection and reduction plan: reach 22% of water loss in 2008 and 21% in 2009.</li> <li>• Extend district heating, also through the use of renewable sources: start up, in 2007, the installation of a heat pump in order to optimise the use of the geothermal source in Ferrara, and define projects in other local areas.</li> <li>• Progressively increase the number of vehicles using fuel with low environmental impact (methane, biodiesel, electricity), to reach 40% of vehicles with low environmental impact in 2009.</li> <li>• Reduce energy consumption in company premises by 10%.</li> </ul>	<ul style="list-style-type: none"> <li>• In 2007, municipal waste treated via landfills without pre-treatment amounted to 25%, compared to 24% in 2006. (see page 181).</li> <li>• In 2007, separate waste collection came to 38.6% (see page 182).</li> <li>• During 2007, the inspection of the external certification body for EMAS registration concluded positively for 8 more Hera Group waste disposal plants (see page 29).</li> <li>• In 2007, Hera Ferrara passed the inspection of the external certification body for confirmation of the Environmental Certification for the purpose of renewing EMAS registration which was at the same time extended to the integrated water service (see page 29).</li> <li>• Losses on the water network during 2007 came to 24.7% (provisional figure) compared with 25.4% in 2006 (see page 163).</li> <li>• The volumes connected rose by 3.4% when compared with 2006. Projects for extension to Bologna, Forlì-Cesena and Modena were defined. The installation of the heat pump in Ferrara was suspended (see page 158).</li> <li>• During 2007, low environmental impact vehicles rose from 25% in 2006 to 32% of the total (see page 175).</li> <li>• Energy consumption for the heating of company premises fell to 17%. Various action was taken with the aim of containing consumption,</li> </ul>

<ul style="list-style-type: none"> <li>• Start up the plant for the treatment and subsequent recovery of waste from waste-to-energy treatment.</li> <li>• Carry out feasibility studies on mobility management action in the areas of Ferrara, Imola, Modena and Rimini.</li> </ul>	<p>including the optimization of the running hours, the shutdown of the plants when they are not necessary, the on-going timing and monitoring of consumption (see page 156).</p> <ul style="list-style-type: none"> <li>• Test trials for the Modena CIC plant were started up in March 2008 (see page 190).</li> <li>• Analysis of the commuting journeys in Ferrara, Imola and Rimini was completed in collaboration with the local authorities concerned. Activities in Modena will be concluded during 2008 (see page 176).</li> </ul>
<b>We shall...</b>	
<ul style="list-style-type: none"> <li>• Reduce use of landfills as a means of disposal for municipal waste, while increasing separate waste collection and waste-to-energy treatment. The objective is to reduce the share of municipal waste directly disposed of via landfills to 15% by 2010.</li> <li>• Further increase separate waste collection: achieve 50% by 2010.</li> <li>• Double energy generation from renewable and similar sources by 2009.</li> <li>• Continue the implementation of the water loss detection and reduction plan: achieve 21% by 2010.</li> <li>• Progressively increase the number of vehicles using fuel with low environmental impact (methane, biodiesel, electricity), to reach 40% of vehicles with low environmental impact in 2010.</li> <li>• EMAS registration: obtain registration for 4 more plant engineering sites in 2008 (Busca landfill in Forlì-Cesena, Voltana landfill in Ravenna, Zocca and Montefiorino landfills in Modena).</li> <li>• Extend district heating via the use of renewable and similar sources: increase the volume served by 25% by 2010.</li> <li>• Start up the plant for the treatment and subsequent recovery of waste from waste-to-energy treatment by the end of 2008.</li> <li>• Encourage the use of car pooling for commuting and developed specific mobility management initiatives in collaboration with local authorities.</li> </ul>	

## **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.

## Main environmental issues



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 (use of landfill and wastewater treatment biogas, photovoltaic energy), 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 (surface water) following collection by sewerage systems and required treatment.

With regard to subsidence, Hera works toward reducing groundwater collection by using plants fed by surface water as frequently as possible, although this entails higher drinking water purification costs or greater procurement costs (as in the case of supplies provided by Romagna Acque).

To limit the environmental impact of wastewater, the sewer system in coastal areas is equipped with mechanisms regulating discharge into the sea in the event of heavy rainfall. Tanks are also being built to collect runoff water to be transferred to treatment plants.

The main treatment plants are equipped with odour treatment systems using bio filters. All plants are equipped with: 24-hour a day staffing, inspections on a daily basis, or 2-3 times per week, depending on plant size. Wastewater is controlled before reintroduction into the environment on the basis of a plan specifying number, frequency and type of analysis.

With regard to waste management services, the main issues concern:

- increasing separate waste collection and the consequent recovery of materials;
- the reduction of waste sent to landfills, as per the matters established by the Environment Consolidation Act;



- the recovery of energy from waste (via waste-to-energy transformation processes and the exploitation of biogas).

Increased separate waste collection enhances the efficiency of downstream waste treatment and recovery of material and energy, as well as the reduction in landfill volumes.

### **The environmental management system**

A management system is a series of correlated elements which start up an on-going cycle of continual improvement.

Hera's commitment with regard to environmental protection is declared in the quality, safety and environment policy and involves the definition of gaugeable and comparable improvement objectives. In order to achieve these objectives, the best work methods have been identified, described and structured via precise work procedures and instructions. In order to monitor the improvement of its environmental performance, surveillance and gauging instruments have been defined and both internal and external periodic inspections have been organized. In conclusion, top management annually reviews the entire system so as to assess the improvement and any need to extend its efforts and define new and ambitious goals.

On termination of the first cycle, Hera decided to update the quality, safety and environment policy, strengthening its commitment towards preventing and reducing impacts on the environment.

### **The main results achieved**

Via implementation of an environmental management system, the Hera Group has achieved important results such as:

- the identification of possible significant environmental impacts associated with its activities and the consequent definition of specific operating instructions aimed at monitoring and minimizing these impacts;
- the accurate evaluation of the noise impact of the plants (small treatment plants, gas pressure reduction stations);
- the systematic consideration of the environmental aspects as input data for the planning and design of activities and work and services, also supplementing the standard specifications relating to activities entrusted to third parties;
- the launch of a structured system for controlling our supplier's action for the correct handling of the environmental aspects of the work and services they perform on our behalf;
- growing attention towards the innovations regarding local, national and EU legislation and the structured assessment of their correct application;
- the implementation of widespread information and training initiatives on the main environmental matters and on the correct handling methods (handling of waste produced, basic training for all workers, specific training for all technical staff, etc.);
- active participation of all the corporate structures in the certification process.

The improvement programme for the environmental management system also envisages:

- the re-definition of the entire system of environmental performance indicators, structuring the generation, collation and analysis process;

- the circulation of the best techniques also due to the progressive standardisation of management and operations;
- the launch of a daily assessment and feedback system with the suppliers so as to constantly improve their environmental performances;
- the prompt updating of the management procedures in the event of significant changes in the environmental impacts;
- definition of plant standards, broken down based on the various acoustic zoning classes, with verification and adjustment, if required, of the existing plants;
- further information provided and sensitivity initiatives regarding environmental issues, with specific training of technicians in charge of inspecting suppliers.

Environmental analysis carried out for the development of the Hera Group environmental management system has highlighted the presence of damaging substances to the ozone within certain air-conditioning systems serving the offices and the plants. Over the last few years, the Group has worked towards the progressive elimination of these substances, via replacement of obsolete systems or substitution using innocuous gas. The systems containing harmful substances are checked regularly in order to monitor any losses and promptly see to their correct running, as envisaged by Group procedures. Hera also carries out important activities for the collection of old refrigerators, which often still contain harmful substances. Strict procedures are in force for the handling of these waste items so as to avoid that they become damaged and guarantee the correct handling of the substances they contain.

The risk of spillage into the ground exists both at plants due to the presence of stockpiling and when services are performed in the area due to the loss of oil or even waste. All the operating vehicles – even those of third party firms which work for Hera – are equipped with absorbent materials for containing and recovering the spillage. Emergency kits are present at the plants for the recovery of the various types of materials spilled.

## **Energy production**

---

Distinguishing features of electrical and heat energy production by the Hera Group are the use of a variety of sources that minimise environmental impact and reduce pollutant emissions, the attention paid to energy saving, and the use of technologically innovative plants.

Hera manages turboexpanders that produce electricity by exploiting gas pressure differentials, plants which fuel the district heating networks, including the plant in Ferrara which is also fuelled by geothermal sources, and plants for the recovery of energy from the waste-to-energy treatment of solid municipal waste.

For the future, it intends to maintain a growing trend in the use of renewable energy sources, not only increasing the already existing plant pool, but also by acquiring new generation plants.

### Electricity produced (gross)

(MWh)	2005	2006	2007
Waste-to-Energy plants	260,476	306,074	300,716
Cogeneration	102,217	94,550	81,517
Combustion of landfill biogas	9,618	15,298	21,828
Turboexpanders	16,596	9,846	11,622
Combustion of wastewater treatment biogas	2,335	1,654	8,015
Photovoltaic energy	0	0	224
Hydroelectricity	1,536	0	521
<b>Total</b>	<b>392,778</b>	<b>427,422</b>	<b>424,443</b>

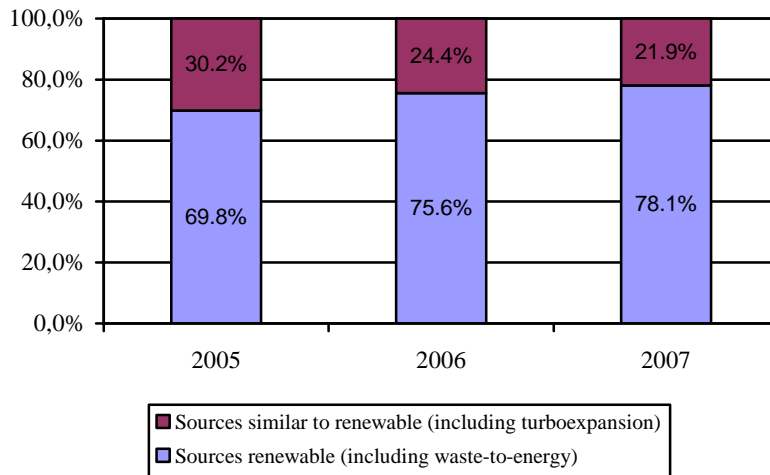
Data do not include Aspes.

Italian Legislative Decree No. 387 of 2003 defines the biodegradable portion of municipal and industrial waste as a renewable energy source.

Italian Law No. 10 of 1999 regulates production of electricity by plants using sources similar to renewable sources. Among these sources, the law includes co-generation plants, understood as combined production of electricity and heat.

Although the definitions are not precise in regulatory measures, production of electricity by turboexpansion has been considered as similar to renewable sources since, without recovery, the energy would be dispersed.

### Total electricity produced



Data do not include Aspes.

The slight reduction in total electricity produced can be linked to the warmer climatic trend which occurred during 2007, given that many of Hera's electricity generation plants are associated with the production of thermal energy and therefore feel the effects of the variability in the demand for this type of energy.

With regard to renewable electricity production sources, there was a slight drop in energy produced by waste-to-energy plants offset however by a rise from landfill biogas, treatment plant biogas and photovoltaic energy, as a result of the new initiatives launched.

65% of the electricity produced benefits from incentives (CIP 6, Green certificates or the energy account).

During 2007, electricity generation from biogas in the Aspes landfill came to 4,365 MWh.

The main plants using renewable sources which came into service during 2007 included:

- the new waste-to-energy transformation lines at Ferrara (the effects on production will be evident in 2008 given that the activities were launched in the last few days of 2007);
- 200 kW photovoltaic plant at the Interporto di Bentivoglio (BO);
- new generation plant using biogas recovered from the Bologna treatment plant;
- overhauled generation plant using biogas recovered from the Cesena treatment plant;
- trigeneration unit (electricity, heat, cooling) serving the Hera offices in Via Molino Rosso, Imola.

#### **Co-generator using treatment biogas from Bologna plant**

In September 2007, the new electricity generation plant using biogas from the Bologna treatment plant was opened. It will produce electricity and heat from the use of biogas, a mix of methane, carbon dioxide, nitrogen and other gases, generated naturally during the fermentation of treatment sludges. Around Euro 2 million invested, estimated annual production of approximately 6,000 MWh: these are the main numbers involved in the changeover from municipal wastewater to new generation of electricity from a renewable source.

The electricity produced by companies in which the Group holds investments pertaining to Hera, came to around 1,800 GWh. The companies involved are SET, Tirreno Power and Calenia in which Hera has an equity investment.

SET and Calenia respectively run two electricity 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. Tirreno Power plants comprise combined-cycle plants (63%), coal-fuelled plants (31%), traditional power stations (5%) and hydroelectric plants (1%).

#### **Electricity produced (gross) (breakdown by plant)**

(MWh)	2005	2006	2007
Frullo Energia Ambiente (BO) waste-to-energy plant	103,903	146,955	147,533
Ferrara waste-to-energy plant	10,253	11,359	11,754
Forlì waste-to-energy plant	12,912	12,203	13,290
Modena waste-to-energy plant	30,403	28,065	27,002
Ravenna waste-to-energy plant	32,943	33,273	32,741
Ecologia Ambiente waste-to-energy plant	21,936	22,098	22,919
Rimini waste-to-energy plant	48,126	52,121	45,477
<i>Total from waste-to-energy</i>	<i>260,476</i>	<i>306,074</i>	<i>300,716</i>
Bologna co-generation	44,854	39,637	38,914
Ferrara co-generation	2,593	2,178	2,204
Forlì-Cesena co-generation	1,316	2,428	3,670
Imola-Faenza co-generation	51,664	48,749	35,690
Modena co-generation	1,790	1,558	1,039
<i>Total from co-generation</i>	<i>102,217</i>	<i>94,550</i>	<i>81,517</i>

(MWh)	2005	2006	2007
Tre Monti Imola (BO) landfill	432	0	0
Caruso Modena landfill	289	95	81
Spilamberto (MO) landfill	748	2,552	1,936
Alfonsine (RA) landfill	942	510	2,705
Ravenna 1C landfill	7,207	5,887	6,687
Nuova Geovis Sant'Agata (BO) landfill	n.a.	6,254	10,419
<i>Total from landfill biogas combustion</i>	<i>9,618</i>	<i>15,298</i>	<i>21,828</i>
Bologna turboexpander	6,360	804	2,664
Ferrara turboexpander	4,196	3,288	3,695
Forlì turboexpander	2,990	2,889	2,577
Ravenna turboexpander	3,050	2,860	2,686
Modena turboexpander		5	0
<i>Total from natural gas turboexpansion</i>	<i>16,596</i>	<i>9,846</i>	<i>11,622</i>
Bologna wastewater treatment plant (biogas)	923	212	7,009
Cesena wastewater treatment plant (methane)	270	373	0
Cesena wastewater treatment plant (biogas)	1,110	1,047	1,006
Ravenna wastewater treatment (methane)	32	22	0
<i>Total from wastewater treatment combustion</i>	<i>2,335</i>	<i>1,654</i>	<i>8,015</i>
Interporto Bentivoglio (BO) photovoltaic plant			224
<i>Total from photovoltaic plants</i>			<i>224</i>
Cavaticcio Bologna hydroelectric plant	1,536	0	521
<i>Total from hydroelectric plants</i>	<i>1,536</i>	<i>0</i>	<i>521</i>
<b>Total electricity produced</b>	<b>392,778</b>	<b>427,422</b>	<b>424,443</b>

Data do not include Aspes.

#### **New mini-hydroelectric plant at Verghereto**

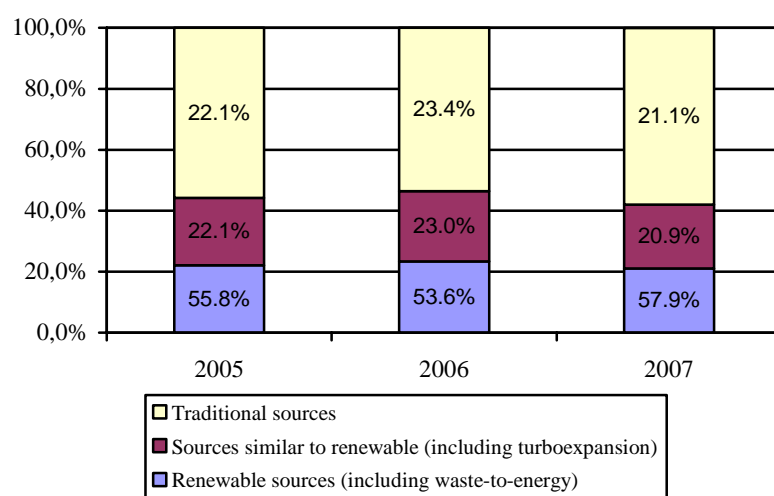
This new plant is located on the Para torrent, at Verghereto. This is Hera's Euro 500,000 investment, which belongs to the Euro 8 million envisaged over the next few years in the renewable and similar energy sector (co-generation serving district heating) throughout the area of Forlì-Cesena.

The plant has an average capacity of 640 litres per second, and is a small engineering wonder. Its steel turbine transforms the force of the water into clean electricity: by means of its production capacity of 770 MWh a year, it is able to cover the annual electricity requirement of the public lighting system in the municipal area of Verghereto (around 2,000 inhabitants).

#### **Thermal energy produced (gross)**

(MWh)	2005	2006	2007
Waste-to-Energy plants	40,261	47,612	40,493
Geothermics	76,096	66,599	57,261
Cogeneration	116,613	112,606	96,678
Wastewater treatment plants	66	31	0
Thermal stations	294,342	262,180	267,794
<b>Total</b>	<b>527,378</b>	<b>489,028</b>	<b>462,226</b>

## Total thermal energy produced

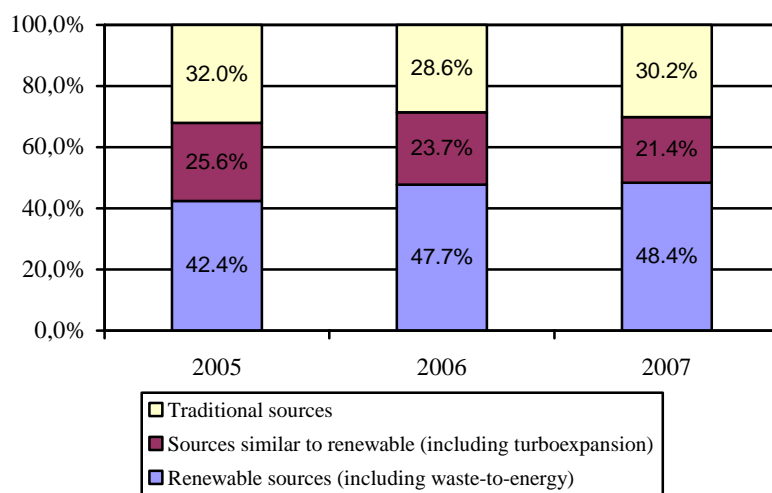


The milder climate on average during 2007 led to a decrease in thermal energy produced and distributed to customers via the district heating network with respect to 2006. A number of malfunctions in the Bologna and Imola co-generation systems led to a further drop in production. A prolonged period out of service for the geothermal well at Ferrara, which lasted for nearly all of 2007, negatively affected the portion of energy produced from renewable sources. These two circumstances also led to greater recourse to traditional thermal power stations.

## Gross thermal energy produced by plant

(MWh)	2005	2006	2007
Frullo Energia Ambiente (BO) waste-to-energy plant	34,247	39,287	34,782
Ferrara waste-to-energy plant	6,014	8,325	5,711
<i>Total from waste-to-energy for district heating</i>	<i>40,261</i>	<i>47,612</i>	<i>40,493</i>
Ferrara geothermics	76,096	66,599	57,261
<i>Total from geothermics</i>	<i>76,096</i>	<i>66,599</i>	<i>57,261</i>
Bologna co-generation	46,564	45,926	43,741
Ferrara co-generation	3,771	3,046	3,011
Forlì-Cesena co-generation	1,766	2,365	4,013
Imola-Faenza co-generation	62,467	59,404	44,745
Modena co-generation	2,045	1,865	1,168
<i>Total from co-generation</i>	<i>116,613</i>	<i>112,606</i>	<i>96,678</i>
Ravenna wastewater treatment (methane)	66	31	0
<i>Total from wastewater treatment combustion</i>	<i>66</i>	<i>31</i>	<i>0</i>
Bologna supplementary thermal stations	90,520	63,560	59,131
Bologna thermal stations	35,417	33,009	30,547
Ferrara thermal stations	86,277	88,429	86,343
Forlì-Cesena supplementary thermal stations	8,660	8,008	13,603
Imola-Faenza supplementary thermal stations	30,667	27,323	41,628
Modena supplementary thermal stations	4,257	4,223	3,068
Modena thermal stations	38,544	37,628	31,791
Ravenna thermal stations	0	0	1,683
<i>Total from thermal stations</i>	<i>294,342</i>	<i>262,180</i>	<i>267,794</i>
<b>Total thermal energy produced</b>	<b>527,378</b>	<b>489,028</b>	<b>462,226</b>

## Total energy produced



Data do not include Aspes.

## Energy consumption

### Primary energy consumption by type

GJ	2005	2006	2007
Electricity	2,106,185	2,106,245	2,148,265
Methane for production	3,893,387	3,204,607	3,232,148
Methane for heating of premises	185,611	132,561	110,179
Fuel for vehicles	343,134	351,007	317,210
Waste-to-energy treatment	5,971,035	6,275,037	6,310,502
<b>Total</b>	<b>12,499,352</b>	<b>12,069,458</b>	<b>12,118,304</b>

Data have been calculated using the conversion standards defined by the GRI G3 guidelines. The data refer to energy consumption by Hera SpA, Territorial Operating Companies, Uniflotte, Ecologia Ambiente, Frullo Energia Ambiente, and Hera Luce.

The climatic effect was significant compared to 2006, as warmer weather led to a decrease in primary energy consumption for Hera itself, linked to final use, and in primary consumption linked to the provision of services, which are greatly influenced by the climate, such as gas distribution and the production of energy for district heating services.

### Production and objectives of white certificates

(toe)	2001-2005	2006	2007
Production of white certificates	10,271	23,375	52,895
White certificate objectives	6,345	13,755	27,465

The production of white certificates in 2007 may be amended on the basis of further requests for checks and certification relative to savings, which will be sent to the Authority for Electrical Energy and Gas with reference to the period in question. All indicated values, except those which have already been certified, depend on the certification of the saving by the Authority.

The energy saving objectives have been set by the authority, in accordance with the provisions of the Italian Ministerial Decrees dated 20 July 2004 which set quantitative objectives, also applying to Hera since it is an electricity and gas distributor, for the purpose of increasing energy efficiency relating to end uses of energy.

### **Energy saving initiatives**

During 2007, the Hera Group continued with the initiatives for achieving its annual savings target for the end use of energy. This year the focus has in particular been on collaboration with various partners to whom Hera has made its know-how available for the identification and the planning of energy optimization measures, specifically concerning the industrial sector, thanks in part to the collaboration with Trade Associations. This has made it possible to accomplish a number of interesting projects which have permitted the recovery of significant portions of thermal energy from processes or the use of renewable sources such as biomasses.

Much has also been achieved in collaboration with local authorities, a number of Waste and Water Regulatory Authorities (ATOs), voluntary and trade union associations. Thanks to such collaboration and above all else with the involvement of the Group's territorial companies, during 2007 over 350,000 energy saving light bulbs were distributed free-of-charge to customers, along with nearly 3,000,000 flow regulators for taps and showers.

In order to improve efficiency in the end uses of Group premises and plants, an internal process was launched for the definition of an energy management system, for monitoring consumption on an on-going basis, based on a constantly updated energy audit.

The main measures achieved include:

- district heating with energy from co-generation, geothermics and waste-to-energy transformation (savings certificates until 2005 for the new connections made between 2001 and 2005 on the Ferrara and Imola district heating networks);
- production of heat by biomass-fuelled generators and high efficiency condensation generators (during the period 2001-2006 biomass-fuelled heat generation systems were installed in 30 public buildings, mainly schools and nurseries; 49 old boilers were replaced by new and more efficient condensation boilers);
- optimisation of ambient air-conditioning installations via remote management and high-efficiency generators (141 third party buildings where, thanks to a system for the remote management of the thermal power stations, certified energy savings were achieved);
- efficiency upgrading of public lighting systems (measures in 35 municipal areas within Emilia Romagna and Marche, more than 35,000 light bulbs replaced with greater energy efficiency bulbs, featuring the same or better light engineering characteristics);
- upgraded efficiency relative to electric motor controls with inverters (more than 30 inverters installed on Hera pumping plants with an efficiency greater than or equal to 22 kW, mainly in the integrated water service).



### **Energy efficiency initiatives in partnership with SAPI**

This project, developed by Hera in partnership with SAPI of Castelnuovo Rangone (MO), a company which produces fats and proteic flours, during its five years duration will ensure certified savings estimated at 2,500 toe, as a result of efficiency measures, via the insertion of specific devices in the steam generation phase that SAPI uses in its production process.

The development of this project required Hera and SAPI to work closely together, to achieve an extremely ambitious goal of great importance due to its environmental and economic benefits.

### **Public lighting system**

Besides its main energy, water and waste management sector services, Hera 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 319,098 light points and ensures the efficiency of the public lighting service in 60 municipalities included in the provinces of Bologna, Ferrara, Forlì-Cesena, Modena, Pesaro-Urbino, Ravenna and Rimini; for 29 of these municipalities, it also manages the traffic light installations.

Hera’s management of public lighting focuses on improving the service by reducing capacity power used and consumption levels, via the gradual replacement of mercury vapour lamps with other long-life, high luminous efficiency lamps and overall upgrading of technical and equipment conditions.

After the replacement of the traffic lights in the municipality of Bologna, by 2008 it is expected that a further 2,275 traffic lights will be replaced by LED lights in Modena’s municipal systems, involving an estimated energy saving of 72% and an investment of Euro 1 million.

## **District heating**

---

District heating is one of Hera’s core services, consisting in the sale of heat for customer home heating and domestic hot water. This is an alternative system to traditional 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. Heat reaches homes from these installations in the form of hot water at approx. 90° which is introduced into the domestic heating system via (non-polluting emission-free) heat exchangers.

Customer benefits consist in increased safety (no gas), lower maintenance costs (no domestic boiler), and the freedom to independently regulate the temperature of the home. For cities, district heating provides a solution to air pollution problems via replacement of home boilers (frequently fuelled with gas-oil or methane).

## Environmental advantages of district heating

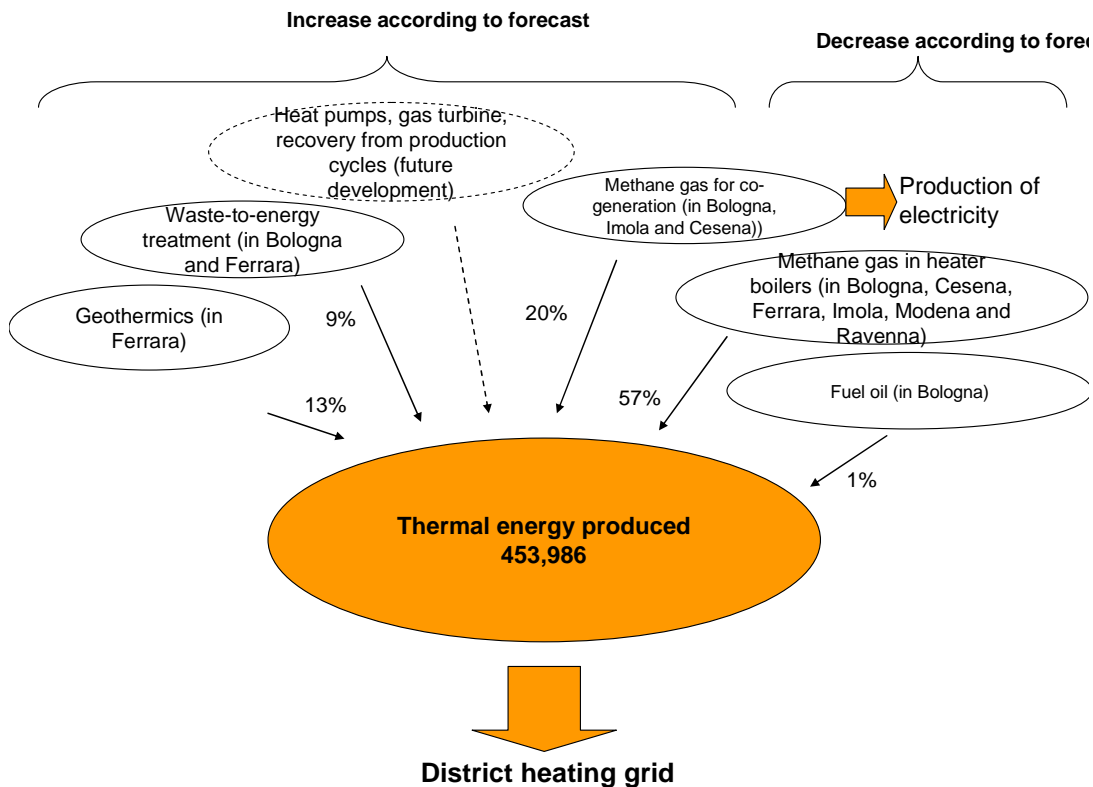
	2005	2006	2007
Primary energy saved (toe)	16,763	15,808	12,558
Nitrogen oxide avoided (t)	107.1	101.7	81.1
Carbon dioxide avoided (t)	65,760	62,765	52,244
Sulphur oxide avoided (t)	140.2	137.1	123.8

Calculated as the difference between a traditional installation (heating installation 35% fuelled by gas oil and 65% by methane, with an average seasonable output of 75%, and an electricity power plant with average Italian emissions) and Hera's district heating plants for the same quantity of energy (thermal and electricity).

It is estimated that the installations managed by Hera led to primary energy savings equating to 12,558 tons of oil in 2007. Furthermore, the use of district heating also makes it possible to avoid the atmospheric emission of pollutant substances as shown in the above table.

The decrease in the trend is entirely due to the lower quantity of thermal energy sold as a result of a warmer climate in 2006 and 2007.

## Sources used for district heating



The proposed development of district heating in the Industrial Plan is of considerable significance and envisages a considerable enhancement of the connected volumes, involving an increase of around 25% (at the end of 2010) with respect to the current volume. This will be made possible by upgrading current plants and by development in areas not covered as yet.

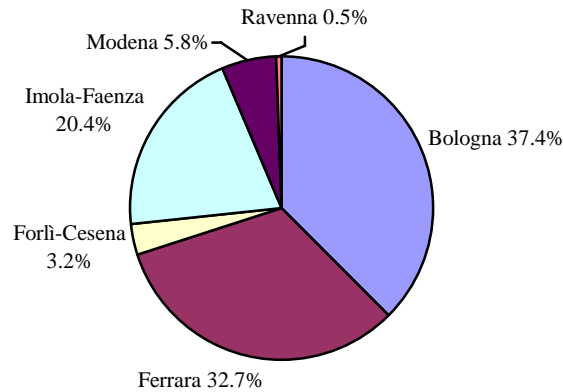
Development of district heating will mainly be based on renewable sources, with significant impacts on energy and environmental performance.

## District heating data

	2005	2006	2007
Thermal energy sold (MWh)	460,188	425,850	391,501
Volumes served (thousand of m <sup>3</sup> )	14,330	14,798	15,301
Housing unit equivalents served (No.)	47,764	49,326	50,838

Housing unit equivalents served were calculated on the basis of an average apartment volume of 300 m<sup>3</sup>.

## Volumes served by area (2007)



## Production and distribution of water

The sources used by Hera for its raw water supply (to be treated and distributed to users), vary in nature. The total volume introduced into the network in 2007 totalled approximately 325.2 million cubic metres (excluding Aspes, 302.4 million cubic metres). Many offtakes are from ground and surface water sources. The rest of the water is taken from springs or is procured from third parties. The water acquired from Romagna Acque is collected in the Ridracoli reservoir and treated for drinking purposes at the Capaccio plant in Santa Sofia (Forlì-Cesena).

### Action for fighting the 2007 water emergency

The area included within the provinces of Ravenna, Forlì-Cesena and Rimini was affected between Autumn 2006 and Autumn 2007 by unusual weather conditions which led to rainfall well below the period average, and a consequent decrease in the flows to the reservoir by around 50%.

The gravity of this situation was acknowledged at central and local authority level, by means of a series of measures aimed at containing consumption and urgent work for dealing with the water crisis. The following action was implemented:

- between May and October 2007, around 24 million cubic metres were withdrawn from Acquedotto della Romagna, fed by Ridracoli, more than 6 million less (- 20%) than in 2006 (30.4 million cubic metres);

- water production from field wells was increased (rise in production from existing wells, re-activation of out-of-service wells, drilling of new wells);
- new network interconnections were activated, making it possible to progressively decrease the water withdrawn from Acquedotto della Romagna (from 250 litres a second in October 2006 to 80 litres a second in October 2007).

The action taken and the late rainfall which arrived in the second half of October 2007 meant that implementation of a water rationing programme was avoided.

Potability treatment will vary according to the origin and quality of the water at the source. Process steps include chemical and physical water drive, usually adopted for surface water (elimination of suspended solids, separation of micro pollutants, elimination of pathogens and micro-organisms) and simple filtration and disinfection (applying to deep wells and springs in some cases). The treatments carried out guarantee that the distributed product has suitable chemical and physical features, in constant observance of the limits laid down by current legislation.

#### **Reno – Setta connection at Sasso Marconi**

This infrastructure, comprising a steel pipe with a diameter of 1.4 metres, a length of more than 4 km and an intake on the Reno, will link-up the river to the drinking water treatment plant of Val di Setta; this will make it possible for more surface water to reach the plant. As from Autumn 2008, this should guarantee the water supply of the Bologna area involving greater use of surface water and less groundwater withdrawals. The creation of the pipeline required an investment of approximately Euro 21 million, paid for entirely by Autostrade S.p.A. as part of the High Speed Line works.

#### **Water introduced onto the network (breakdown by source)**

thousands of m <sup>3</sup>	2005	2006	2007
Groundwater	137,272	139,620	153,892
Surface water	83,779	84,878	107,887
Springs	12,003	12,170	11,017
<b>All Hera sources</b>	<b>233,054</b>	<b>236,668</b>	<b>272,796</b>
Romagna Acque and other minor sources	69,277	65,307	52,423
<b>Total</b>	<b>302,331</b>	<b>301,975</b>	<b>325,219</b>

The data include both the civil water system and the industrial water system (the latter present in the TOCs of Forlì-Cesena, Imola-Faenza and Ravenna); Romagna Acque represents a surface water source.

Perimeter being the same, there was an increase of 0.2% with respect to total water introduced into the networks of the civil and industrial water systems. If one considers just the water introduced into the network of the civil water systems, there was a drop in volumes of 0.2%.

As a consequence of the water emergency due to the dry climate, there was a drop in water withdrawn from the Ridracoli reservoir during 2007, and at the same time an increase in the volume withdrawn from surface and groundwater sources. In detail, groundwater withdrawn in 2007 came to 47.3%; excluding Aspes, this percentage totalled 49.7%, compared with 46.2% in 2006.

### **New water system in Modena for multiple use**

A new stretch of water system which will supply water for industrial use to a number of businesses which process stone materials in the Modena area, will make it possible to save 500 thousand cubic metres of groundwater each year (equal to 1.5% of the groundwater withdrawals in the Modena area in 2007). Thanks to this initiative, groundwater will be saved, since the businesses will use surface water from the Castellarano traverse on the River Secchia, for their production cycles.

### **Water introduced into the grid (breakdown by source and area) (2007)**

thousands of m <sup>3</sup>	Hera Bologna area	Hera Ferrara area	Hera Forlì-Cesena area	Hera Imola-Faenza area	Hera Modena area	Hera Ravenna area	Hera Rimini area	Aspes area
Groundwater	54,823	7,384	15,519	9,604	33,892	466	28,715	3,489
Surface water	35,845	23,368	2,669	1,901	1,424	21,384	2,510	18,787
Springs	3,616	0	1,539	1,174	3,271	0	1,369	49
<b>All Hera sources</b>	<b>94,284</b>	<b>30,752</b>	<b>19,728</b>	<b>12,678</b>	<b>38,587</b>	<b>21,850</b>	<b>32,593</b>	<b>22,324</b>
Romagna Acque and other minor sources	27	7	15,315	13,402	1,187	11,781	10,238	465
<b>Total</b>	<b>94,311</b>	<b>30,760</b>	<b>35,043</b>	<b>26,080</b>	<b>39,773</b>	<b>33,631</b>	<b>42,832</b>	<b>22,789</b>

The data include both the civil water system and the industrial water system (the latter present in the territorial companies of Forlì-Cesena, Imola-Faenza and Ravenna); Romagna Acque represents a surface water source.

### **The remote control project for network services**

At the end of 2007, the tender was awarded for the implementation of a single remote control system at the new Forlì centre for the fluid networks and plants; the system will be active around the clock and will deal with the monitoring and the management of the networks and plants and taking the emergency calls.

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

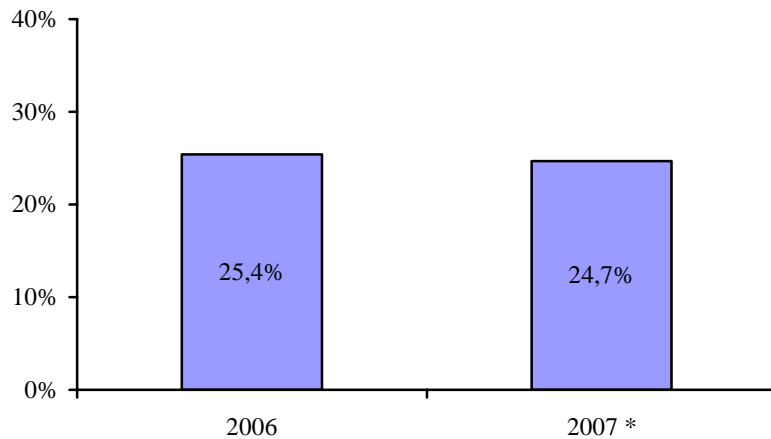
This project has a term of 4 years, with half-yearly reporting starting from March 2008. The centre will be one of the largest in Italy in terms of geographical area covered, number of services, and type and number of plants involved.

### **Water grid components**

%	2005	2006	2007
Plastic	48.6%	49.5%	51.4%
Asbestos cement	26.1%	25.6%	24.1%
Steel	16.2%	16.6%	16.3%
Cast iron	6.0%	6.0%	6.4%
Other materials	3.1%	2.3%	1.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Distribution network extension is 26,183 kilometres (including Aspes which counts for around 1,378 kilometres). Where possible, interconnections and links are provided in order to provide for supply continuity also in cases of temporary interruption of service of one or more pipes.

### Network losses (real and procedural), civil water system



Data excluding Aspes  
 \* Provisional

#### **What are real and procedural network losses?**

Water losses may be real or physical losses (caused by breakage of pipes or hydraulic equipment, etc.). Alternatively, they may be procedural or apparent (meter errors, errors in estimated presumed consumption as at 31 December, unrecorded internal consumption, illicit consumption). Illicit consumption consists in water reaching the end user which is not recorded or billed. For this reason, the indicator may also be called “unbilled water”.

Previous sustainability reports have included the figure relating to water losses calculated as the difference between the water introduced into the water system during the year and the water accounted for as supplied to customers during the same period: the latter figure was estimated 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.

In order to get round this problem, the figure of the networks losses has been calculated in a more accurate manner allocating the adjustments deriving from the meter reading in the pertinent year and thereby guaranteeing perfect comparability between water sold

and the related amounts introduced into the system each year. It goes without saying that it is possible to calculate the final figure for the year using this new approach only around 4-6 months after the close of the financial statements, or after all the meters have been read. For this reason, the figure relating to just 2006 is shown, the only year for which it has been possible to apply this new calculation method. An overall figure of 25.4% emerges, compared with a national average of 40.1% (from the Report to Parliament presented by the Water Resource Watchdog Committee, 2005).

The estimated figure relating to 2007 comes to 24.7%. This figure will be adjusted next year in order to take into account the effective charge calculated during 2008 after all the meters have been read.

With regard to Aspes, the estimate of the real and procedural system losses relating to 2007 was 26.1%. Also considering the Aspes network losses, the overall figure of the Hera Group for 2007 rose to 24.8%.

Real losses will be reduced and constantly monitored via division of the distribution networks into specific sections, analysis of minimum night-time flow rates, the active detection of losses and, where possible, the reduction of the operating pressure. Action is also taken on procedural losses, through the recording of volumes which have not been invoiced (i.e. technical uses) and the improvement of the gauging of volumes, mainly those provided to users, with a plan to substitute meters, which aims at reducing the average age of the meters installed and provides for the use of more precise meters.

The installation of new magnetic flow gauges on the distribution networks throughout the area permits an increasingly more accurate monitoring of the water system, by means of analysis of the minimum night-time flow rates and the compilation of water balances divided up by individual water system. The networks inspected rose from 9% in 2005 to 15% in 2007; the efficacy of the active loss detection campaigns increased considerably thanks to the purchase of new technologically advanced instruments.

The dividing up into districts of the Hera Ferrara system, flanked by an effective Active Leakage Control (ALC) led to a reduction in the estimated losses of 3.8 percentage points in the three-year period 2005-2007; likewise, the first six districts set up in the municipality of Modena provided a moderate contribution. The third reduced pressure district was also set up within the networks of the municipality of Bologna, involving a reduction of 50% in the number of breakages on connections and pipes. The Territorial Information System has been standardized for the entire Group, permitting the automatic geo-referencing of the breakages which makes it possible to precisely identify the stretches of pipeline and the priority connections for improvement and replacement measures. The mathematical modelling of the networks is at an advanced stage throughout the area; there are numerous projects for the division of the networks into districts and optimising energy being prepared by the Group territorial companies.

In 2008, the first three reduced pressure districts will be set up at Hera Rimini and the division into districts of Hera Modena and Hera Ferrara's systems will continue. The project for the district division of the Ravenna network is currently being drawn up, while careful management of the pressure continues in the area of Lugo (RA). Hera's participation in the Emilia-Romagna Region's Loss Group will lead in 2008 to the implementation of an important project for establishing the relationship between water losses and energy consumption and the calculation of the Economic Level of Leakage for a sample district within the Hera Bologna area.

## **Wastewater treatment quality**

---

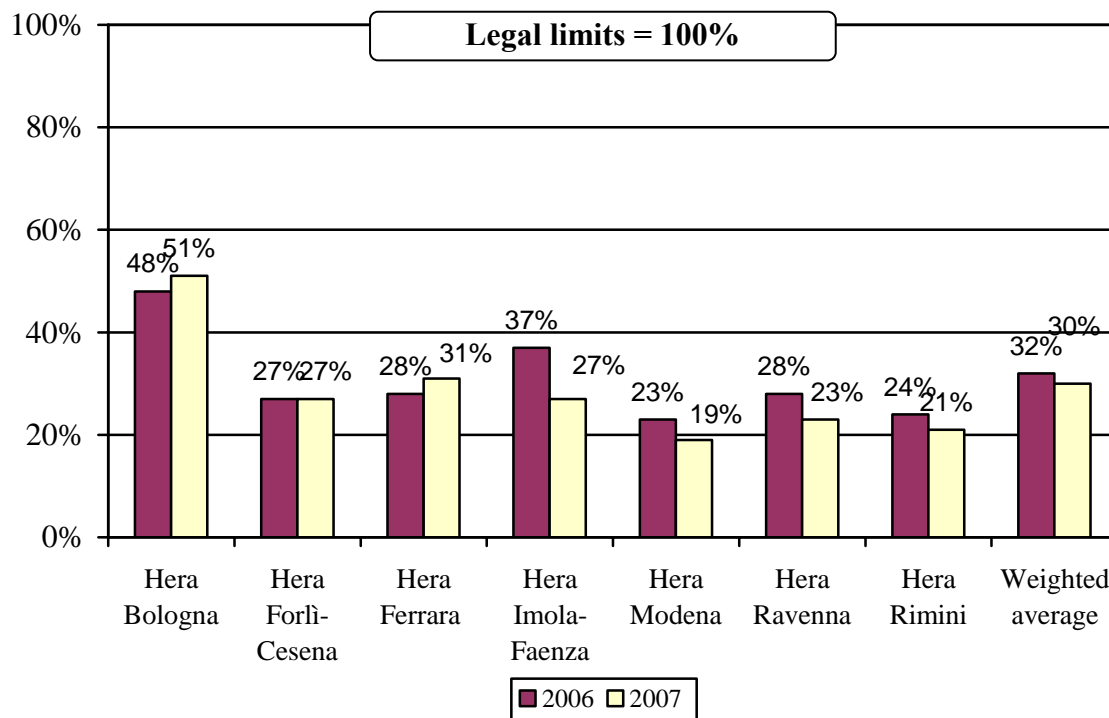
In 2007, Hera managed the sewerage and wastewater treatment service in 164 municipalities of Emilia Romagna. The sewage system is generally mixed (approximately 65% of the total) in this area. The service covers approximately 92% of the requirements expressed as inhabitant equivalents (meaning the sum of resident inhabitants, productive users transformed into inhabitant equivalents and presence due to tourism), compared to an average for the Region of 90% and a national average of 84% (Report to Parliament of the Water Resources Supervisory Committee, 2005). Wastewater treatment is carried out through 811 treatment plants, of which 14 have power equal to 100,000 inhabitant equivalents. The service covers 88% of the inhabitant equivalents in the area, compared to an average for the Region of 82%, and a national average of 75% (Report to Parliament of the Water Resources Supervisory Committee, 2005).

Aspes manages the sewerage and wastewater treatment services in 12 municipalities. Via the subsidiary Acque, it manages 30 treatment plants in the province of Pesaro and Urbino involving an overall capacity of around 141,000 inhabitant equivalents. The largest of the plants run is in the Borgheria district and services the urban area of Pesaro with a capacity of around 90,000 inhabitant equivalents.

In 2007, the treatment process produced about 55 kg of sludge per inhabitant equivalent served. This sludge was disposed of through dedicated incineration, transfer to landfills and agronomic reuse, directly or following pre-treatment. In 2007, just 2% of sludge produced (compared with 4% in 2006) was directly reused in agriculture, as only this amount had the characteristics complying with the provisions of the Emilia-Romagna Regional authority.



### 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 80% of the total waste water treated) and is calculated on the basis of the ratio between the concentration gauged for BOD, COD, TSS, ammoniac nitrogen and the related maximum concentrations permitted by law.

The graph discloses an improvement in the quality of the treated water during the last year, thanks to the enormous investment plan underway as agreed with the Water and Waste Regulatory Authorities for modernising the plants. Positive results were seen in particular in Imola-Faenza, Modena, Ravenna and Rimini. Bologna continued to disclose less satisfactory performances due to renovation work on the Bologna plant where, during the first half of 2007, adaptations were made to the pipelines for the recirculation of the treatment sludge: this led to a reduced treatment capacity and a deterioration in the plant performances.

The availability of the on-line monitoring system at the Formellino treatment plant in Faenza meant that its management improved. Extraordinary work was carried out also on the Marecchiese, Bellaria, Misano and Cattolica (in Rimini) treatment plants. The main plant in Modena was dephosphorated. The slight deterioration relating to Ferrara was caused by the need for the Ferrara treatment plant to run at reduced capacity during the work for transforming the primary sedimentation tanks into secondary ones.

#### **Measures for reducing the environmental impact of the Rimini treatment plant**

In order to improve the environmental impact, with reference to both noise pollution and the smells produced by the treatment plant in Via Marecchiese, important measures are envisaged which will conclude in Spring 2008. The following measures are envisaged: recirculation of the incoming waste water, use of the biological oxygenated sludges, sealing of the cover of the plant intake channel, utilization of two extractor

fans for filtering the air present in the intake channel, and the replacement of the old oxygenation technologies.

Additional work is envisaged in Bologna for important renovation of the treatment plant (new denitrification systems) which will last for around three years. At Imola-Faenza, the adaptation of the denitrification phase is envisaged at various plants, including the Faenza Formellino treatment plant. In order to obtain greater energy efficiency from the Modena treatment plant, the replacement of the ventilation system is expected to take place.

#### **Upgrading of the Ravenna and Cervia treatment plants**

During 2007, expansion of the water line of the Ravenna treatment plant to service 240,000 inhabitant equivalents was completed and construction continued on the sewage network collectors in the southern areas of the municipality of Ravenna, which will make it possible to connect the sewage systems of the districts served to the treatment plant. In conclusion, the first portion of the enhancement of the Cervia treatment plant, which envisages filtration systems for the re-use of the sewerage wastewater, is expected to be completed by April 2008.

With regard to wastewater treated in small treatment plants serving suburban areas (plants often built several years ago which now receive wastewater which over time has seen the presence of sewage systems serving management activities increase), at present, - even if there are few critical situations regarding the accurate observance of the limits envisaged for sewer water systems from treatment plants – various expansion and renovation measures are required. The adaptation of these plants continues in observance of the investment plans put together by the Water and Waste Regulatory Authority agencies (ATOs), 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. The action cannot be implemented within an extremely short space of time because the activation of the projects requires resources originating from the wastewater treatment tariff, but a progressive improvement is already visible in these small sewage systems as well, linked to the measures already achieved. With a view to maximum transparency, Hera has also developed methods for monitoring the stage of completion of the work envisaged in the investment plans for the sewerage – treatment system, in agreement with the leading bodies concerned.

#### **“I sentieri dell’acqua” (The Paths of Water)**

This is an initiative developed throughout the area for raising awareness of all the aspects linked to the water cycle. Launched in 2007, it envisaged the opening of the Imola and Castel San Pietro Terme treatment plants and the water collection basin and industrial water system at Bubano to the general public with guided tours, and the launch of an environment education campaign on the water resource which will continue in 2008 and involve around 3,000 students from primary and junior high schools in the area. The "I sentieri dell'acqua" initiatives are jointly promoted by Hera Imola-Faenza and Con.Ami.

For the 27 largest treatment plants (selected from among those with treatment capacity greater than 10,000 inhabitant equivalents), the most significant parameters that characterise the wastewater treated are reported, in particular: COD and ammoniac nitrogen are indicators of the concentration of pollutants typically present in municipal wastewater, while BOD indicates the level of biodegradable pollutants.

#### Average concentrations for the year at the main plants (2007)

(mg/l)	Body of water receiving the treated wastewater	COD (limit: 125 mg/l)	BOD5 (limit: 25 mg/l)	TSS (limit : 35 mg/l)	Ammonia nitrogen (limit: 15 mg/l)	Volumes treated (thousands of m <sup>3</sup> )
IDAR (Bologna)	Navile canal	56.0	20.1	16.9	10.7	46,865
Anzola (BO)	Scolo Sanguinettola	23.0	9.2	7.4	4.9	1,383
	Bassa or Torrente La vinello					
Calderara (BO)	Scolo Dosolo	30.9	9.8	8.3	1.1	1,200
Ozzano (BO)	Rio Marzano	25.3	9.3	7.2	7.2	808
S. Giovanni (BO)	River Reno	34.5	9.8	15.3	15.3	714
Gramiccia Ferrara (FE)	Po di Volano	50.0	13.0	13.0	1.4	17,860
Cesena (FC)	Rio Granarolo	23.8	9.0	5.6	0.9	5,056
Cesenatico (FC)	Scolo Madonna	34.4	12.7	5.7	0.8	3,223
Forlì (FC)	Scolo Cerchia	33.9	13.3	12.3	3.3	1,841
Savignano (FC)	River Rubicone	27.3	10.4	5.4	2.5	5,107
Formellino (IF)	River Lamone	59.7	6.7	17.5	3.2	6,620
Santerno (IF)	River Santerno	47.7	4.5	27.4	8.0	4,908
Modena	Naviglio Canal	28.0	4.0	13.0	1.1	32,319
Voltana (RA)	Cupa and Scolo Fagiolo Consortium canal	27.5	3.5	8.1	6.1	15,368
Voltana (RA)	Scolo Sabbioni	41.9	5.1	9.3	1.1	3,342
Voltana (RA)	Scolo Cappucine	29.3	4.4	8.3	1.0	1,134
Voltana (RA)	Cupa Consortium canal	30.1	2.9	4.6	3.9	5,439
Lido di Classe (RA)	Pergami canal	18.6	2.0	7.1	9.6	1,007
Voltana (RA)	Scolo Arginello	50.2	7.6	11.9	1.8	6,363
Marina di Ravenna (RA)	Scolo Piombone	22.6	2.4	12.1	1.3	1,178
Voltana (RA)	Scolo Pisinello	24.4	2.3	4.9	0.5	1,365
Rimini - Marecchiese (RN)	River Marecchia	29.3	12.6	10.8	4.8	10,850
Rimini - S. Giustina (RN)	River Marecchia	31.7	13.2	13.2	1.0	12,207
Riccione (RN)	Rio Marano	32.6	14.0	14.3	1.4	6,034
Cattolica (RN)	Torrente Ventina	29.3	11.8	10.5	1.9	5,722
Bellaria Igea Marina (RN)	River Uso	27.9	12.4	10.6	6.2	2,427
Pesaro Borgheria (PU)	River Foglia	30.1	4.2	7.4	-	7,088
						<b>207,428</b>

The volume treated in the plants indicated in the table equates to 74% of total wastewater treated.

The results of analysis for the parameters indicated do not show significant variations compared with previous years, and continue to be much lower than legal limits.

During 2007, excluding Aspes, the non-compliances detected by Arpa on samples of treated water analyzed which gave rise to sanctions, numbered 31.

Hera also manages various constructed wetlands plants in the provinces of Bologna, Ferrara, Florence, Forlì-Cesena and Ravenna. The constructed wetland process involves

use of a third party purification system of biological ponds and of macrophytic vegetation with the function of a “filtration ecosystem”, enhancing the quality of already treated water. These systems also contribute to the reclamation of borderline areas, creating natural environments and landscapes that are pleasing to the eye, and are often chosen as refuges for various species of birds, amphibians and reptiles. In these areas, it is often possible to organise didactic tours to observe specific animal and vegetable species typical of wetlands.

## **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 at locations.

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

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

The following table illustrates the total volume of the pollutants monitored continuously, issued by Hera’s waste-to-energy plants.

### Atmospheric emissions generated by waste-to-energy plants

(t)	2005	2006	2007
Dust	6.3	4.8	4.8
Hydrochloric acid	5.7	5.0	4.6
Nitric oxides	467.3	469.0	464.2
Sulphur oxides	17.3	15.5	17.5
Carbon monoxide	32.3	35.9	34.9
Hydrofluoric acid	-	-	0.4
Total organic carbon	-	-	8.0
<i>Waste treated in plants (t)</i>	<i>614,009</i>	<i>597,582</i>	<i>593,668</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.

With regard to pollutants not monitored continuously, total emissions can be estimated on the basis of the results of analysis performed during the year. In 2007, 119 kilograms of metals were emitted, along with 2.3 kilograms of aromatic polycyclic hydrocarbons and 47.2 milligrams of dioxines and furans.

### Concentrations of atmospheric emissions of waste-to-energy plants (2007)

(mg/Nm <sup>3</sup> )	Legal limit (daily average)	Bologna <sup>1</sup>	Ferrara (line 1)	Forlì	Modena	Ravenna	Ravenna Ecologia Ambiente <sup>2</sup>	Rimini
Dust	10	1.0	0.5	4.9	0.9	0.4	0.8	1.9
Hydrochloric acid	10	0.1	0.6	2.0	0.9	<0.36	0.4	4.8
Nitric oxides	200	67.1	88.2	127.6	172	158.1	101.7	149.0
Sulphur oxides	50	4.5	7.5	3.5	1.1	0.1	4.5	3.9
Carbon monoxide	50	11.8	6.8	5.6	5.1	11.6	3.3	2.7
Hydrofluoric acid	1.0	0.0	0.2	0.4	0.3	0.1	0.03	0.0
Total organic carbon	10.0	1.2	0.3	3.4	1.0	0.3	0.6	1.6
Total metals	0.5	0.045	0.041	0.047	0.005	0.02	0.03	0.03
Aromatic polycyclic hydrocarbons	0.01	0.00003	0.0012	0.00124	0.00018	0.0006	0.00001	0.0025 3
Dioxins and furans (ng/Nm <sup>3</sup> )	0.1	0.004	0.073	0.025	0.002	0.03	0.02	0.013

The legal limits refer to Italian Legislative Decree No. 133/2005.

<sup>1</sup> The legal limits for the waste-to-energy plant in Bologna are lower than those for the other plants. Dust: 5, Hydrochloric acid: 5, Nitric oxides: 150, Sulphur oxides: 25, Carbon monoxide: 35.

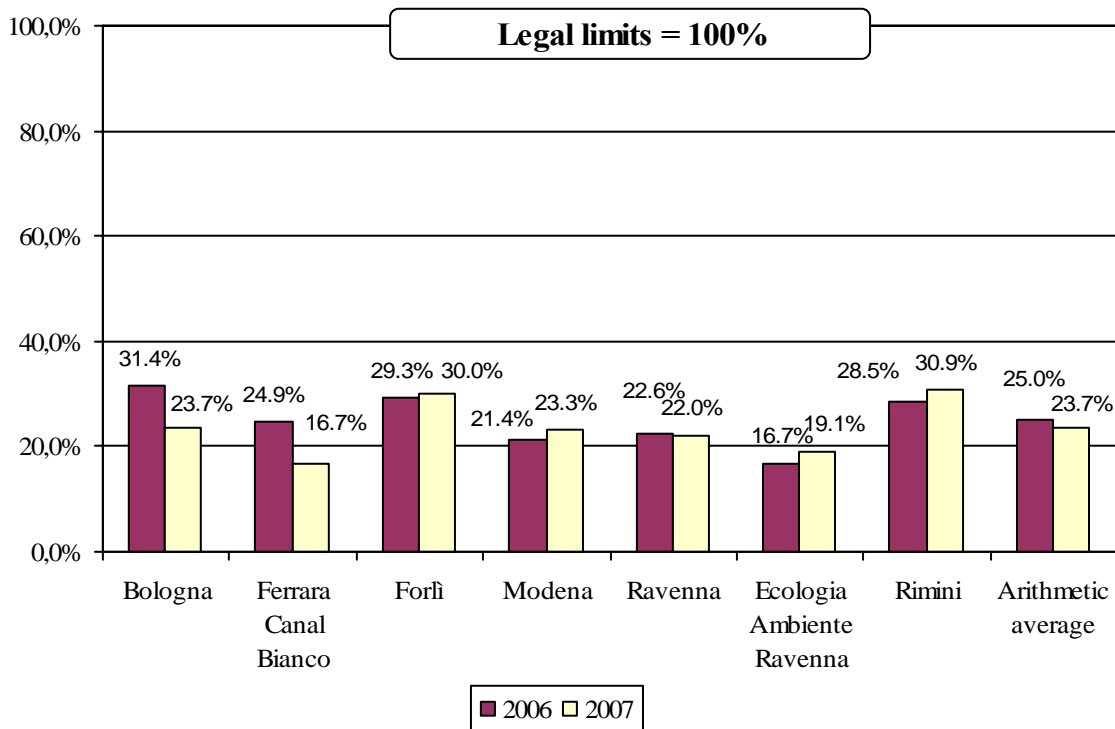
<sup>2</sup> The legal limits for the Ecologia Ambiente waste-to-energy plant in Ravenna differ from those for the other plants. Nitric oxides 150, aromatic polycyclic hydrocarbons: 0.0001.

The various Hera Group waste-to-energy plants fully observe the limits laid down by current legislation. The environmental management system which the company avails of, aims to improve constantly.

On average, the concentrations of atmospheric emissions of the waste-to-energy plants amount to 24% of the legally established limits, or the authorisations, when more restrictive. This means that the concentrations are 76% lower than legal limits.

Significant improvements in these parameters are obtained by means of constructing new plant. At the new Bologna waste-to-energy plant, the concentrations of the pollutants to emissions also fell by 4-5 times.

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

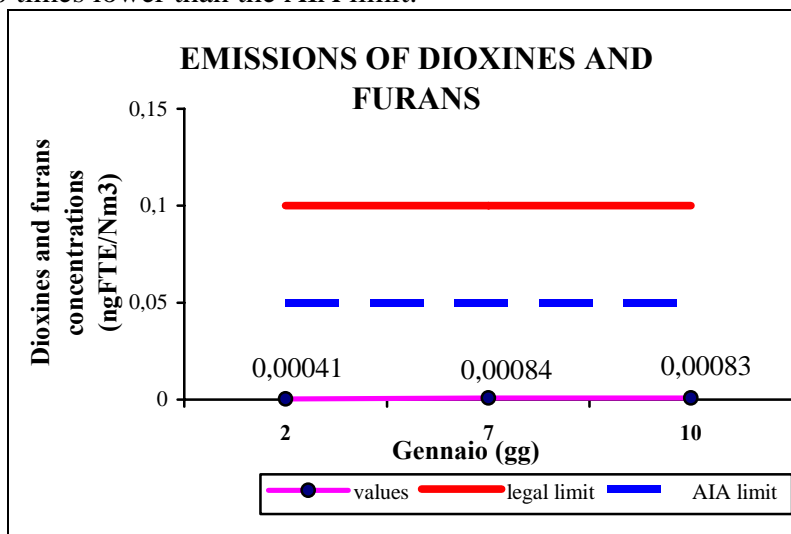


**The emissions of the new Ferrara waste-to-energy line**

In January 2008, the first analysis was carried out on the Line 2 chimney, or rather the first of the two new lines brought onto stream. As envisaged by Integrated Environmental Authorization (AIA), within 10 days of the date it was brought onto stream, three complete analysis were carried out for six full sampling days on all the normed pollutants (nitric oxides, sulphur oxides, dust, fine dust (PM10), carbon monoxide, hydrochloric acid, hydrofluoric acid, metals, mercury, cadmium+thallium, beryllium+zinc+selenium+tin, dioxines and furans, polychlorobiphenyl, aromatic polycyclic hydrocarbons, total organic carbon, ammonia).

The results of this first campaign, compared with the limits indicated in Italian Legislative Decree No. 133/05, and above all else the more restrictive ones issued by the AIA, have indicated the ability of the plant to remain well under the prescribed

limits. The example of dioxines and furans is just one, where the values detected are more than 50 times lower than the AIA limit.



Over the next 24 months, this analysis will be repeated every fortnight as envisaged by the authorization, so as to ensure constant monitoring of the performances of both of the new lines.

Control of waste-to-energy plants regards, firstly, process parameters and emissions impacting the air, water and soil, followed by an assessment of environmental emissions via an integrated approach.

Within this context, prevention measures become a priority area. The main objective is pinpointing the best technological and management options for minimising, on the one hand, consumption of materials and energy, and, on the other, the environmental impacts of the entire process life cycle.

Precise information is provided regarding the properties of the source of emission. The implemented environmental monitoring systems are then used to follow up emitted pollutants and assess their impacts via analysis of environmental matrices and statistical processing of acquired data for the purpose of establishing possible cause-effect relations linking emissions of appropriately selected environmental indicators to their presence in the surrounding environment.

Monitoring systems of this kind have been used to varying extents at all Hera Group waste-to-energy plants for a number of years: in Modena since 1989, in Ravenna since 1994, in Rimini since 1997, in Forlì since 2000, in Bologna since 1999, and in Ferrara since 2001. Analysis of results obtained and of similar case studies, and comparison of the levels of contaminants determined in each environmental and process matrix with normal environmental quality standards, do not reveal significantly dramatic environmental quality problem areas in the geographic zones considered. Since January 2006, on the basis of an agreement reached with the municipalities of Castenaso and Granarolo dell'Emilia, the Bologna provincial office of the regional environmental protection agency, ARPA, has published on its Internet site the data regarding the self-inspection relative to the emissions of the Bologna waste-to-energy plant.

Studies carried out in the Emilia Romagna area as part of the definition of the Provincial plans on Air Quality, have in recent years revealed a very low impact, often under 1%, of the waste cycle on total atmospheric pollution. In fact, the real problem is emissions from traffic, both local and that passing through.

### **The first Hera plant visitors programme**

With the aim of “making the invisible visible” and revealing the complexity, expertise and reliability of Hera’s services, during 2007 the first, new programme for visitors to plants was introduced. The project aims to highlight the experience, innovative technology and corporate responsibility which distinguish Hera. The first programme has been studied for the Bologna waste-to-energy plant. As from Spring 2008, visitors accompanied by the guide will be able to discover the new plant via a route marked out by ten large panels which highlight the key aspects of the waste-to-energy process.

### **The Monitor project**

Hera has joined the Monitor project launched by the regional Environment and Sustainable Development and Health Policies Inspectorate Offices, in collaboration with local authorities and Arpa. This project aimed to achieve a control and awareness system within the three-year period 2007 - 2009 capable of permitting the periodic disclosure to citizens of all the information available on waste-to-energy emissions and on any environmental and health risks associated with the same.

In order to assess how much the populations who live in the area near to the plants are exposed to the waste-to-energy plant emissions and what the consequences are, targeted surveys are necessary. These surveys envisage the identification of the resident population in the survey areas, the analysis of the socio-demographic characteristics and the assignment of levels of exposure to the pollution from all the sources present in the area. This information will be correlated to the short-term effect indicators, such as reproductive effects and hospitalization, and long-term indicators, such as mortality and the incidence of tumours. Furthermore, all those who have worked in the Reggio Emilia, Modena, Bologna, Ferrara, Ravenna, Forlì and Rimini plants for at least six months between the opening of the plant and 31 December 2005, will be studied.

### **New systems for monitoring pollutant emissions**

Hera’s new waste-to-energy treatment plants are equipped with systems for continuously controlling pollutants; these systems are much more evolved than those present in the plants currently operating. These systems are already running at the Ferrara plant and will be installed at the Forlì, Modena and Rimini plants.

One of the innovations introduced is the presence of sensors for the analysis of the fumes in three different points of the plant (the law only imposes the presence of sensors for the gauging of pollutant substances in the chimney). The first sensor analyzes the pollutants present in the fumes and on the basis of the detected values makes it possible to adjust the first fume treatment phase. The second sensor is located immediately after the first pollutant reduction phase, making it possible to assess the effects produced and therefore adjust the second treatment phase. The third sensor gauges the residual pollutant substances which leave the chimney: this data is issued to check compliance with the legal limits.



### **Waste-to-energy emissions on-line**

Starting from March 2007, the emissions of the waste-to-energy plants of the Hera Group can be monitored daily by anyone interested.

A new section of the Internet site [www.gruppohera.it](http://www.gruppohera.it) provides daily reports on atmospheric emissions of the waste-to-energy plants in Bologna, Ferrara, Forlì, Modena, Ravenna and Rimini.

For Hera, it is important to provide this on-line tool, because it contributes to the transparency of management, highlights our attention to technological innovation and confirms, on an objective basis, that Hera's commitment goes beyond compliance with the law.



### **The waste-to-energy treatment plant remote control project**

In June 2007, the remote control station for Hera's waste-to-energy treatment plants was opened in Coriano (RN); this is an eminent innovation nationally, which will permit the systematic control in real time of seven 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 will also be 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 Ravenna, Rimini and Bologna plants. In 2008, the Ferrara and Forlì plants will be linked up.

## **Atmospheric emissions generated by district heating**

### **Atmospheric emissions generated by district heating**

(t)	2005	2006	2007
Nitric oxides	129.4	118.7	115.3
Carbon dioxide	135.699	124.957	115.141
Sulphur oxides	11.9	4.4	2.6

Compared to 2006, emissions of pollutants decreased (- 3% for nitric oxides, -43% for sulphur oxides and - 8% for carbon dioxide) both due to the seasonal effect which led to a decrease in the demand for heat energy, and due to the different composition of sources, which aimed at progressively reducing the use of fuel oil, until completely replaced, in favour of the use of thermal energy recovered from waste-to-energy plants and, to a lesser extent, gas.

### Atmospheric emissions generated by district heating (2007)

(t)	Nitric oxides	Carbon dioxide	Sulphur oxides
Bologna	48.5	49,934	2.6
Ferrara	6.1	20,945	0
Forlì-Cesena	2.6	5,464	0
Imola-Faenza	24.7	34,655	0
Modena	8.3	6,784	0
Ravenna	0.4	359	0
<b>Total</b>	<b>115.3</b>	<b>115,141</b>	<b>2.6</b>

### Corporate vehicle fleet

#### Fleet (No. of vehicles)

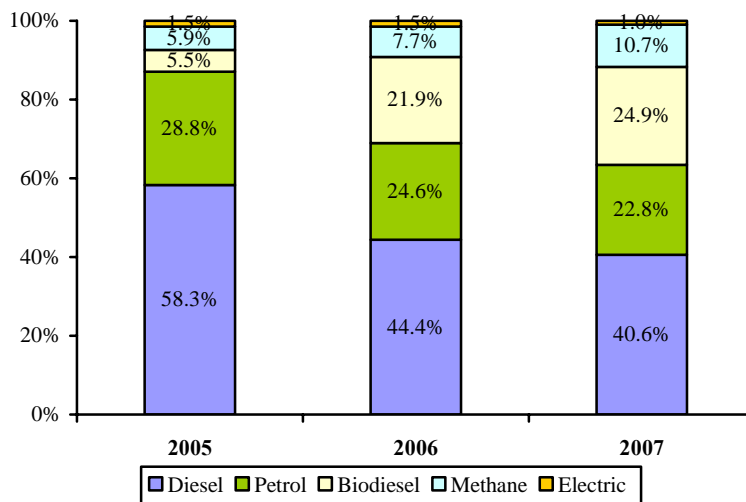
(No.)	2005	2006	2007
Diesel	1,826	1,203	982
Petrol	1,214	1,035	1,044
Methane	231	339	385
Biodiesel	130	348	704
Electric powered	92	73	61
<b>Total</b>	<b>3,493</b>	<b>2,998</b>	<b>3,176</b>

Non-circulating vehicles being disposed of were not included.

The corporate fleet comprised 3,176 vehicles. If we exclude Aspes, which uses 305 vehicles including 232 using low environmental impact fuel (biodiesel, methane, GPL or electric power), the vehicle fleet disclosed a decrease of 4% when compared with 2006.

During 2007, the percentage of vehicles which use low environmental impact fuel rose further. The percentage increased from 25% to 36% of the total (32% excluding Aspes).

#### Fuel consumed by vehicles



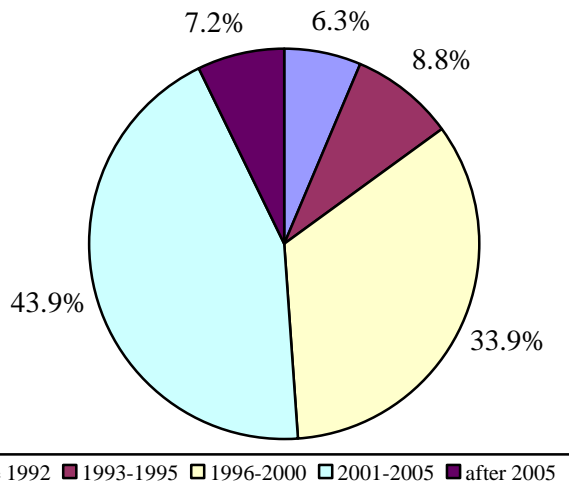
The comparison between the various types of fuel has been made, considering the primary energy present in the single fuels calculated using the GRI method.

The use of low environmental impact vehicles is also on the up: the consumption of low environmental impact fuels came to 51% of total fuel for automotive power consumed (calculated in terms of primary energy contained in said fuels expressed in GJ). Excluding Aspes, this percentage came to 46%.

The increase in the use of biodiesel is evident. The biodiesel used by the Hera Group is a mix composed of 75% diesel and 25% esterified rape seed oil. The use of biodiesel reduces the emissions of particulate matter by approximately 50%, and leaves emissions of carbon monoxide and sulphur oxide substantially unchanged. The reduction in emissions of CO<sub>2</sub> is directly proportionate to the share of biological product in the mix. In the future, the use of biodiesel will also be introduced in the Modena area in concurrence with the transfer of the head offices and the transformation of the distributor.

Excluding Aspes, as of 31 December 2007 the average age of the vehicles was approximately 7 years.

### Breakdown of the vehicles by year of registration



Data do not include Aspes. 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).

### The first two AdBlue-technology automatic waste compactors in Ferrara and Forlì

In advance of the deadline set by the European Community for October 2009, Hera Ferrara has equipped itself with two automatic waste compactors whose emissions comply with the stringent limits regarding nitric oxides and dusts envisaged for Euro 5 vehicles.

The AdBlue technology which the vehicles are based on comprises an aqueous and non-toxic solution of a chemical substance (urea) dissolved in pure water. The liquid stored in an approximately 40 litre container is withdrawn and injected into a catalytic converter in which the nitric oxide of the exhaust gas is converted into free nitrogen and steam.

## **Mobility management**

---

In 2007, action continued for reducing the environmental impact (traffic, atmospheric emissions, noise, energy consumption, etc.) of the commuting of Group staff. A specific section was published on the company Intranet, containing information on the concessions existing at the offices where the Group companies, in close connection with the local authorities, have launched action aimed at encouraging a lesser use of private vehicles. Software has also been identified for encouraging, and subsequently handling, the 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: the instrument will be made available to all Group staff in 2008.

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 2007, more than 183 staff members took advantage of special conditions for a 50% discount on the purchase of yearly bus and train tickets (+ 46% 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, are offered 14 agevolations 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 reveals that, between 2003 and 2007, the number of cars used for commuting per 100 employees has fallen from 74 to 61, a reduction of more than 17%, and a decrease estimated at around 570,000 km travelled per year. Car travel has been replaced mainly by bus and train travel and, to a lesser extent, by use of bicycles and the company shuttle service.

With respect to the other offices, following conclusion of the analysis relating to the premises in Via Casalegno, Imola, Via Terrapieno, Rimini and Via Cassana, Ferrara, some initial action has been launched such as incentives for the use of bicycles in Imola, the redefinition of the handling of parking spaces in Rimini, and participation in a territorial project in Ferrara.

## **Greenhouse gas emissions**

---

International agreements (the Kyoto Protocol above all) and EU Directives agree on the intention of controlling and progressively decreasing atmospheric emissions of greenhouse gas, which is capable of holding infrared radiation from the sun, thus increasing the quantity of thermal energy trapped within the earth's atmosphere.

These substances are generated through the process of oxidation of carbon; nonetheless, if the carbon originates from biomass, this has no effect on the global balance, while if the carbon is of fossil origin, it produces an increase in greenhouse gas once it is oxidised and emitted into the atmosphere. The greenhouse gas emissions of the Hera Group plants are evaluated based on this principle, taking into account the fact that methane has a greenhouse effect which is 21 times greater than that of carbon dioxide.

For example, composting has no effect, as it only oxidises carbon from carbon dioxide biomass. On the contrary, landfills, even if the biodegradation process acts almost

entirely on just the biomass, generating methane, in addition to carbon dioxide, has a significant greenhouse effect.

### **Kyoto Protocol compliance ratings**

	Power (MW)	Type	2005	2006	2007
ACER Barca (Bologna)	28.8	Thermal power	135%	76%	97%
ACER Pilastro (Bologna)	32.8	Thermal power	1,341%	277%	234%
COGEN (Bologna)	32.6	Thermoelectricity co-generation and thermal power	77%	62%	52%
Ecocity (Bologna)	34.3	Thermoelectricity co-generation and thermal power	88%	84%	86%
San Giacomo (Bologna)	25.3	Thermal power	147%	127%	114%
Montericco (Imola)	40.4	Thermoelectricity co-generation and thermal power	93%	88%	72%
Canal Bianco (Ferrara) ()	92.0	Thermal power	99%	105%	103%
Ecologia Ambiente (Ravenna)	24.3	Waste-to-energy plant	118%	108%	91%
<b>Average</b>			<b>98%</b>	<b>86%</b>	<b>76%</b>

The Kyoto protocol compliance rating (%) indicates real emissions divided by permitted quantities. A value over 100% indicates that the level of authorised emissions has been exceeded. The authorized emissions for the Ferrara plant have been updated with the new approved values.

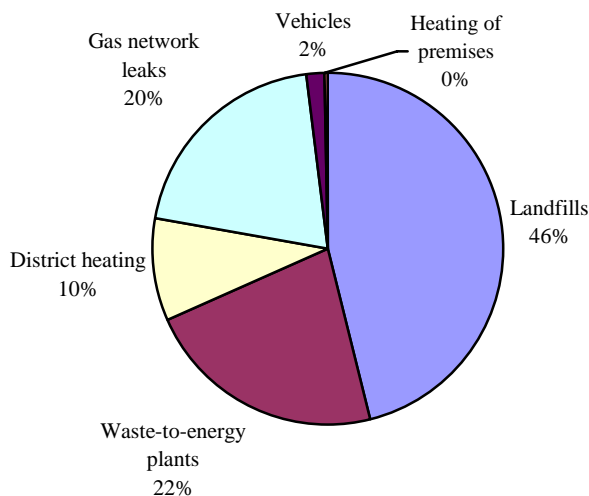
There are 8 Hera plants authorized to emit greenhouse gas on the basis of Emission Trading legislation, involving total installed power of 352 MW.

During 2007, a request for the updating of the authorized quotas for the Ferrara plant was granted, with integration also for 2005 and 2006. A resolution issued by the Department for the Environment in December 2007 cancelled the authorization of the Ecologia Ambiente plant which will therefore be excluded from the next National Allocation Plan.

On conclusion of the first National Allocation Plan, relating to the three-year period 2005-07, Hera Group plants complied with the quota quantities assigned without incurring any debts. The reduction in CO<sub>2</sub> emissions registered in the three-year period was essentially the result of climatic trends since Hera plants under the Emission Trading system nearly all serve district heating purposes.

In 2007, a number of changes were made to the Acer Barca and Acer Pilastro plants which are now fuelled by methane gas instead of fuel oil. The COGEN and San Giacomo plants also saw the replacement and installation of new boilers, without causing any changes in CO<sub>2</sub> emissions.

## Breakdown of total greenhouse gas emissions (2007)



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

- landfills: methane from biogas which is given off by the landfill matter, plus carbon dioxide from the combustion of tapped biogas;
- waste-to-energy plants: carbon dioxide from the combustion of waste, from which quotas were taken for the presence of biodegradable substances;
- district heating and office heating: carbon dioxide from the combustion of methane, with methodological application of the calculation set forth by Emission Trading.
- gas leaks: calculated as the difference between the methane input into Hera stations and the methane invoiced to customers; thus, this calculation includes 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.

During 2007, total direct and indirect greenhouse gas emissions came to 1,682,019 tons. Indirect emissions were calculated, taking into consideration electricity consumption and using the average emissions of the central fleet of a leading national operator.

## Waste collection

---

The Hera Group is a major player in the field of municipal waste management. Waste management is conducted by local operators in Italy on the basis of concessions lasting on average approx. 10 years. Hera manages this service in the areas regulated by 7 Water and Waste Regulatory Authorities (including Florence, under the Firenze ATO, for a small portion of the Tuscan Apennines), corresponding to the pertinent provinces in which Hera is operational. Hera thus covers an area made up of 133 municipalities, with approx. 2.4 million inhabitants. In addition, the commercial operations of 9 municipalities are managed (Hera carries out collection services, not disposal services),

including two in the Marche area and seven in the province of Modena. In total, the municipalities served by Hera in 2007 came to 142. Furthermore, Aspes serves 10 municipalities in the province of Pesaro and Urbino.

The area covered by Hera has the highest annual per capita municipal waste production rates in Italy (Emilia Romagna's waste production rate was 677 kg per inhabitant in 2006 vs. the Italian average value of 550 kg).

The non-separate and assimilated waste collection service consists mainly in bin emptying. The bins are distributed throughout the area served, and the collection service is mainly carried out using side-loading automatic waste compactors. The waste from non-separate collection is transferred for disposal, either immediately or following temporary storage in transfer stations, or for mechanical separation.

Temporary storage enables optimised transport to disposal plants, while separation allows for reducing the amount sent to the landfill.

### **The Hera integrated waste management system (WMS)**

The organisational model for Hera's separated waste collection system is characterised by:

- a collection system using differentiated bins throughout the area, primarily targeted at residential users and small, non-residential users;
- a door-to-door waste collection service for manufacturing and commercial businesses, for specific waste or in particular urban areas;
- a system of collection through the Equipped Drop-Off Points, which are complementary to the other systems, and which complete the services provided to businesses and targets which are not served through the other systems.

This system can lead to the achievement of 50% of waste being separated, with limited impact on costs, and thus on the tariffs for customers.

Hera also manages door-to-door collection services in numerous municipalities, for the collection of organic waste, glass and tins, paper and cardboard, and systems for large users such as commercial or industrial businesses. On an experimental basis, Hera has launched door-to-door collection services in the municipalities of Montevoglio (BO) and Forlimpopoli (FC) which has made it possible to achieve high percentages of separate waste collection; however, assessment of the service is still being looked into.

### **Municipal waste collected**

(t)	2005	2006	2007
Separate waste collection	452,773	487,968	553,528
Non-separate waste collection	1,157,705	1,123,605	1,116,944
<b>Total</b>	<b>1,610,478</b>	<b>1,611,573</b>	<b>1,670,472</b>

### **Eco-volunteers in Hera Modena's area**

During 2007, the municipality of Vignola and Hera created a network of eco-volunteers, individuals interested in dedicating their leisure time to the environmental enhancement of their city or town, by involving themselves in environment protection and training activities. With Vignola, the network of eco-volunteers already existing in other municipalities served by Hera Modena is thereby strengthened, a network comprising

more than one hundred individuals. At the end of 2007, new on-line publications were also launched for the selection and training of new eco-volunteers.

### Municipal waste collection (breakdown by Territorial Operative Companies)

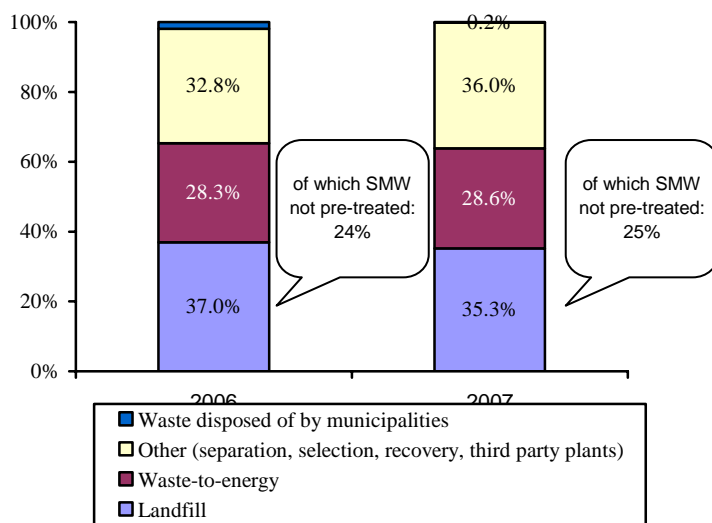
(t)	2005	2006	2007
Hera Bologna	380,736	380,596	378,019
Hera Ferrara	99,546	96,202	93,240
Hera Forlì-Cesena	252,797	263,075	260,906
Hera Imola-Faenza	128,190	131,467	134,518
Hera Modena	254,493	236,374	215,061
Hera Ravenna	233,794	236,892	231,055
Hera Rimini	260,922	266,967	256,128
Aspes			101,546
<b>Total</b>	<b>1,610,478</b>	<b>1,611,573</b>	<b>1,670,472</b>

During 2007, and excluding Aspes, there was a decrease of around 2% in waste collected, essentially due to lower quantities of non-reusable fractions from the shore and minor quantities of non-separated waste. The decrease in waste collection in the Modena area was affected by the change in the municipalities served. In the Rimini area, the change was due to a drop in waste from non-reusable fractions from shorelines. An increase in municipal waste was seen in the Imola-Faenza area.

### Hera Imola Faenza's new drop-off points and the Ecomobile

During 2007, Hera Imola-Faenza opened new drop-off points in the municipalities of Casalfiumanese, Borgo Tossignano and Castel San Pietro Terme. Larger equipped areas, accessory services, the possibility of obtaining discounts on bills by carrying out separate waste collection, and an increase in the types of material which can be dropped off, guarantees a better service for the customer. The Ecomobile was launched in the Municipality of Marradi, a mobile drop-off point for separate waste collection which travels throughout the municipal area, also reaching outlying districts.

### Municipal waste collected (breakdown by destination)



Data excluding Aspes.



The portion of municipal waste collected by Hera and disposed of in landfills decreased by around two percentage points in 2007, compared with an unchanged portion of municipal waste treated in waste-to-energy plants and an increase in waste sent for separation, selection or recovery. Excluding Aspes, the percentage of waste disposed of in landfills without pre-treatment came to 25%. This percentage rose to 27.7%, including Aspes which disposes of 69% of municipal waste in landfills.

During 2007, the percentage of waste disposed of in landfills came to 7.3% (including Aspes) compared with an Italian average of 54% (Source: APAT 2007 Waste Report). The plant development plan will permit Hera to reduce the portion of municipal waste directly disposed of in landfills by 15% by the end of 2010, and at the same time increase separate collection and waste-to-energy treatment.

#### **A new drop-off point in Ferrara**

In December 2007, action for developing separate waste collection in Ferrara involved an important event. The new drop-off point, which covers a surface area of 5,400 sq.m. and joins that existing in Via Finati, is an equipped collection point with containers available for most materials collected separately. It is equipped with weighing and registration systems suitable for the quantitative assessment of the waste collected and the related granting of TIA economic discount incentives. During the first two months of operations, a total of more than 145 tons of waste was collected.

## **Separate waste collection**

---

With regard to separate waste collection, the Group carries out both single materials collection (paper, glass, plastic, humid fraction, batteries etc.) and mixed materials collection (dry fractions). Over the last few years, levels for separate waste collected have risen. This enables more efficient treatment following collection, also in terms of economic use (recovery of materials and energy). It also reduces landfill, thereby limiting the environmental impact.

#### **Printer cartridge disposal**

Together with Eco-recuperi, Hera Ferrara has taken part in the project promoted by the Germoglio cooperative which represents an important occasion for raising greater awareness of procedures for separate waste collection among new generations.

The project involves disposing of ink-jet cartridges consumed both within schools and the home at the special Eco-box present in every school in the city and province. Schools taking part can contribute towards the awarding of one of the many prizes available.

Separate waste collection is implemented both in the road circuits and the residential collection, through the use of bins, “igloo” bins and other types of containers. A further system for separate waste collection is implemented through equipped drop-off points, which are dedicated areas with bays and containers, open to the general public, for users

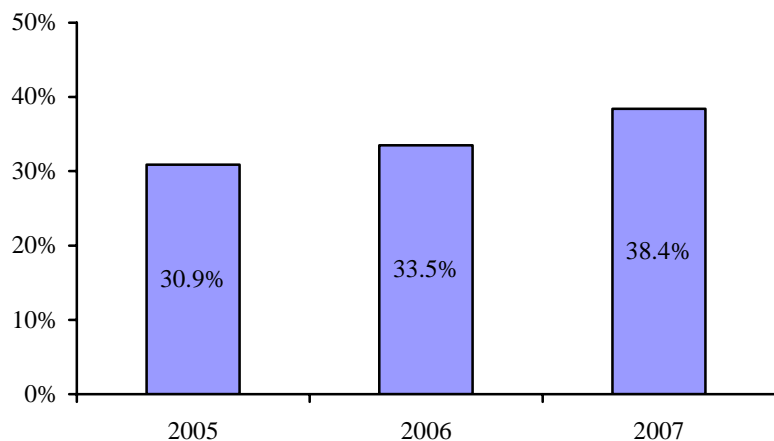
to drop-off specific types of waste, which are then collected for suitable recovery or disposal.

Within the area managed by Hera, there are 120 equipped drop-off points. In 2007, 6 new ones were opened within the Territorial Operative Companies of Imola-Faenza, Modena and Ferrara.

#### **Hera Modena - Coop Estense agreement for the environment**

In December 2007, Hera Modena entered into an agreement with the municipality of Modena and Coop Estense for mutual action aspiring to principles of environmental sustainability. The aims include the reduction of packaging, the education of consumers with regard to good environmental practices, the reduction of waste upstream, the promotion of separate waste collection and the use of drop-off points. Integration between the Hera discounts on TIA and the Coop system of collection points was implemented.

#### **Separate waste collection**



The separate waste collection level was calculated while taking into account the “progetto di DPCM sulla raccolta differenziata del 5/6/97” (prime minister’s decree on separate waste collection project of 5/6/97) which takes from the total of separate waste collected “a 10% quota corresponding to street sweeping waste, since it cannot be recovered in any way”. The percentage is calculated excluding waste from shorelines. 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.

Since 1997, when the Ronchi decree was enforced, and up to the present, the companies out of which the Hera Group arose have raised the average levels for separate waste collection from 11% to 38.4% (net of quantities from sweep sweeping). In the three years under review, separately collected waste from third parties represented around one third of the increase in separate waste collection. Excluding Aspes, separate waste collection comes to 38.6%. In Italy, separate waste collection in 2006 came to 25.8% (2007 Apat Report).

### Separate waste collection at Modena's Military Academy

A project for separate waste collection put together by Hera Modena involved more than a thousand individuals, including officers and students at the academy. This project made it possible to exceed 57% of separate waste collection. Furthermore, a series of encounters have been organized with the cadets on the subjects of water, waste and energy, held by Hera engineers and executives.

### Separate waste collection (breakdown by Territorial Operative Companies)

%	2005	2006	2007
Hera Bologna	25.5%	27.4%	29.8%
Hera Ferrara	36.8%	37.7%	40.1%
Hera Forli-Cesena	26.6%	30.2%	37.5%
Hera Imola-Faenza	28.2%	30.7%	34.1%
Hera Modena	26.8%	34.2%	36.6%
Hera Ravenna	42.4%	44.9%	46.3%
Hera Rimini	23.5%	27.4%	35.0%
Aspes			33.1%

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.

### "Ecological" hospitals

The second year of activities of the collection, disposal and transport service for special and recyclable waste within hospitals and departments of the Ravenna health authority, run by a joint venture headed up by Hera, led to the collection of around 670 tons of special health waste and more than 530 tons of separately collected waste. An improvement in the separately collected waste performances (40 tons of material more than in 2006) and a parallel drop in hazardous waste has been obtained, confirming that the disclosure campaigns and the hospital staff training sessions have achieved significant results.

### Separate waste collection (breakdown by waste type)

(t)	2005	2006	2007
Paper and cardboard	86,052	98,313	120,500
Green waste	77,883	85,015	94,266
Glass	46,879	47,975	63,292
Organic waste	42,601	45,126	54,884
Plastic containers	10,084	11,080	16,434
Mixed materials	80,648	79,711	77,797
Bulky	65,838	35,913	37,514
Other	42,788	84,835	88,841
<b>Total</b>	<b>452,773</b>	<b>487,968</b>	<b>553,528</b>
<b>Kg per inhabitant</b>	<b>197</b>	<b>212</b>	<b>226</b>

In 2007, 226 kilograms of separate waste was collected per inhabitant (224 excluding Aspes), an increase of 6% with respect to the 212 kilograms in 2006. Hera's figures are higher than the data for North Italy (217 kilograms per head in 2006, source APAT

2007 Waste report) despite the fact that the percentage of separate waste collected in the north of Italy (39.9% in 2006) is greater than that for Hera.

**Unique project in Italy: separate collection of clear glass**

In February 2007, Hera Ferrara launched a project, at present one of a kind in Italy, which envisages the collection of clear glass separately from coloured glass. Scrap glass available today in Italy is exclusively mixed/coloured, and consequently clear glass must be imported from central and northern Europe with consequent economic and environmental impacts. Clear glass collected in special white igloo-containers (90 located throughout the municipality of Ferrara) is nearly 100% recovered. During the first 11 months, 135,598 kilograms of clear glass was collected. The projects received the support of Coreve (Glass Recovery Consortium).

**Material targeted for recovery (2007)**

thousands of t	From non-separate waste collection	From separate waste collection	Total
Total waste collected	1,117	554	1,670
Total waste targeted for recovery (%)	116	510	626
<b>% of waste targeted for recovery</b>	<b>10.3%</b>	<b>92.2%</b>	<b>37.5%</b>

Much of the material from separate waste collection must be discarded and earmarked for disposal insofar as it is mixed in with other waste and cannot be separated from it by the normal techniques adopted. Within mixed materials, the percentage of material which cannot be recovered reaches up to 50% of the waste collected.

In 2007, 92.2% of the waste collected separately was transferred to plants for recovery of materials. Part of the waste not collected separately is treated in mechanical separation plants: around 116 thousand tons of waste were sent for recovery from these plants in 2007, equating to around 10% of waste not separately collected.

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).

**National “Paper” award**

The Symbola Foundation, which deals with the valorization of Italian quality in various sectors of the economy and in public policies, and Comieco (National Consortium for Recovery and Recycling of paper packaging materials) rewarded Hera and the Province of Rimini’s commitment for the involvement of 600 Riviera beach facilities in the accomplishment of an innovative separate paper collection project.

## Waste disposal

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

### Waste treated by type

(t)	2006	2007
Municipal waste	1,583,229	1,666,468
Industrial waste	2,791,025	2,731,831
<b>Total</b>	<b>4,374,254</b>	<b>4,398,299</b>

### Municipal and industrial waste (breakdown by plant type)

(t)	2006	2007
Separation plants	36,871	41,019
Selection plants	207,514	216,614
Waste to Energy plants	597,583	599,101
Compost plants	335,226	339,840
Landfills	1,489,297	1,522,574
Stabilization and chemical and physical treatment	908,174	848,193
Plants of third parties	799,590	830,957
<b>Total</b>	<b>4,374,254</b>	<b>4,398,299</b>

The data refers 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 classification of the treated volumes relating to 2006 had been aligned to the current year's criteria.

Directly or via subsidiaries, Hera manages the treatment of solid and liquid, municipal and industrial waste (including hazardous waste). It does so by means of a complex system of plants and installations based on the most modern technologies: mechanical separation plants, waste selection plants, and waste-to-energy plants. It also manages landfills for non-recovered materials or materials which cannot be recovered in the form of matter or energy.

Excluding Aspes, there was a reduction in waste treated mainly attributable to the drop in by-products caused by weather conditions. The quantities disposed of in third party plants included 398 thousand tons of waste disposed of in the treatment plants of the territorial companies.

12,004 tonnes of reagents were consumed in waste-to-energy plants, 6% more than the previous year. This increase is linked to lower emissions of hydrochloric acid from plant chimneys.

In EMAS registered treatment plants (which treated 43% of waste disposed of), 270,962 m<sup>3</sup> of water was consumed (a reduction of 3%, perimeter being the same). In some plants, part of this water is reused within the production cycle. During 2007, the water reused came to around 45% of total water consumed.

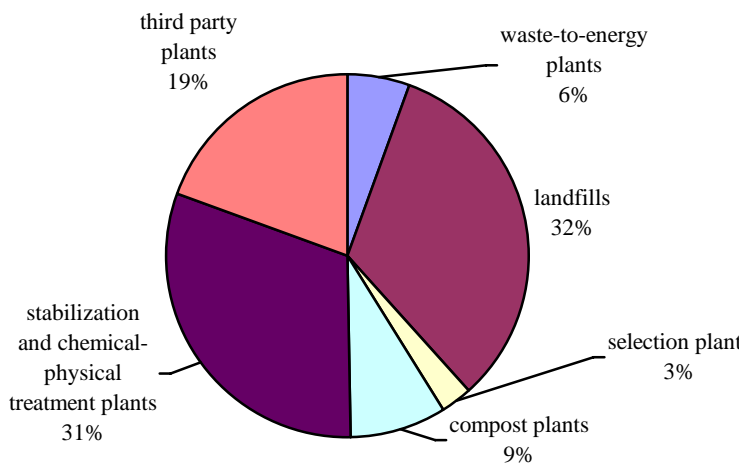
### Disposal of municipal waste in Europe

Landfills are still the main way of treating waste in Europe (34% in 15-nation Europe, Eurostat figures relating to 2006). In Italy, the use of landfills is even higher: 52% of waste disposed of in 2006 was sent to landfills, compared with 12% incinerated. In Europe, the countries which use waste-to-energy treatment the most are Denmark, Switzerland and Sweden with percentages of 55%, 50% and 47%, respectively. In all these countries, the percentage of waste sent for recovery is more than 40%, thereby proving that waste-to-energy treatment can be developed alongside higher levels of separate waste collection.

Germany, the Netherlands and Switzerland have already more or less eliminated the use of landfills and report percentages lower than 2%.

In the proposal for a new Directive, the European Union divided the future evolution of waste management into two phases: in first position, it places the prevention of waste (more frugal and clean product design, production and consumption), and therefore the use of waste as a resource (materials to be recycled and, if not possible, to obtain energy from). A target of zero landfill waste without pre-treatment is set, involving 65% recycling and 35% waste-to-energy consumption. The application of this strategy would lead to the waste to-energy treatment of an additional 35 million tons of waste, and the avoidance of around 22 million CO<sub>2</sub> emissions from current energy production systems.

### Special waste disposed of (breakdown by plant type) - 2007



### Progress of work on treatment plants

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

- Ferrara plant: Line two was brought onto stream in November and has been fully up and running since January 2008. Line 3 was brought onto stream and is being brought up to speed. The authorization process concluded with the issue of Integrated Environmental Authorization strictly linked to the quantity of waste treated and the quality of the emissions;

- Forlì plant: the plant has almost been completed; initial start-up (envisaged during the first quarter of 2008) is linked to the issue of Integrated Environmental Authorization by the Provincial authority, which includes authorization to operate;
- Modena plant: initial start-up is planned for the first half of 2008; the bringing up to speed is envisaged by the end of 2008. On a parallel with the achievement of the development work, in close connection with the Local Authorities, the necessary authorization process is being achieved;
- Rimini plant: the original project (approved at the end of 2006) underwent a number of changes in relation to approval of the Provincial Waste Management Plant in July 2007. The new plant engineering configuration which envisages the creation of a fourth waste-to-energy treatment line in place of lines 1 and 2, following the disposal of the same, is currently being approved as part of the Integrated Environmental Authorization procedure. Issue of this authorization is envisaged for April 2008.

### Municipal and industrial waste disposal (breakdown by plant)

(t)	ISO 14001	EMAS	2006	2007
Rimini Coriano waste-to-energy plant	x	x	125,543	121,333
Bologna Frullo (Frullo Energia Ambiente) waste-to-energy plant	x		199,451	206,676
Ferrara Canal Bianco waste-to-energy plant	x	x	39,504	43,188
Forlì Grigioni waste-to-energy plant	x		50,247	44,800
Ravenna strada Romea km 2.6 waste-to-energy plant	x	x	46,131	47,695
Modena Comparto Area 2 Cavazza waste-to-energy plant	x		103,707	104,199
Ravenna (Ecologia Ambiente) waste-to-energy plant	x		32,999	31,210
<i>Total waste-to-energy plants and incinerators</i>			<i>597,583</i>	<i>599,101</i>
Civitella – FC landfill			17,779	33,294
Busca – FC landfill	x		131,972	131,897
Ravenna strada Romea km 2.6 (1C) landfill	x	x	234,982	195,958
Ravenna strada Romea km 3.8 (2B) landfill			1,402	0
Ravenna strada Romea km 2.6 (2C) landfill	x	x	4,169	0
Lugo – RA landfill	x		10,390	344
Galliera – BO landfill	x	x	157,965	181,687
Baricella – BO landfill	x	x	41,862	0
Tre Monti – Imola landfill	x	x	242,496	266,217
Il Pago Firenzuola – FI landfill			16,757	0
Ravenna strada Romea km 2.6, formerly 2B super (Sotris) landfill	x	x	18,983	15,953
Ravenna strada Romea km 2.6, formerly 2B super (Sotris) landfill	x	x	67,660	63,287
Modena Caruso 1C landfill			198,097	201,270
Modena Caruso 2B landfill			21,488	7,519
Montefiorino – MO landfill			2,274	0
Zocca – MO landfill			22,787	22,582
Castelmaggiore - BO (A.S.A.) landfill	x	x	177,730	202,021
Cà Asprete (ASPES) landfill	x			94,516
Third party landfills			16,980	106,029
<i>Total landfills</i>			<i>1,489,297</i>	<i>1,522,574</i>
Akron Coriano (RN)	x		43,574	50,164
Akron Mordano (BO)	x		47,846	53,282
Akron Lugo-Cotignola (RA)	x		52,404	60,956
Ferrara (Ecosfera)	x		36,974	43,738
Inert stores			14,473	0
Other Hera plants			112,243	7,341
Other external plants			0	1,133
<i>Total selection plants</i>			<i>207,514</i>	<i>216,614</i>
Busca - FC (Romagna Compost)			10,777	13,195
Nuova Geovis S. Agata (BO)	x		149,452	139,324
Nuova Geovis Ozzano (BO)	x		4,310	19,936
Voltana di Lugo – RA (Recovery)	x		33,025	39,881
Rimini Cà Baldacci (Recovery)	x		34,904	37,488
Ostellato - FE (Recovery)	x		102,759	90,017

(t)	ISO 14001	EMAS	2006	2007
<i>Total composting plants</i>			335,227	339,840
Forli chemical phys. plant	x	x	27,579	24,234
Ravenna chemical phys. biological plant	x	x	170,627	190,508
Ravenna sludge treatment			134,936	87,640
Ravenna Z.I. (Ecologia Ambiente) chemical phys. plant	x		51,850	55,537
Z.I. (Ecologia Ambiente) dryer	x		0	0
Alfonsine chemical phys. biological plant	x		16,952	13,254
Russi chemical phys. plant			4,916	0
Lugo – RA chemical-physical-biological plant	x		97,246	84,938
ITFI Bologna stabilization and chemical phys. plant	x	x	117,707	100,498
Ravenna (Sotris) stabilization plant	x	x	16,982	17,213
Chemical-physical plant (with special waste platform) Ferrara	x	x	9,896	7,878
Modena Area 2 chemical physical plant	x		134,916	138,427
Modena Area 3 chemical physical plant			5,569	15,208
Modena CTIDA Area 3 chemical physical plant			1,739	1,975
Soloric plant Modena			17,098	13,262
Anaerobic digester Spilamberto				97,620
Modena stabilization and chemical phys. plants			0	0
<i>Total stabilization and chemical phys. plants</i>			908,174	848,193
WDF production Ravenna	x	x	4,814	4,672
Bologna separation			2,275	0
Tremonti – Imola (Akron) separation	x		29,782	36,340
Forli separation			0	7
<i>Total mechanical separation plants</i>			36,871	41,019
Plants of third parties			799,590	830,957
<i>Total plants of third parties</i>			799,590	830,957
<b>Total</b>			<b>4,374,254</b>	<b>4,398,299</b>

EMAS plants also include those which have positively passed the inspection of the external body, but which are still awaiting ratification by the Department for the Environment. The classification of the treated volumes relating to 2006 had been aligned to the current year's criteria.

### **Hera's role in the Campania waste emergency**

A committee of 5 highly qualified engineers from Hera's Waste Management Division has been in Campania since January 2008, alongside the Prefect De Gennaro in order to sort out the waste emergency.

In February 2008, approximately 5,000 tons of waste from Campania were disposed of in plants run by Hera following the compliance of the Emilia-Romagna Regional Authority with the request made by Prefect De Gennaro: around 3,000 at the Imola landfill, 1,500 in the waste-to-energy treatment plant in Modena and 500 in the Modena landfill.

## **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 chemical-physical-biological plants.

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



## Main wastes produced by Hera

(t)	2007
Sludge from purification, potability treatment and distribution	172,850
Sand from wastewater treatment plants	13,013
Ash from wastewater treatment sludge incineration	3,853
Other sludge produced by TOCs (sewer cleaning, septic tanks, etc.)	25,046
Other waste produced by TOCs	5,662
Waste-to-energy plant electrofilter dust	9,007
Waste-to-energy plant waste	90,948
Solid waste from stabilization	20,236
Sludge produced by chemical-physical-biological plants	52,619
Sludge treatment water	128,539
Separated oils produced by chemical-physical-biological plants	681
Surnatant from chemical-physical-biological plants	380,306
Leachate from landfills	258,966
Scavenging water/sludge from waste-to-energy plant fumes	136,448
Fuel derived from waste	44,888
Non-reusable fractions from plants for selection and for the production of fuel from waste	123,542
Other waste from Waste Management Division storage and plants	1,294
<b>Total</b>	<b>1,467,898</b>

Data refer to Hera SpA and the Territorial Operating Companies

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

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

### **New Modena plant for the recovery of waste-to-energy treatment plant waste**

The waste-to-energy treatment plant produces a quantity of waste equating to around 27% of the waste treated. This waste is normally disposed of in landfills for special waste.

In March 2008, the Group completed the construction of a plant for the recovery of waste from waste-to-energy treatment by means of the production of catalyzed hydraulic conglomerate (CIC) which can be used for the formation of embankments and road foundations.

The plant, which also envisages the recovery of iron and aluminium, has a potential of 30,400 tons a year and was built by the Hera Group company Italcic. At present, its processes and functioning are being tested and inspected so as to obtain final authorization to operate from Province of Modena.

## **Biodiversity**

---

Starting in the 1980s, attention began to be focused on the concept of biodiversity; problems relating to the progressive loss of biological diversity due to human activities became the subject of international conventions and EU directives (specifically, Habitat Directive and Birds Directive).

Hera's waste disposal plants which are being upgraded and newly built are subject to the Environmental Impact Analysis (EVA) procedure. As of now, no significant effects on the sites of the Natura 2000 network and protected areas have been revealed, both for operating plants and those being built.

In the province of Ferrara, the two largest water collection plants (Pontelagoscuro and Stellata, on the Po river) are located within the Special Protection Area called "Fiume Po da Stellata a Mesola e Cavo napoleonico".

In the province of Ravenna, by contrast, the Marina di Ravenna treatment plant is located within the EU Conservation area "Piassassa Piombone", while the Ravenna city treatment plant disposes of the wastewater treated within the SPA "Piassassa Baiona". Within these two plants, in order to protect biodiversity, Hera carries out acute toxicity tests. In the three-year period 2005-2007, these tests demonstrated that the water disposed of had an extremely low level of toxicity.

# Appendices

## Glossary

---

### **AEEG**

Italian Electrical Energy and Gas Authority, formed under Italian Law No. 481 of 14 November 1995.

### **Ammonia nitrogen**

The term ammonia nitrogen (NH<sub>4</sub>) 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.

### **ARPA**

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

### **BAT**

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

### **Biogas**

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

### **BOD**

The term BOD (biochemical oxygen demand) is used to define the amount of oxygen consumed during a specific time period (5 days for BOD 5), at a given temperature, to biodegrade the organic matter present in the water 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 No. 6/92 of the CIP (Interministerial Price Committee) concerning incentives for the production of electricity from renewable sources. It determined the tariffs and contributions for the production and sale to ENEL (national electric power utility) of energy from conventional, renewable and assimilated sources.

### **CIPE**

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

### **COD**

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

### **Code of Ethics**

Document setting forth a number of principles and specifying conduct, commitments and ethical responsibilities to be put into practice by members of the Board of Directors, staff and collaborators of the company.

The Code may be described as a "Constitutional Charter" of a company, a charter of moral rights and duties that establishes the ethical and social responsibilities of all those who work within the organisation.

### **Cogeneration**

Simultaneous production of electricity and thermal energy (in the form of steam).

### **Composting**

Aerobic treatment (in the presence of oxygen) of biodegradable organic waste, whose final product is compost, a soil improver, which can be used in vegetable cultivation.

### **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 (electrical energy sector)**

Defined by the Bersani decree as: activities aimed at providing instructions for the use and the coordinated operation of production plants, the transmission grid and auxiliary services.

#### **Dispatching (gas sector)**

Defined by the Letta decree as: activities aimed at providing instructions for the use and the coordinated operation of extraction and storage plants, the transport and distribution network and auxiliary services.

#### **District Heating**

Transfer over distances of heat from thermoelectric power stations, co-generation plants or waste-to-energy plants through an energy vector (hot water, superheated water, steam).

#### **EMAS**

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 the Italian Ministerial Decree dated 11 November 1999. All producers or importers must introduce into the grid a 2% quota of electricity produced from plants fuelled by renewable sources. Production of electricity from such plants takes place according to a regime whereby, for the first eight years, the certification of production from renewable sources (green certificates) has a value, by right, of 100 MWh. Green certificates can be sold as a means of ensuring compliance with the obligation to introduce energy from renewable sources.

#### **Greenhouse gas**

These gases are transparent with respect to solar radiation, and prevent the dispersion of heat from the Earth, thus leading to the overheating of the atmosphere. Over and above greenhouse gases of natural origin, the main greenhouse gases produced by mankind are carbon dioxide, methane, chlorofluorocarbons and nitric oxides.

#### **GRTN**

Gestore della Rete di Trasmissione Nazionale. (National Electricity Transmission Grid Operator) Article 7 of the European Directive on the internal electricity market (96/92/EC) defines this as: the party responsible for the management, maintenance and, if required, the development of the transmission grid in a given area and the relative devices for interconnection to other grids, in order to guarantee the security of the supply. Article 8 assigns the grid operator the responsibility for dispatching from its power plants in its area, and the determination of use of interconnections to other systems.

#### **Heat pump**

This is a device capable of transferring heat from a body at a lower temperature to a body at a higher temperature, using electricity.

#### **Inhabitant equivalent**

The concept of the inhabitant equivalent was introduced to allow for comparing various types of sewage (urban, household, industrial) in terms of pollution. Using conversion factors, this term is used to estimate how many inhabitants would be required to produce (with normal domestic sewage) the same amount of pollution.

Generally, one inhabitant equivalent corresponds to 60g of BOD5 per day.

**KPI**

Key Performance Indicators are specific indicators selected on the basis of corporate information needs. They are used to conduct corporate monitoring. KPIs may be financial, production-oriented, commercial, environmental or social, or may regard more than one aspect.

**Leachate**

Substance obtained by filtering water and other liquid mixtures through waste.

**Mobility Management**

Refers to an internal corporate department in charge of managing staff commuting.

**Nitric oxides**

Nitric oxides (mainly NO and NO<sub>2</sub>), gases produced by combustion of fossil materials. Nitric oxides contribute to the formation of ozone in the lower atmosphere and acid rain.

**NM<sup>3</sup>**

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 municipal 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 disabled or otherwise face hardship.

**SST**

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.

**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.

**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).

**Sustainability Report**

An instrument which accounts for the impacts of corporate activities on three dimensions of sustainability: Economic, social and environmental.

**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).

**Turboexpander**

Machine that transforms energy of a given kind (e.g. potential energy) into mechanical energy, made available for use via a rotating axis. The resulting energy may in turn be used for the production of other energy (e.g. by coupling an alternator to the turbine to enable the alternator to exploit the mechanical energy to produce electricity).

**UNI EN ISO 9001:2000**

International technical standard for certification of quality management systems (also known as “Vision 2000”).

**UNI EN ISO 14001 Standard**

International technical standard for certification of environmental management systems.

**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 classified waste based on its origin, as municipal 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.

## GRI contents table

The following table enables quick reference for information requested by the GRI G3 guideline, indicating the code and page number where each issue is dealt with.

<b>Vision and strategy</b>	
1.1	Pages 4 and 5
1.2	Page 149

<b>Profile</b>	
2.1	Page 11
2.2	Page 12
2.3	Page 26
2.4	Page 11
2.5	Page 11
2.6	Page 11
2.7	Page 11
2.8	Page 9
2.9	Page 9
2.10	Pages 8, 10, 16, 69 and 186

<b>Scope of the report</b>	
3.1	Page 7
3.2	Page 7
3.3	Page 7
3.4	Page 7
3.5	Page 7
3.6	Page 7
3.7	Page 7
3.8	Page 7
3.9	Page 7
3.10	Page 7
3.11	Page 7
3.12	Page
3.13	Page 200

<b>Governance, commitments, engagement of stakeholders</b>	
4.1	Page 22
4.2	Page 22
4.3	Page 22
4.4	Page 22
4.5	Page 17
4.6	Page 27
4.7	Page 22
4.8	Page 14
4.9	Page 17
4.10	Page 17
4.11	Page 27
4.12	Pages 27 and 100
4.13	Page 148
4.14	Page 32
4.15	Page 32
4.16	Page 34
4.17	Page 34

<b>Economic performance indicators</b>	
Mgmt. appr.	Page 47
EC 1	Page 51
EC 2	Page 27
EC 3	Page 70
EC 4	Page 51
EC 5	Page 70
EC 6	Page 123
EC 7	Page 56
EC 8	Page 145
EC 9	Pages 108 and 124

<b>Environmental performance indicators</b>	
Mgmt. appr.	Page 150 and 151
<b>Raw materials</b>	
EN 1	Page 188
EN 2	Not significant
<b>Energy</b>	
EN 3	Page 159
EN 4	Page 159
EN 5	Page 159
EN 6	Page 159
EN 7	Page 159
<b>Water</b>	
EN 8	Page 163
EN 9	Page 163
EN 10	Page 188
<b>Biodiversity</b>	
EN 11	Page 194
EN 12	Page 194
EN 13	Not avail.
EN 14	Not avail.
EN 15	Not avail.
<b>Emissions, sewage and waste</b>	
EN 16	Page 180
EN 17	Page 180
EN 18	Page 180
EN 19	Page 151
EN 20	Page 172
EN 21	Page 168
EN 22	Page 192
EN 23	Page 151
EN 24	Page 188
EN 25	Page 168
<b>Products and Services</b>	
EN 26	Page 140
EN 27	Not app.
<b>Compliance</b>	
EN 28	Page 149
<b>Transport</b>	
EN 29	Page 171
<b>General</b>	
EN 30	Non avail.

<b>Social performance indicators</b>	
<b>Work practices</b>	
Mgmt. appr.	Pages 57 and 75
LA 2	Page 59
LA 3	Page 72
LA 4	Page 72
LA 5	Page 72
LA 6	Page 75
LA 7	Page 75
LA 8	Page 75 and 172
LA 9	Page 76
LA 10	Page 66
LA 11	Non avail.
LA 12	Page 72
LA 13	Pages 22 and 63
LA 14	Aspects not significant in relation to Italian legislation
<b>Human rights</b>	
HR 1	Aspects not significant in relation to Italian legislation
HR 2	
HR 3	
HR 4	
HR 5	
HR 6	
HR 7	
HR 8	
HR 9	
<b>Society</b>	
Mgmt. appr.	Page 139
SO 1	Pages 32 and 42
SO 2	Page 22
SO 3	Page 67
SO 4	Page 27
SO 5	Page 132
SO 6	Page 145
SO 7	Page 135
SO 8	Page 149
<b>Product liability</b>	
Mgmt. appr.	Page 84
PR 1	Page 101
PR 2	Page 95
PR 3	Page 97
PR 4	Not significant
PR 5	Page 41
PR 6	Not significant
PR 7	Not significant
PR 8	Page 105
PR 9	Page 149



## **Compliance statement**

---

---

## **Hera's suggestions for safety in the home**

---

- ❖ When purchasing a gas-fuelled appliance, be sure that it has been **inspected and certified** by external bodies other than the producer, and affixed with the appropriate **brand**.
- ❖ For any works of installation, modification, expansion and maintenance of gas plants, as well as for installation and maintenance of appliances, refer solely to **certified installers**. It is absolutely forbidden to “Do-It-Yourself”.
- ❖ If you smell **gas**, do not turn on any electric switches. Open the windows immediately, turn off all flames, close the main pilot light of the meter and call **Hera emergency services**, operating 24 hours a day.
- ❖ Periodically control that the **flexible tube** which carries the gas to each household appliance is fully intact. However, the tube must be changed every 5 years, even if it seems to be in an excellent state, by the expiry date printed on the tube itself.
- ❖ When you go out, also for a very short time, never leave the **stove** burning. When you place liquids on burners, watch them constantly: once boiling, they can overflow and blow out the flame, causing dangerous gas leaks.
- ❖ The **flame** of the gas burner must be blue and a regular shape. If you note anomalies, clean the burners, brushing hard with an iron brush. If this does not resolve the situation, ask your installer to inspect and carry out maintenance.
- ❖ When you are gone from home for a long time, before leaving always remember to **shut off the gas**.
- ❖ The **boiler** must be accurately cleaned once a year: this way it will provide maximum security and maximum performance. Remember: a cleaner boiler is more ecological.
- ❖ The **flues** must meet specific construction criteria. A clear draught guarantees safety. Thus, each year, before turning on the heating, have a technician check the efficiency of the flue.
- ❖ It is indispensable that the **air** required for the regular combustion of gas can circulate in the rooms where the traditional type of gas-fuelled equipment is installed.

## Hera eco-tips

This detachable page of the Report contains tips for gas, electricity and water saving and advice on separate waste collection, for a more sustainable lifestyle.

<p style="text-align: center;"><b>GAS SAVING</b></p> <ul style="list-style-type: none"> <li>❖ Regularly check boiler</li> <li>❖ Choose a high performance boiler. Replace your old boiler</li> <li>❖ Insulate hot water pipes crossing unheated areas</li> <li>❖ Repair draughts in doors and windows.</li> <li>❖ Place insulation between heaters and external walls</li> <li>❖ Insulate your attic.</li> <li>❖ Use double glazing.</li> <li>❖ Do not cover your radiators with drapes, curtains, panels, etc.</li> <li>❖ Apply thermostat temperature controls on your radiators</li> <li>❖ Lower the temperature at night and, if you can, install an automatic temperature regulator</li> <li>❖ Set the winter home temperature at max. 20°C.</li> <li>❖ When cooking, use pan lids and moderate flame</li> </ul>	<p style="text-align: center;"><b>ELECTRICITY SAVING</b></p> <ul style="list-style-type: none"> <li>❖ Use daylight as much and as well as possible</li> <li>❖ Use low-consumption bulbs</li> <li>❖ Choose A, A+ and A++ or Energy+ household appliances (position away from heat sources).</li> <li>❖ Use low temperature settings for your appliances (no more than 60°), and use them during evening hours.</li> <li>❖ Always turn lights and appliances off when not in use (avoiding use of stand-by mode).</li> <li>❖ Refrigerator and freezer doors should be opened and closed quickly.</li> <li>❖ Set fridge thermostat to medium.</li> <li>❖ Set air conditioners to 20°C (winter) and to no more than 8°C less than the outside temperature (summer).</li> <li>❖ Make sure your electric bathwater heater is maintained regularly.</li> </ul>
<p style="text-align: center;"><b>WATER SAVING</b></p> <ul style="list-style-type: none"> <li>❖ Repair any home tap leaks</li> <li>❖ Choose a shower instead of a bath</li> <li>❖ Choose differentiated toilet flush tanks</li> <li>❖ Use washing machines and dishwashers when you have a full load; do not use half-load settings. Set temperatures low</li> <li>❖ Apply jet-reducing water-saving tap heads</li> <li>❖ Don't leave the water running when you don't need it while you're brushing your teeth, washing your hair, shaving or hand-washing dishes.</li> <li>❖ Use containers for water reuse; the water you use to wash food or to cook pasta can also be used to water the plants, and the water used for cooking is excellent for washing the dishes</li> <li>❖ Water your house plants in the evening. Night-water your garden (mist-spray).</li> <li>❖ Always close your mains connection when away on holiday etc.</li> <li>❖ When washing your car, use a bucket. Don't use a hose.</li> <li>❖ When all taps have been closed, check to see if the meter is running up consumption. If it is, you probably have a leak.</li> <li>❖ Never throw out the following in the toilet or sink: cotton buds, cotton wool balls, makeup removal disks, cigarette butts, condoms, stockings, sanitary pads, diapers, plasters or plastic materials, blades, razors, frying oil, animal or vegetable fat, food scraps, or hair. These types of waste can block and damage the mechanical parts of the treatment plant, increase volume and do not degrade over time, causing the obstruction of the water pipe.</li> </ul>	<p style="text-align: center;"><b>SEPARATE WASTE COLLECTION</b></p> <ul style="list-style-type: none"> <li>❖ Choose products with little packaging.</li> <li>❖ When you can, use natural or biodegradable materials.</li> <li>❖ Separate waste according to instructions from the local municipal authority.</li> <li>❖ Crush waste for space saving.</li> <li>❖ Separate newspapers and magazines from their cellophane wrapping.</li> <li>❖ Remove the plastic "window" from envelopes.</li> <li>❖ <u>Never</u> place in separate waste: plastic cups, plates and cutlery, CD cases, toys, waxed paper (i.e. baking paper), plastic-coated paper (i.e. from cold-cuts). All of these materials should be included in non-separate household waste.</li> <li>❖ Always put your waste in the right bag.</li> <li>❖ Before throwing out glass, try to wash bottles and jars and remove their tops.</li> <li>❖ <u>Never</u> place ceramic or terracotta, mirrors or light bulbs in the glass bin.</li> <li>❖ Wash plastic bottles (PET, PVC, PE) and detergent bottles, and crush them length-wise, closing them with their caps.</li> <li>❖ <u>Never</u> leave bags, cardboard boxes or packaging of any kind on the ground beside bins or skips.</li> <li>❖ Take bulky or hazardous waste (e.g. car batteries, paints, used oils) to your local drop-off point, or call for free disposal arrangements.</li> <li>❖ If you have a garden, you might think of using your food scraps as compost.</li> <li>❖ Take your waste to the bins in the evening (above all, during the summer months)</li> <li>❖ Drink tap water. Save on waste.</li> </ul>