Group Consolidated Quarterly Report as at 31 March 2007

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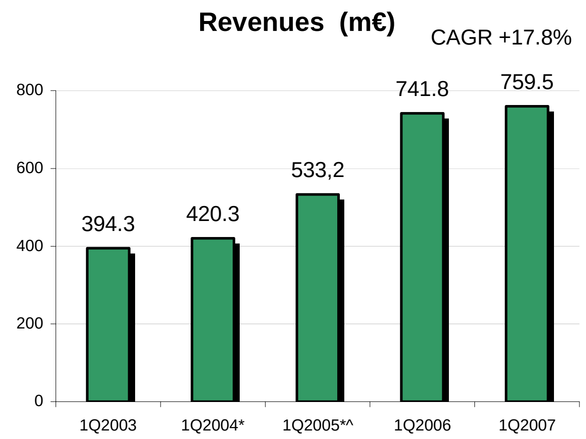
1 – THE HERA GROUP

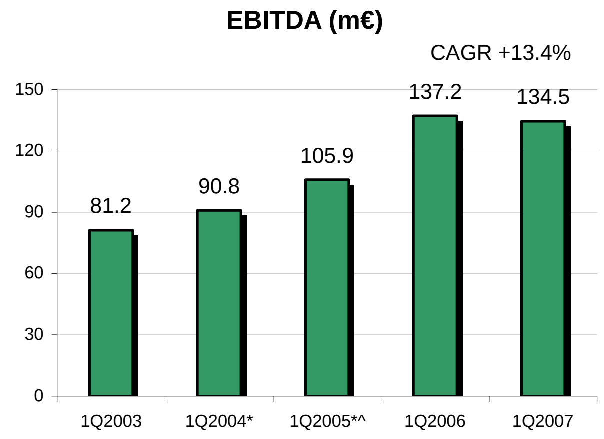
1.01 Hera’s Mission

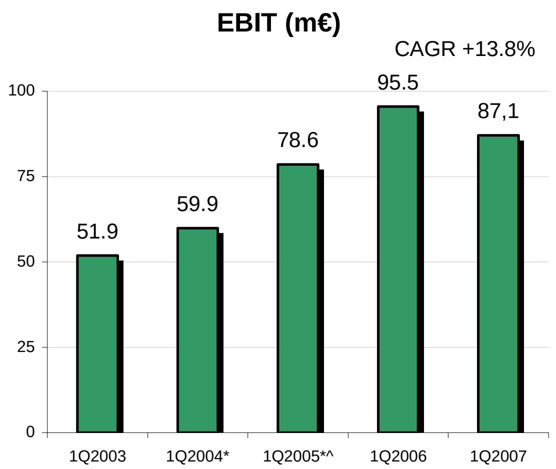
"Hera’s goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by respecting the local environment”.

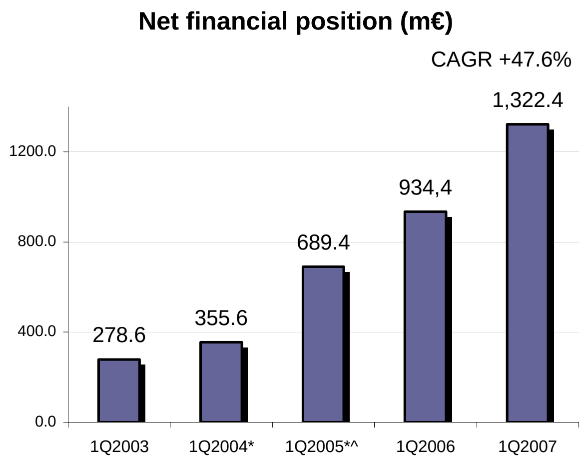
For Hera, being the best means inspiring the pride and trust of:
***customers**, who receive, thanks to Hera’s responsiveness to their needs, quality services that satisfy their expectations; **the women and men who work at Hera**, whose skills, engagement and passion are the foundation of the company’s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

1.02 Summary data









Economic figures (m€)	1Q2003	1Q2004*	1Q2005*^	1Q2006	1Q2007	CAGR %
Revenues	394.3	420.3	533.2	741.8	759.5	17.8%
EBITDA	81.2	90.8	105.9	137.2	134.5	13.4%
EBIT	51.9	59.9	78.6	95.5	87.1	13.8%

***IAS adjusted** , ^ pro-forma*

1.03 Company Officers

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giorgio Razzoli
Managing Director	Maurizio Chiarini
Director	Mara Bernardini
Director	Filippo Brandolini
Director	Luigi Castagna
Director	Pier Luigi Celli
Director	Piero Collina
Director	Piergiuseppe Dolcini
Director	Giuseppe Fiorani
Director	Lanfranco Maggioli
Director	Vander Maranini
Director	Nicodemo Montanari
Director	Fabio Alberto Roversi Monaco
Director	Roberto Sacchetti
Director	Luciano Sita
Director	Bruno Tani
Director	Stefano Zolea
Board of Statutory Auditors	
Chairman	Antonio Venturini
Standing auditor	Fernando Lolli
Standing auditor	Sergio Santi
Alternate auditor	Roberto Picone
Alternate auditor	Stefano Ceccacci
Committee for internal control	
Chairman	Giorgio Razzoli
Member	Stefano Zolea
Member	Vander Maranini
Member	Luigi Castagna
Remuneration committee	
Chairman	Giorgio Razzoli
Member	Pier Luigi Celli
Member	Piero Collina
Member	Nicodemo Montanari
Executive committee	
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giorgio Razzoli
Member	Maurizio Chiarini
Auditing company	
	PricewaterhouseCoopers

1.04 Strategy

The results achieved over the last four years bear witness to the significant progress made by the Group, which today has become the leading player in terms of turnover and the second largest in the Italian utility sector in terms of capitalisation. In the 2002-2006 period the EBITDA more than doubled with an average growth rate of +22% per year.

This expansion is the result of an efficient strategy of pursuing internal and external growth lines considered ground-breaking for the industry in which Hera operates.

The Group's internal growth, which has made a significant contribution to the increase in EBITDA (over 50% of total growth), has focused, on the one hand, on expanding the business turnover by offering a greater number of core business services to existing customers - hence favouring both customer loyalty and business profitability – and on the other hand, on raising efficiency levels through cost curbing policies and the reorganisation of operating activities.

The **growth via consolidation**, achieved by means of mergers and acquisitions of multi-utility companies, which began with the incorporation of Hera, established through the aggregation of the 11 utilities companies of the Emilia Romagna region, continued at a constant pace throughout the first four years of activity, contributing to the increase in EBITDA by almost + 50% compared to the figure posted in 2002.

2002	2003	2004	2005	2006
Seabo, Area, Ami, Unica, Amia, Amir, Taularia, Asc, Amf, Sis e Team	Geat	Agea	Meta	Aspes*

**Hera holds a 49.7% equity investment in Aspes Multiservizi SpA, included in the scope of consolidation.*

Consolid. Econ. figures (m€)	2002	2003	2004	2005	2006
Revenues	1,067	1,222	1,493	2,101	2,312
EBITDA	192	243	293	386	427

During 2006, the Group's expansion continued via the acquisition of shareholdings in two multi-utility companies operating in neighbouring areas. The Group purchased 23% of Aspes Multiservizi SpA (taking Hera's equity investment to 49.7%) which operates in the north of the Marches region. As a result of this transaction, Hera has become a strategic shareholder of Aspes Multiservizi SpA, which has started operations for the consolidation with another two multi-utility companies operating in near-by areas.

In 2006, a 46.5% equity investment in SAT was purchased, a multi-utility company operating in the province of Modena (in areas near those of Meta, which merged into the Hera Group at the end of 2005).

This strategy made it possible to enhance the competitive position in all the business areas so as to benefit from a series of concessions in terms of extension of the period for the concessions of all the regulated services (in 2002) and in terms of the best tariff conditions for the gas distribution activities (as from 2005/2006).

Over the last four years, further M&A transactions were carried out on single business companies which permitted a significant enhancement of the Group's market positions with regards to waste management and energy services.

With regard to the waste management business, it is important to mention the acquisition of the Centro Ecologia Ambiente di Ravenna from the Eni Group, through which a WTE plant dedicated to special waste with Cip 6 authorisation was acquired, and the merger of a business unit of Geat (operating in the collection and treatment of municipal waste in the municipality of Riccione). This operation consolidated Hera's leadership in its sector by completing the range of special waste treatment services offered.

Growth in the gas sector has chiefly focused on downstream integration in the value chain through acquisition of small-medium sized companies with a view to gradually completing coverage of the entire reference area.

Acquisitions in the gas sector	Activity	% owned
Argile Gas (Bologna)	Sales	100%
Gasgas (Ferrara)	Sales	100%
Tecnometano (Ferrara)	Distribution	100%
TS Distribuzione (Bologna)	Distribution	100%
TS Energia (Bologna)	Sales	100%
SGR Servizi (Rimini)	Sales	20%
Geat Distribuzione Gas (Riccione)	Sales and distribution	100%

In keeping with the strategic policies of the industry's major European players, Hera has implemented a dual fuel commercial strategy by which electricity is offered to customers who are already served by the gas business.

The market success achieved by electricity sales required a further enhancement with regards to electricity generation (by means of acquiring minority interests in Calenia Energia and SET made in 2004) so as to ensure greater coverage of the market demand. The electricity distribution network in the province of Modena was acquired from Enel in 2006, thereby also enhancing the regulated portion of the business.

Acquisitions in the energy sector	Installed capacity	% owned
Tirreno Power	Generation (2600 MW)	5.5%
Calenia Energia	Generation (800 MW)	15.0%
SET	Generation (400 MW)	39.0%
Hera Rete Modena Srl	Distribution	100.0%

The 2006-2009 Industrial Plan, presented to the stakeholders in September 2006, reconfirmed the internal growth strategies (synergies, turnover growth and new plant construction); the Group's growth forecast to 2009 envisages a significant improvement in EBITDA which will be supported by an investment plan of over Euro 1.4 billion, chiefly financed by cash flows generated by activities**.** The self-financing capacity of the investments makes it possible to envisage the maintenance of a solid financial structure in 2009 and a constantly rising dividend policy until 2009.

The acceleration of the consolidation process was a salient feature in 2006 for Hera and for the utility sector in Europe. This process also involved small/medium-sized and medium/large-sized listed Italian companies seeking to grow so as to contrast the increasing competitive pressure, and attempting to benefit from the incentives which the Italian Government has announced will be introduced in order to support the sector's consolidation process.

In this context, Hera successfully concluded a number of acquisitions once again during 2006, reconfirming the validity of its expansion strategies and methods so as to create value for the stakeholders. The Group will continue to follow the progress of the consolidation process in pursuing additional opportunities for expansion in the future which might emerge in this particularly dynamic phase for this sector, so as to gain advantage from its expansion model, which at present still represents a benchmark in the Italian context.

1.05 Business Sectors

The Group is active in over 180 municipalities in the six provinces of Bologna, Rimini, Ravenna, Forlì - Cesena, Ferrara and Modena, serving an area which covers approximately 70% of Emilia Romagna (a region with a GDP and pro-capita consumption rates among the highest in Europe) and the northern part of the Marches region (via Aspes of Pesaro).

The Group's multi-business portfolio is equally balanced between services managed under "monopoly regimes" such as the integrated water cycle, the collection and disposal of municipal waste, the distribution of methane gas and electricity, the management of district heating and services managed under "free competition" conditions such as the supply of methane gas and electricity, the disposal of special and industrial waste and the management of public lighting.

The complementary nature of these activities (given the market opportunities pursued with "multi-service" commercial proposals) favours the expansion of turnover and the creation of cost synergies and achievement of higher levels of efficiency.

Municipal waste

In an Italian context characterised by a considerable dearth of infrastructures in this sector, the Hera Group constitutes an outstanding example with one of the nation's most impressive plant structures, comprising 72 plants as of 31 December 2006, capable of covering the full range of possible treatments of waste and transformation of waste into energy, as illustrated in the table below.

The urban hygiene service is managed in 7 ATOs (corresponding to the Provinces of the Emilia Romagna region in which the Group operates), on the basis of long-term concessions (2011), covering a population of approximately 2.5 million inhabitants. This service handles the collection and disposal of approximately 1.7 million tonnes of municipal waste per year.

Hera is also a leading Italian operator in the recovery of electricity and thermal energy from waste due to 7 waste-to-energy plants with a total treatment capacity equal to approximately 610,000 tonnes per annum and an installed electricity generation capacity equal to 57MW.

In the 2006-2009 period, the Group intends to increase the recovery of energy from waste, further reducing the environmental impact (in other words the use of landfills) of the service managed. The three-year plan effectively foresees the enhancement of the 4 already existing plants so as to raise the overall incineration capacity to 1 million tonnes by the end of 2009, and the installed electricity generation capacity to over 100 MW. All the plant development projects have already obtained the necessary permits and the construction sites have been started up.

Special waste

In this sector as well, the country's supply of waste treatment services is unable to meet domestic demand owing to a shortage of infrastructures. This forces many Italian manufacturers to dispose of their waste abroad, hence incurring extremely high transportation costs.

The Hera Group is the leading operator in with regards to the treatment and disposal of special waste with a treatment capacity equal to 2.3 million tonnes/year owing to one of the nation's largest plant infrastructures, which includes 31 specifically dedicated plants and 28 mixed-usage plants (both special and municipal waste).

The 2006-2009 Plan envisages increasing the use of the plant capacities, due to the positive market trends already seen during 2005, which continued in 2006 as well. The 2006-2009 Plan forecasts a significant improvement in the business area's results, to be pursued by means of offering business customers a full service (integrated offer of industrial waste treatment and disposal services) and the progressive adjustment of the regulated tariffs to the legal provisions which discipline the municipal waste collection, transportation and disposal services.

Integrated Water Cycle

The Hera Group is one of the three leading Italian operators that provide services pertaining to water collection, treatment, adduction, distribution, waste water collection and purification ("integrated water cycle").

The service is performed on the basis of concessions with average expiry in 2022 in 7 ATOs (corresponding to the 7 Provinces of the Emilia-Romagna region in which the Group operates), which include over 180 municipalities. Each year approximately 240 million cubic metres of drinking water for domestic and industrial use are supplied.

The Group avails of an extensive and efficient water and purification plant system serving the population in the area covered. The rationalisation, efficiency-increasing and tariff adjustment activities (in line with legal requirements) remain the main points of the 2006-2009 Industrial Plan, which expects to see a significant improvement in the business area's results.

Energy

Taking into consideration the Modena merger, the Hera Group is Italy's third-largest operator in the sale and distribution of gas (with approximately 2.4 million cubic metres sold per year to approximately 960,000 customers, served through 11,500 km of grid). In the sale and distribution of electricity, mainly due to the integration of the Modena area, the Hera Group now ranks among the top Italian operators with over 5,500 km of distribution network, 3.1 TWH sold in 2006 and over 260,000 customers.

The sale of gas and electricity is a business in which liberalisation is well established (complete liberalisation will be achieved on 1 July 2007), while distribution is still managed under a monopoly regime based on long-term concessions (expiry in 2010 for those relating to methane gas and 2030 for those relating to electricity).

The Hera Group has successfully dealt with the greater competitive pressure in the sale of energy products, by implementing a dual fuel commercial strategy and by strengthening customer care for domestic customers, thus making it possible to withstand competition in gas sales and to increase electricity sales.

In light of the positive results in the electricity sales market, Hera has implemented a plan for expansion of its electricity generating capacity (primarily achieved through industrial partnerships in which Hera has acquired minority interests) and has stipulated long-term contracts with both national and foreign suppliers.

All of the operations for the procurement of energy resources are directly managed by Hera Trading, a company specialised in optimising the purchases of electricity through the Italian Electricity Exchange.

The new 2006-2009 Industrial Plan discloses that gas sales activity results can be expected to be more or less stable and envisages significant growth on the electricity market. Furthermore, continuation of the upstream integration strategy is envisaged both with regards to electricity generation (including the coverage of the envisaged requirements for customer demand) also via the development of plants running on renewable sources under green certificate incentives, and with regards to diversification in methane gas supplies involving participation in projects for the construction of infrastructures transporting gas from Algeria and LNG plants in Italy.

Other Businesses

Further to the considerable rationalisation of the activities of the companies within the Hera Group, the "other complementary businesses" have been reorganised and provided with integrated management. Within this context, the District Heating activities, in which Hera takes a leading role in and those relating to Public Lighting, in which Hera ranks second on the domestic market, are of particular importance.

In 2006 the Group supplied approximately 425 GWTH and managed 310,000 light points in the area of operation. According to the development plans, both these activities are expected to grow significantly thanks to investments and efficiency-increasing programmes.

The 2006-2009 Industrial Plan envisages rising results deriving from further rationalisation and efficiency-increasing of the activities, as well as from the development of district heating plants.

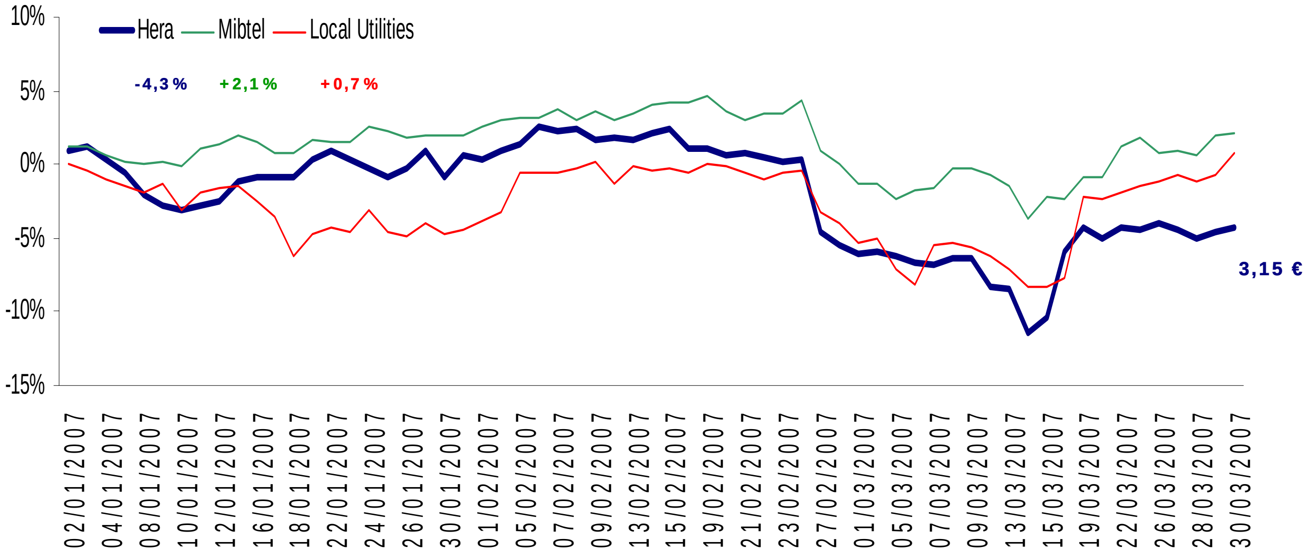
1.06 Hera on the Stock Exchange

February was marked by the crash of stock exchanges around the world (Shanghai Stock Exchange and decline of durable goods at New York Stock Exchange), which also involved "conservative" securities of the utility sector throughout Europe.

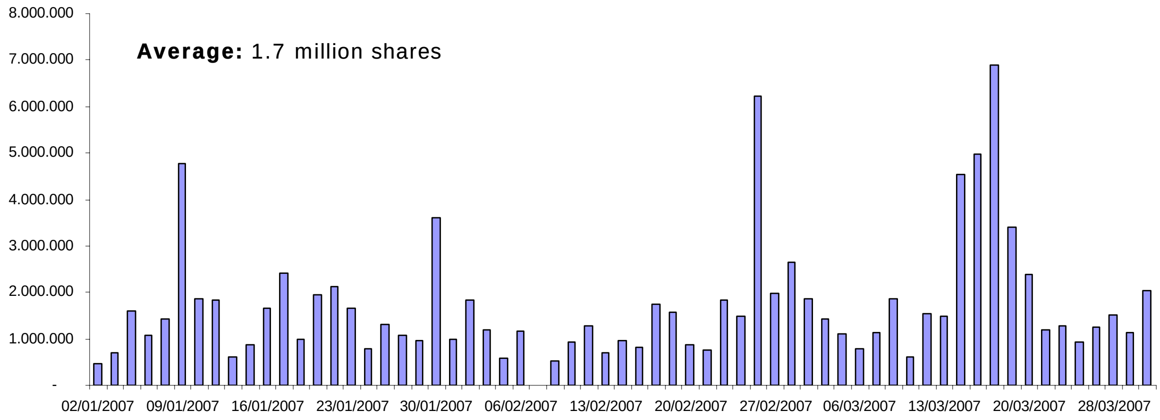
In March, the Hera share showed a bullish trend and closed the quarter with a slightly negative performance, settling at the price of Euro 3.15 per share (-4.3%) and performing below the benchmark for local utilities.

In April, following the meetings organised for the presentation of the 2006 financial statement results, the share continued its upward trend and performed positively in comparison with the beginning of the year.

Performance of the Hera share in the first quarter of 2007



Hera share volumes traded in the first quarter of 2007



The average level of liquidity recorded in the trading of Hera shares rose in the first quarter of 2007 for the third year running, with an average of 1.7 million shares exchanged (for a daily average equivalent of more than Euro 5.4 million).

The Hera stock is listed on the "Dow Jones Stoxx TMI" and "TMI Utility" indices, as well as on the "Axia Ethical Index" and "Kempen SNS Smaller Europe SRI Index" ethical indices.

Share coverage

The Hera Group stock is one of the most extensively coverage in the Italian multi-utility sector, a factor which confirms the international financial market's increasing interest. 15 independent analysts (half of them international) regularly cover the Hera share: Actinvest, Axia (ethical analyst), Caboto, CAI Cheuvreux, Cazenove, CentroSim, Citigroup, Euromobiliare, Intermonte Securities, Kepler, Mediobanca, Rasbank and Studi Investimenti. In March Merrill Lynch also began coverage.

Some credit analysts (Banca IMI and UBS) have also maintained coverage since the issue of the Euro 500 million bond loan listed on the Luxembourg market in the first part of 2006.

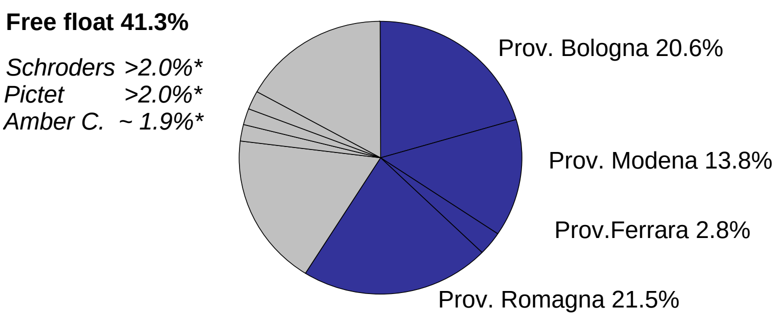
Rating

The Hera Group was assigned positive ratings by both Standard & Poor's (A with a stable outlook) and by Moody's (A1 with a stable outlook), evidence of the company's financial solidity and the satisfactory profitability over the short and medium/long-term.

Shareholding Structure

The share capital is represented by 1,016,752,029 ordinary shares with a par value of Euro 1 each; no share capital increase transactions were carried out during the year. As at 31 March 2007, the Hera Group had capitalised around Euro 3.2 billion (having increased over the last three years by more than 300%).

Hera SpA has a widespread shareholding structure with over 183 different public shareholders (mainly represented by municipalities in the Emilia Romagna region), which together hold around 58.7% of the share capital, around 300 Italian and international institutional investors and more than 26,000 private shareholders. The absence of a controlling shareholder in its structure (the largest shareholder is the municipality of Bologna with approximately 15%) is a feature which distinguishes Hera from the other local utility companies.



*equity investments included in "free float"

Some international institutional investors (Amber Capital, Pictet e Schroders) hold a “significant” shareholding of more than 2% of the share capital.

Hera has a programme for the repurchase of own shares, which was mainly implemented for the purchase of 5.5 million shares, so as to support the merger with Geat Distribuzione Gas SpA in 2006. The Shareholders’ Meeting of 26 April 2007 renewed the own shares repurchase plan increasing the total amount from Euro 45 million to 60 million. As at 31 March 2007, Hera held around 293,454 own shares in the portfolio.

Relations with the Financial Market

The financial statements for 2006 were approved and presented to the international financial community on 26 March 2007.

In April the Hera Group organised an international Road Show covering the main financial markets (London, Paris, Geneva, Zurich and New York), which involved the management in over 70 meetings.

The Hera Investor Relations division maintained close contact with the institutional investors also via the website. The Investor Relations section, available on the website (www.gruppohera.it), has been enhanced so as to improve the availability of the information, dedicating specific sections to each of the main investor categories.

When the annual results were released, all the figures related to the year 2006 were made available in real time and in an accessible format. The figures could be downloaded by the analysts directly from the website immediately after they were approved by the Board of Directors.

2 – DIRECTOR'S REPORT OF THE HERA GROUP AS AT 31 MARCH 2007

2.1 Consolidated summary results of the Hera Group

(million €)	31/03/2006	Inc.%	31/03/2007	Inc.%	Change%
Revenues	**731.9**		**746.7**		**2.0%**
EBITDA	**137.2**	**18.7%**	**134.5**	**+18.0%**	**-1.9%**
EBIT	95.5	13.1%	87.1	+11.7%	-8.9%
Pre-tax profit	**82.6**	**11.3%**	**70.0**	**+9.4%**	**-15.3%**

2.2 Financial and Economic Results

The first quarter 2007 was characterised by an exceptionally mild climate trend, that significantly influenced the economic results of the Hera Group.

Despite this, the multi-business structure of the Group made it possible to limit such effects, and achieve operating profit substantially in line with the previous year.

On this point, we would like to point out that in December 2005 the companies from Modena (Meta Group) were absorbed – with full integration in 2006 – taking into account the Group's organisational structure.

It is also noted that in 2006 the companies operating in the Pesaro area belonging to Aspes Multiservizi entered the scope of consolidation. Moreover, the distribution and sales activities to non-eligible customers, who are not managed by the Group, of the electricity grid in the Province of Modena were acquired from Enel. The effect of these changes will be indicated, if significant, further on in this report.

The following statements were prepared in full application of IAS standards as established by the law for listed companies.

The following table provides a summary of the Group's results:

Income statement (mn/€)	**31/03/2006**	**Incr.%**	**31/03/2007**	**Incr.%**	**Abs. Ch.**	**Change %**
Revenues	731.9		746.7		+14.8	+2.0%
Ch. in inv. of fin. prod. & work in pr.	1.3	0.2%	3.4	0.5%	+2.1	+157.2%
Other operating revenues	8.5	1.2%	9.3	1.3%	+0.8	+9.4%
Raw and consumable materials	(419.0)	-57.2%	(420.4)	-56.3%	-1.4	+0.3%
Costs for services	(141.9)	-19.4%	(159.1)	-21.3%	-17.2	+12.1%
Other operating costs	(7.7)	-1.0%	(15.9)	-2.1%	-8.3	+108.3%
Personnel costs	(71.4)	-9.8%	(76.6)	-10.3%	-5.1	+7.2%
Capitalised costs	35.4	4.8%	47.1	6.3%	+11.6	+32.8%
Gross operating margin	**137.2**	**18.7%**	**134.5**	**18.0%**	**-2.7**	**-1.9%**
Amortisation, depreciation & allocat.	(41.7)	-5.7%	(47.5)	-6.4%	-5.8	+13.9%
Operating profit	**95.5**	**13.1%**	**87.1**	**11.7%**	**-8.5**	**-8.9%**
Financial operations	(13.0)	-1.8%	(17.1)	-2.3%	-4.2	+32.2%

In the first quarter 2007, revenues amounted to Euro 746.7 million compared with Euro 731.9 million in the same period of 2006, disclosing growth of 2.0%; the EBITDA decreased from Euro 137.2 million to Euro 134.5 million (-1.9%), as did the EBIT, from Euro 95.5 million to Euro 87.1 million (-8.9%). Pre-tax profit decreased by 15.3%, passing from Euro 82.6 million of the first quarter 2006 to Euro 70.0 million of the first three months of 2007.

The increase in **Revenues**, equal to Euro 14.8 million, should be viewed in relation to two opposing factors: on the one hand the reduction in revenues of the Gas segment for approximately Euro 67.9 million, following the decrease in volumes distributed and sold, as pointed out in the analysis of business areas; on the other, the increase in revenues in all other segments, in particular in the Electricity Area (+ Euro 60.0 million). It is also noted that the consolidation of the Aspes Group companies accounts for approximately Euro 20.0 million.

Costs of raw and consumable materials, equal to Euro 420.4 million (-1.4%), are linked to the rise in costs associated with higher volumes of electrical energy traded and to the decrease in gas quantities, in addition to the said consolidation of the Pesaro companies.

The increase in other operating costs (**Service costs** up by Euro 17.2 million and **Other operating costs** down by Euro 8.3 million) amounted in total to Euro 25.5 million (+17.0%), feeling the effect of Euro 12.2 million relating to the consolidation of Aspes. Net of this item, the rise in costs emerged as contained at Euro 13.3 million which, if account is taken of the capitalised costs described below for Euro 11.6 million, discloses a performance in line with previous year.

Personnel costs rose from Euro 71.4 million of the first quarter 2006 to Euro 77.6 million in the same period of 2007 (+7.2%), with a ratio to revenues of 10.3%. The increase in costs is due to the consolidation of the Aspes Group companies for about 4.0%. The increase in costs, net of the said effect, is equal to 1.7%, linked to the trend in the average unit costs related to wage increases. The recovery of efficiency, together with a gradual decrease in personnel for customer services activities, allowed to balance the incremental personnel linked to the acquisition of the former Enel network in the province of Modena.

The increase in **Capitalised costs**, which rose from Euro 35.4 million to Euro 47.1 million, is almost entirely due to increased investments in the water segment, aided by the climatic trend.

The **consolidated EBITDA** of the Group as at 31 March 2007 dropped from Euro 137.2 million to Euro 134.5 million, a percentage change of 1.9%, linked to the particularly mild climate trend that significantly reduced gas and district heating sales. Due to the contribution of all the other Group areas of business, this result was therefore extremely positive. The contribution of the Pesaro companies to this result came to approximately Euro 4.2 million.

The percentage-based incidence of the EBITDA on Revenues decreased slightly from 18.7% of the first quarter 2006 to 18.0% in 2007.

Amortisation, Depreciation and Provisions increased by 13.9%, passing from Euro 41.7 million in 2006 to Euro 47.5 million in the first quarter 2007. This increase is linked to the consolidation of Aspes for approximately 2 million euro and to the considerable amount of investments carried out.

In the light of the above-mentioned information, the first quarter 2007 highlights an **Operating Profit** equal to Euro 87.1 million, down 8.9% compared to the same period of the previous year. This result – which is particularly positive if we take into account the combined effects of the climate trend and the increase in amortisation/depreciation – was also possible as a result of the ongoing rationalisation and increased efficiency that the Group continues to engage in.

Financial charges, which include the figurative portion linked to the application of the IAS standards, net of the portion of profits from associated companies, rose from Euro 13.0 million to Euro 17.1 million, involving an increase of 32.2% when compared with the same period of 2006, in line with expectations. This increase is linked to (i) the rise in indebtedness made necessary by the increased turnover and the operating and extraordinary investments of the Group, (ii) the inclusion of Aspes within the scope of consolidation as well as (iii) the rise in interest rates.

In the light of the above, the period ended with a **Pre-tax profit** of Euro 70.0 million, down by 15.3% compared to the previous year.

2.3 Hera Group Investments

The tangible and intangible investments of the Group rose from Euro 58.5 million in the first quarter 2006 to Euro 74.7 million in 2007. The latter include Euro 1.2 million regarding the investments of the Aspes group.

The table below lists the investments for the period by business segment:

Total investments (mn/€)	**31/03/2006**	**31/03/2007**	**Abs. Ch.**	**Ch. %**
Gas area	5.4	5.5	0.1	0.9%
Electricity area	1.8	6.0	4.2	233.3%
Integrated water cycle segment	20.1	29.3	9.2	45.9%
Waste management	16.8	21.9	5.1	30.5%
Other services area	4.5	5.7	1.2	25.6%
Central structure	9.9	6.4	-3.5	-35.7%
Total	**58.5**	**74.7**	**16.2**	**27.7%**

It should be noted that the increase equal to Euro 16.2 million is due to the integrated water cycle for about 57% and to the construction of new plants for 29%.

Investments in gas service – which are mainly in line with the same period of the previous year – refer to expansion, reclamation, enhancement of networks and plant systems. Investments by the company Medea regard the construction of a methane gas pipeline in Sassari.

Gas (mn/€)	**31/03/2006**	**31/03/2007**	**Abs. Ch.**	**Chan. %**
Area	4.9	5.2	0.3	6.0%
Medea	0.5	0.3	-0.2	-48.7%
Total gas	**5.4**	**5.5**	**0.1**	**0.9%**

Investments in the Electricity service relate to the expansion of service and the extraordinary maintenance in plant systems and distribution networks for the Modena and Imola area, as well as to the coordination of electricity networks. Investments in combined cycle electricity and heat thermal power plants (CCGT) refer to the launch of the activities for the construction of the new Imola plant.

Electrical energy (mn/€)	**31/03/2006**	**31/03/2007**	**Abs. Ch.**	**Chan. %**
Area	1.7	2.8	1.1	64.7%
Comb.cycle elec. & heat th.p.plants	0.1	3.2	3.1	-
Total electrical energy	**1.8**	**6.0**	**4.2**	**-**

Investments relative to the integrated water cycle are up compared to the same period of last year, mainly due to agreements signed with local ATOs (Optimal Territory Environment Agencies), consequently reflected in tariff increases. They mainly regard expansion, enhancement and upgrading of networks and plant systems, in particular with regard to sewer systems.

Integrated water cycle (mn/€)	**31/03/2006**	**31/03/2007**	**Abs.Ch.**	**Chan. %**
Water system	11.3	13.8	2.5	21.9%
Purification	4.0	5.7	1.7	42.7%
Sewerage	4.8	9.8	5.0	104.8%
Total water cycle	**20.1**	**29.3**	**9.2**	**45.9%**

In the waste management area, projects carried out on plants located throughout the area increased slightly with respect to the previous year. Investments with regards to waste-to-energy plants were focused on the new Modena, Canal Bianco (Ferrara) and Forlì plants that are being constructed.

Waste management area (mn/€)	**31/03/2006**	**31/03/2007**	**Abs. Ch.**	**Chan. %**
Plants	2.3	3.8	1.5	67.3%
Investee companies	1.4	3.4	2.0	141.6%
WTE Canal Bianco (FE)	8.1	6.4	-1.7	-21.5%
WTE Modena 4th line	2.8	5.7	2.9	103.0%
WTE Forlì	2.2	2.6	0.4	20.4%
Total waste management area	**16.8**	**21.9**	**5.1**	**30.5%**

Investments in the district heating service are related to works for the expansion of the service, which have been already launched in all areas. Investments in telecommunication networks relate to intervention concluding the Regional Telecom Plan for fibre-optic connections. Other investments are mainly focused on the construction of new micro-cogeneration plants within the companies and measures on heating plants linked to the heat management service.

Other services (mn/€)	**31/03/2006**	**31/03/2007**	**Abs. Ch.**	**Chan. %**
District heating	2.8	3.4	0.6	19.7%
Telecommunications	0.4	0.7	0.3	87.4%
Public illumination	0.7	0.1	-0.6	-85.8%
Heat and micro-cogen. mgmt.	0.0	0.9	0.9	-
Other	0.6	0.5	-0.1	-8.8%
Total other services	**4.5**	**5.7**	**1.2**	**25.6%**

Investments in the central structure were down on the whole by over 35.7%, in particular with regard to the smaller entity of investments in IT systems. It is also noted that, during the first quarter 2007, the implementation of the new customer system (SAP ISU) will be completed for the two remaining areas.

Central structure (mn/€)	**31/03/2006**	**31/03/2007**	**Abs.Ch.**	**Chan. %**
Real estate investments	1.5	1.8	0.3	19.0%
IT systems	5.7	3.1	-2.6	-46.3%
Fleets	1.0	0.9	-0.1	-11.1%
Other investments	1.7	0.6	-1.1	-62.7%
Total structure	**9.9**	**6.4**	**-3.5**	**-35.7%**

2.4 *Analysis by Business Area*

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

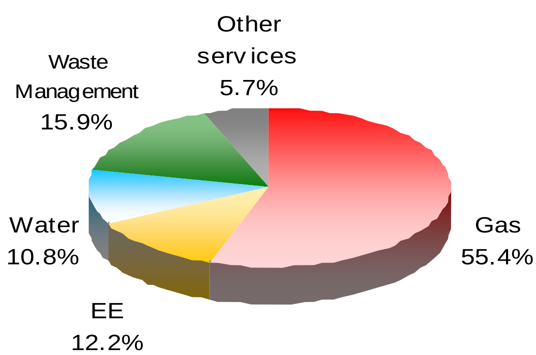
The business areas did not undergo any substantial change in the first quarter 2007 compared with the same period of 2006: with regards to the contribution towards EBITDA, the importance of the water cycle and waste management areas increased and that of the gas segment decreased. Also as regards revenues – and despite the seasonal effect of the period under examination – the percentage-related importance of the gas area decreased, especially in relation to the reduction in volumes.

In order to provide the necessary details on performance in the first three months of 2007, an analysis is shown of the various business segments in which the Group operates, presented on a comparative basis with the 2006 figures. The breakdown and evolution for the corresponding periods of 2006 and 2007 in terms of Revenues and EBITDA are shown in the graphs below:

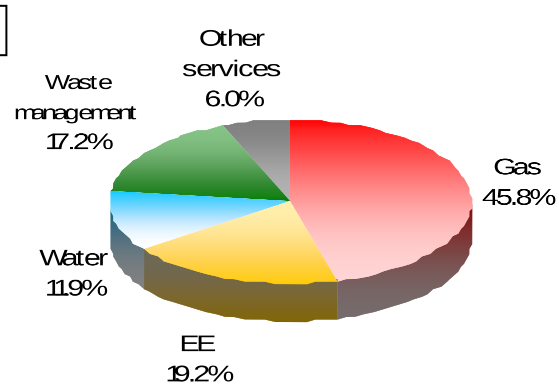
BREAKDOWN OF THE BUSINESS PORTFOLIO

REVENUE

31/03/2006

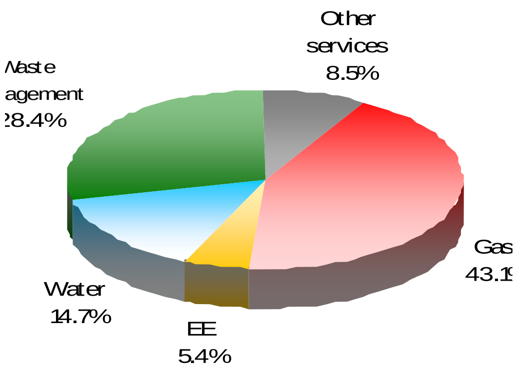


31/03/2007

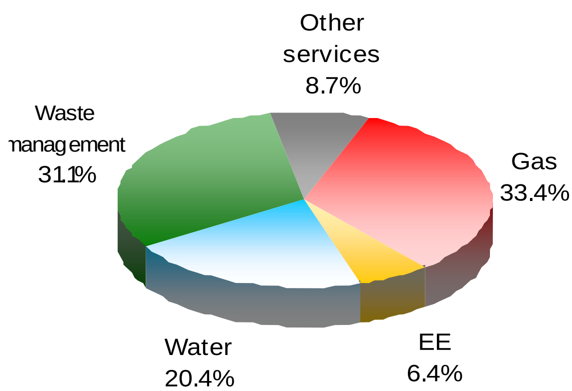


EBITDA

31/03/2006



31/03/2007



The following sections contain an analysis of the operating results generated by business segment. The income statements by business area include structural costs, including inter-divisional transactions valued at current market prices.

It should also be noted that the analysis of the business segments includes the increases in construction on a time and materials basis/work in progress and, therefore, the related costs. These items, as envisaged in the indications of the IAS standards, are indicated by way of adjustment of the costs as costs capitalised in the individual tables.

2.4.1 *Analysis of the Gas Area*

In the first three months of 2007, the importance of the Gas segment, which includes sales and distribution activities, decreased when compared with the same period last year by approximately ten percentage points in terms of margin contribution.

The importance of this business segment with respect to total Group activities is illustrated below:

(mn/€)	31/03/2006	31/03/2007	Abs. Ch.	Chan. %
Area EBITDA	**59.1**	**44.9**	**-14.2**	**-24.0%**
Group EBITDA	137.2	134.5	-2.7	-1.9%
Percentage	*43.1%*	*33.4%*	*-9.7 p.p.*	

The first three months of 2007 were characterised by a particularly mild climate trend without precedent. This effect had notable consequences for all market operators, which were affected by a considerable decrease in distributed and sold volumes.

The table below quantifies the above-mentioned information and describes the evolution of the volumes in the two examined periods, which contributed towards determining the distribution and sales activity results.

Quantitative data	31/03/2006	31/03/2007	Abs.Chan.	Chan. %
Distributed volumes (millions of m^3)	1,059.8	811.3	-248.5	-23.4%
Volumes sold (millions of m^3)	1,151.0	950.6	-200.4	-17.4%
- of which trading	*91.0*	*89.4*	*-1.5*	*-1.7%*

With regards to the climate trend described above, distributed volumes dropped from 1,059.8 million cubic metres in the first quarter 2006 to 883.5 million in the same period of 2007, despite 33.9 million cubic metres deriving from the consolidation of Aspes Pesaro. Volumes sold decreased to a greater extent mainly as a result of the commercial aggressiveness of the competition on business customers.

In addition to the climate trend, the results of the Gas area segment were negatively influenced by the intervention of the Electricity and Gas Authority (AEEG) relating to the reduction of the sales tariffs (resolution No. 134/06) as from 1 October 2006.

The financial results are summarised below:

Income statement (mn/€)	31/03/2006	Incr.%	31/03/2007	Incr.%	Abs. Ch.	Chan. %
Revenues	425.6		365.5		-60.1	-14.1%
Operating costs	(357.9)	-84.1%	(315.4)	-86.3%	+42.5	-11.9%
Personnel costs	(13.6)	-3.2%	(11.5)	-3.1%	+2.1	-15.4%
Capitalised costs	5.0	1.2%	6.3	1.7%	+1.3	+26.9%
EBITDA	**59.1**	**13.9%**	**44.9**	**12.3%**	**-14.2**	**-24.0%**

Revenues in the Gas area segment decreased by 14.1%, passing from Euro 425.6 million in 2006 to Euro 365.5 million in the first three months of 2007, due to lower volumes distributed and sold.

With respect to the previous year, the Group registered a decrease in EBITDA in the Gas segment, in relation to the afore-mentioned effects, equal to Euro 14.2 million, passing from Euro 59.1 million to Euro 44.9. million. Net of the contribution from the Pesaro area companies, the decrease would have come to Euro 15.8 million, or 26.8%.

It should be pointed out that profitability for this area was favourably influenced by the increase in average unit tariffs for distribution – also due to the lower volumes distributed – and by the decrease in the labour cost, mainly related to the lower absorption of trading costs of the business area.

As a result of the afore-mentioned loss in profitability, the percentage margin fell from 13.9% in 2006 to 12.3% in 2007.

2.4.2 Analysis of the Electricity Area

As a result of the merger of Meta and the acquisition of the former Enel network in the province of Modena, the Group's Electricity segment acquired a more substantial percentage-related dimension, even if partially reduced by the consolidation of the Pesaro area which is not active in this business segment. Between 2006 and 2007, the importance of this area increased by approximately 1%, passing from 5.4% in 2006 to 6.4% in 2007. It is noted that, before the acquisition of the Modena area, the percentage-based importance did not exceed 3.0 %.

(mn/€)	31/03/2006	31/03/2007	Abs.Chan.	Chan. %
Area EBITDA	**7.4**	**8.6**	**+1.2**	**+16.6%**
Group EBITDA	137.2	134.5	-2.7	-1.9%
Percentage	*5.4%*	*6.4%*	*+1.0 p.p.*	

In the Electricity area, the raw material cost remained at the high levels recorded in 2006 and, in relation to the increase in volumes distributed and sold, the business turnover of the area increased significantly.

The increase in volumes is related to (i) the acquisition of the former Enel grid and (ii) the higher sale volumes to business customers, which were made possible by the higher availability of electricity that, throughout 2007, will be distributed by the plants that are expected to be started.

An analysis of the results in the energy segment is presented below:

Income statement (mn/€)	31/03/2006	Incr.%	31/03/2007	Incr.%	Abs.Ch.	Chan. %
Revenues	94.1		152.9		+58.8	+62.5%
Operating costs	(86.2)	-91.6%	(143.2)	-93.7%	-57.0	+66.2%
Personnel costs	(2.1)	-2.3%	(4.8)	-3.1%	-2.7	+123.9%
Capitalised costs	1.7	1.8%	3.8	2.5%	+2.1	+125.7%
EBITDA	**7.4**	**7.9%**	**8.6**	**5.6%**	**+1.2**	**+16.6%**

Sales revenues increased by 62.5%, passing from Euro 94.1 million in 2006 to Euro 152.9 million in the first quarter 2007, as a result of the above-mentioned factors.

The increase in revenues by business area is illustrated below. It should be taken into account that in the item "Other" are reclassified:

(millions of euro)	31/03/2006	Incr.%	31/03/2007	Incr.%	Abs.Ch.	Chan. %
Sales revenues	58.7	62.4%	86.0	56.3%	+27.3	+46.5%
of which non-el. cust.	15.5	16.5%	20.1	13.1%	+4.6	+29.4%
of which elig. cust.	43.2	45.9%	65.9	43.1%	+22.7	+52.6%
Rev. from distribution	9.0	9.6%	12.5	8.2%	+3.5	+38.3%
Other	26.3	28.0%	54.4	35.6%	+28.1	+106.6%
Total revenues	**94.1**	**100.0%**	**152.9**	**100.0%**	**+58.8**	**+62.5%**

Operating costs increased as a result of (i) higher electricity volumes sold, (ii) activities linked to the acquisition of the former Enel network, (iii) higher trading costs, and (iv) additional works capitalised.

Personnel costs rose considerably both as a result of the acquisition of the former Enel grid in the province of Modena and for additional works, and of the higher absorption of trading costs in favour of the gas area.

The quantitative data for the area by customer type illustrated below demonstrate the trend in the volumes linked to the afore-mentioned management policies:

Quantitative data	31/3/2006	31/03/2007	Abs.Ch.	Chan. %
Volumes sold (Gw/h)	**716.0**	**1,029.0**	**+313.0**	**+43.7%**
Non-eligible customers	182.3	228.0	+45.7	+25.1%
Eligible customers	533.7	801.0	+267.3	+50.1%
Distributed volumes (Gw/h)	**273.9**	**563.4**	**+289.5**	**+105.7%**

The EBITDA rose in comparison to the same period of 2006, passing from Euro 7.4 million to Euro 8.6 million (+16.6%), as a result of the contribution from the former Enel network, the synergies permitted by the incorporation of the Modena area and higher volumes.

2.4.3 *Analysis of the Integrated Water Cycle Area*

By means of the integration of the Pesaro area, the Group currently operates in the Integrated Water Cycle management sector in over 180 municipalities, with more than 2.5 million inhabitants, with a more or less complete coverage of the area in question.

Hera operates in seven ATOs coinciding with the Provinces of Ravenna, Ferrara, Forlì-Cesena, Rimini, Modena, Bologna and Pesaro.

Agreements were set up with all of the afore-mentioned ATOs, regulating the Integrated Water Service and guaranteeing the Group not only the extension of the concessions on average until 2022, but also the certainty of general tariff development until the end of 2007 and the guarantee of achieving the anticipated return on investment over the next few years, in accordance with the provisions of the Galli Law.

In relation to that set forth above and to the loss in profitability for the Gas Area, the Integrated Water Cycle Segment demonstrated improved results above the Group average, and significantly improved its percentage weight, as shown in the table below:

(mn/€)	31/03/2006	31/03/2007	Abs.Chan.	Chan. %
Area EBITDA	**20.1**	**27.4**	**+7.3**	**+36.4%**
Group EBITDA	137.2	134.5	-2.7	-1.9%
Percentage	14.7%	20.4%	+5.7 p.p.	

The results at the end of March 2007 disclose a trend in line with expectations, involving an increase in revenues linked to the tariff scheme approved by the ATOs, and an increase in volumes lower than in the past.

An analysis of the operating results achieved in the Integrated Water Cycle business is shown below:

Income statement (mn/€)	31/03/2006	Incr.%	31/03/2007	Incr.%	Abs.Ch.	Chan. %
Revenues	82.6		94.7		+12.1	+14.6%
Operating costs	(63.5)	-76.9%	(76.0)	-80.2%	-12.5	+19.6%
Personnel costs	(19.1)	-23.1%	(21.7)	-22.9%	-2.6	+13.5%
Capitalised costs	20.1	24.3%	30.4	32.1%	+10.3	+51.3%
EBITDA	**20.1**	**24.3%**	**27.4**	**29.0%**	**+7.3**	**+36.4%**

In the first quarter of 2007, revenues were generated for a total of Euro 94.7 million, up by 14.6% when compared with the same period of 2006, in relation to the consolidation of Aspes Pesaro for Euro 4.5 million, the tariff increases linked to the agreements with the ATOs amounting to approximately Euro 3.5 million, and the rise in complementary services managed and works carried out.

The average tariff for the Integrated Water Cycle – in line with the previous year – increased by 4.9%, passing from an average of Euro 1.35 per cubic metre in 2005 to Euro 1.41 per cubic metre in 2006.

The increase in costs derives from both the afore-mentioned consolidation of the Pesaro companies for around Euro 2.4 million and the additional services and works provided, as well as from the greater internal capitalisation relating to the agreed investments of the Area Plans.

The main quantitative figures of the business area illustrated below reveal that, net of volumes of the Pesaro companies for 4.0 million cubic metres, there would be a slight decrease in comparison to the previous year (-0.4 million cubic metres, -0.8%).

Quantitative data	**31/03/2006**	**31/3/2007**	**Abs.Ch.**	**Chan. %**
Volumes sold (million cubic metres)				
Water system	52.7	56.3	+3.6	+6.9%
Sewerage	45.6	47.9	+2.3	+5.1%
Purification	47.0	49.8	+2.8	+5.9%

The above-mentioned climate trend and the consequent decrease in precipitation caused a reduced availability of the sources that were generally used by the Group, in particular the Ridracoli dam owned by Romagna Acque, and a higher social sensitivity to use water resources responsively. In addition to the water saving awareness-raising initiatives developed during 2006, these effects probably represent one of the reasons for the decrease in treated quantities.

The EBITDA at the end of the first quarter 2007 increased by Euro 7.3 million, passing from Euro 20.1 million in 2006 to Euro 27.4 million in 2007. In addition to the said tariff increases and to the consolidation of the Pesaro area, this result is also characterised by (i) the lower cost incurred for the purchase of water from third party companies and by the additional works carried out due to more favourable weather conditions.

It is also noted that the rise in gross margin is connected to the increase in investments, required by the agreements signed with ATOs and to the consequent increase in amortisation/depreciation, that is particularly sensitive in this business area.

2.4.4 Analysis of the Waste Management Area

The Waste Management segment – confirming the previous results – presented high growth rates both in terms of profitability and percentage-related importance.

(mn/€)	31/03/2006	31/03/2007	Abs.Chan.	Chan. %
Area EBITDA	**38.9**	**41.8**	**+2.9**	**+7.4%**
Group EBITDA	137.2	134.5	-2.7	-1.9%
Percentage	28.4%	31.1%	+2.7 p.p.	

Although the first quarter is usually more positive for the Gas area, the Waste Management segment accounts for one-third of the Group result.

For some time now, the Hera Group has been the most important integrated operator in the sector at European level, due to its range of treatment and disposal plants for municipal and special waste.

As already indicated in the Integrated Water Cycle segment, the Group operates within the sphere of the 7 ATOs in the Provinces of Ravenna, Forlì-Cesena, Rimini, Bologna, Ferrara, Modena and Pesaro. The definition of agreements pursuant to current legislative provisions has also been finalised for this sector.

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

Income statement (mn/€)	31/03/2006	Incr.%	31/03/2007	Incr.%	Abs.Ch.	Chan. %
Revenues	122.4		137.0		+14.6	+11.9%
Operating costs	(55.3)	-45.2%	(64.2)	-46.9%	-8.9	+16.1%
Personnel costs	(29.8)	-24.4%	(32.5)	-23.7%	-2.7	+8.9%
Capitalised costs	1.6	1.3%	1.5	1.1%	-0.1	-7.3%
EBITDA	**38.9**	**31.8%**	**41.8**	**30.5%**	**+2.9**	**+7.4%**

Revenues at the end of the first quarter 2007 disclosed an increase of 11.9%, rising from Euro 122.4 million in 2006 to Euro 137.0 million of the same period this year. The increase in sales is linked to the integration of the Pesaro area for Euro 6.1 million, while the remaining balance concerns the additional revenues for the sale of electricity by the Group plants and the additional volumes of services provided, in particular as far as the separate waste collection is concerned.

Differentiated waste collection, net of volumes arising from sweeping activities (as envisaged by the DPCM project on differentiated collection dated 5 June 1997), in terms of percentage-based incidence on total volumes collected, increased by approximately two percentage points, passing from 33.5% at the end of 2006 to 35.8% in the first quarter 2007, thus confirming the Group's commitment towards the reduction of environmental impact.

As can be seen in the following table, the quantity of waste disposed of increased by 2.7%. Net of the contribution from the Pesaro area companies, the amounts are substantially unchanged.
The classification of the volumes treated, relating to the 2006 accounting period, has been aligned to the criteria for the current year.

Quantitative data	31/03/2006	Incr.%	31/03/2007	Incr.%	Abs.Ch.	Chan. %
Municipal waste	359.4	34.6%	381.5	35.7%	+22.1	+6.2%
Waste from the market	354.2	34.1%	361.5	33.8%	+7.3	+2.1%
Special waste from plants' by-products	222.9	21.4%	222.0	20.8%	-0.8	-0.4%
Direct customers of subsidiaries	103.6	10.0%	103.0	9.6%	-0.6	-0.5%
Waste treated by type	**1,040.1**	**100.0%**	**1,068.1**	**100.0%**	**+28.0**	**+2.7%**
Landfills	319.2	30.7%	363.1	34.0%	+43.8	+13.7%
Waste-to-energy plants	141.9	13.6%	138.5	13.0%	-3.4	-2.4%
Selection plants	89.9	8.6%	65.8	6.2%	-24.1	-26.8%
Composting plants	82.3	7.9%	86.9	8.1%	+4.6	+5.6%
Inert. and chemical plants	218.8	21.0%	219.1	20.5%	+0.3	+0.1%
Other	187.9	18.1%	194.7	18.2%	+6.7	+3.6%
Waste treated by plant	**1,040.1**	**100.0%**	**1,068.1**	**100.0%**	**+28.0**	**+2.7%**

The quantitative data presented above reveals a lower volume of waste treated in waste-to-energy plants, which reflects the shut-down of the Ferrara plant due to the construction of the new line. It should be noted that about 50% of the additional volumes of waste disposed of in landfills is linked to Aspes.

EBITDA for the Waste Management segment increased from Euro 38.9 million in the first quarter 2006 to Euro 41.8 million of the same period in 2007, with an increase of 7.4%. It should be noted that the increase in the services supplied – and in particular the rise in costs linked to higher volumes of separate waste collection – did not allow to obtain the high margin growth levels that were recorded in previous years.

2.4.5 Other services

The Other Services Segment, which includes the Public Lighting, District Heating and Heat Management Services, weighs in on the overall EBITDA margin of the Group for around 8.7%, compared with 8.5% in the previous year.

(mn/€)	31/03/2006	31/03/2007	Abs. Ch.	Chan. %
Area EBITDA	**11.7**	**11.7**	**+0.0**	**+0.4%**
Group EBITDA	137.2	134.5	-2.7	-1.9%
Percentage	8.5%	8.7%	+0.2 p.p.	

An analysis of the operating results achieved in the Other Services segment is shown below:

Income statement (mn/€)	31/03/2006	Incr.%	31/03/2007	Incr.%	Abs.Ch.	Chan. %
Revenues	44.0		47.7		+3.8	+8.5%
Operating costs	(28.8)	-65.4%	(35.0)	-73.2%	-6.2	+21.5%
Personnel costs	(6.8)	-15.4%	(6.1)	-12.8%	+0.7	-10.2%
Capitalised costs	3.2	7.4%	5.0	10.5%	+1.8	+55.1%
EBITDA	**11.7**	**26.5%**	**11.7**	**24.6%**	**+0.0**	**+0.0%**

Revenues rose by 8.5%, from Euro 44.0 million in the first quarter 2006 to Euro 47.7 million in 2007. This increase is linked to higher activities in the sectors of Public Illumination and Heat Management, that compensate lower revenues coming from the District Heating due to the lower volumes distributed.

The rationalisation and reorganisation of the area carried out in the last two years led to the progressive discontinuation of many services not linked to the Group's core business activities and enabled to focus on the efficiency and market development of the remaining business activities. Specifically, it is worth mentioning the increase in the margin linked to public lighting activities and the launch of industrial microgeneration initiatives, as pointed out in the section regarding investments. The activity performed allowed to keep the profitability unchanged (Euro 11.7 million), despite the significant impact of the lesser volumes of heat sold, due to the particularly mild winter season.

The quantitative data of the main services carried out by the Group are summarised in the following table:

Quantitative data	31/03/2006	31/03/2007	Abs.Ch.	Chan. %
District heating				
Distributed heat volumes (Gwht)	225.4	170.0	-55.4	-24.6%
Public lighting				
Lighting units (thousands)	293.6	305.7	+12.1	+4.1%

2.5 Financial situation of the Hera Group

Net financial indebtedness is analysed in the following table with regards to composition and changes:

Net financial position (mn/€)	31/12/2006	Incr.%	31/03/2007	Incr.%	Abs.Chan.	Ch. %
Cash and cash equivalents	213.6		118.6			
Other current loans	12.8		8.4			
Current financial indebtedness	(450.9)		(329.2)			
Net current financial indebtedness	**(224.5)**	**19.1%**	**(202.2)**	**15.3%**	**22.3**	**-9.9%**
Non-current loans	19.2		23.4			
Non-current financial indebtedness	(968.0)		(1,143.6)			
Net non-current financial indebtedness	**(948.8)**	**80.9%**	**(1,120.2)**	**84.7%**	**(171.4)**	**18.1%**
Net financial indebtedness	**(1,173.3)**	**100.0%**	**(1,322.4)**	**100.0%**	**(149.1)**	**12.7%**

The net financial position increased with respect to 31 December 2006, passing from Euro 1,173.3 million to Euro 1,322.4 million as of 31 March 2007. The increase was mainly the result of the important investment plan carried out and of the temporary rise in working capital, linked to the suspension of billing in the Modena area for the implementation of the new customer system.

The reliability of the Group's financial and asset structure is confirmed by the assignment of an A rating by Standard & Poor's and an A1 rating by Moody's.

2.6 Human Resources

The Hera Group had 6,271 employees as at 31.03.07 (consolidated companies), with the following breakdown by role: managers (109), middle managers (273), employees (2,699), and workers (3,190). This workforce was the result of the following changes: new recruits (84), leavers (40).

	31/12/2006	31/03/2007	Changes
Executives	106	109	3
Managers	268	273	5
White-collar	2,629	2,699	70
Blue-collar	3,224	3,190	-34
Total	**6,227**	**6,271**	**44**

The actual changes are included in the following table:

	30/03/2007
Staff employed at the end of 2006	**6,227**
New recruits	84
Leavers	-40
Net flows	**44**
Staff employed at close of period	**6,271**

The increase in new recruits is mainly due to the transformation of employment contracts from fixed-term to open-ended contracts and to the introduction of professional roles that were not present within the Group.

3 – HERA GROUP CONSOLIDATED FINANCIAL STATEMENTS

3.01 Consolidated income statement

	31-Mar-2007 (3 months) € /000	31-Mar-2006 (3 months) € /000	31 Dec 2006 (12 months) € /000
Revenues	746,690	731,933	2,311,450
Change in inventories of finished products and work in progress	3,445	1,339	2,699
Other operating income	9,343	8,540	50,295
Consumption of raw materials and consumables (net of change in inventories of raw materials and stock)	-420,363	-419,011	-1,146,683
Costs for services	-159,805	-141,874	-642,544
Personnel costs	-76,578	-71,447	-296,598
Amortisation, depreciation and allocations	-47,473	-41,673	-195,358
Other operating costs	-15,246	-7,714	-46,457
Capitalised costs	47,062	35,449	194,516
Operating profit	**87,075**	**95,542**	**231,320**
Investee share of profit (loss)	469	187	4,313
Financial income	4,548	6,865	43,858
Financial charges	-22,139	-20,003	-100,244
Profit before tax	**69,953**	**82,591**	**179,247**

3.02 Consolidated net financial position

(euro/000000)		31-Mar-07		31-Dec-07
Cash and cash equivalents		**118.6**		**213.6**
Other current loans		**8.4**		**12.8**
Current bank indebtedness	-	213.5	-	312.4
Current portion of non-current bank indebtedness	-	84.9	-	109.4
Other current financial indebtedness	-	17.3	-	17.3
Financial liabilities from derivative instruments	-	1.7	-	2.3
Due to financial leases coming due during the next financial year	-	11.8	-	9.5
Current financial indebtedness	**-**	**329.2**	**-**	**450.9**
Net current financial indebtedness	**-**	**202.2**	**-**	**224.5**
Non-current loans		**23.4**		**19.2**
Financial assets from derivative instruments		**4.2**		**0.0**
Non-current bank indebtedness (long-term loans)	-	594.5	-	410.0
Bonds issued	-	497.6	-	497.6
Other non-current loans	-	29.5	-	29.5
Financial liabilities from derivative instruments				
Due to financial leases coming due after the next financial year	-	26.2	-	31.0
Non-current financial indebtedness	**-**	**1,147.8**	**-**	**968.0**
Net non-current financial indebtedness	**-**	**1,120.2**	**-**	**948.8**
Net financial indebtedness	**-**	**1,322.4**	**-**	**1,173.3**

3.03 Content and form of the accounting statements

The consolidated quarterly report of the Hera Group as at 31 March 2007 was drawn up in compliance with the provisions of art. 82 of the "Regulations containing the provisions for implementation of Legislative Decree o. 58 of 24 February 1998, on the matter of issuers" (Consob Resolution no. 11971 of 14 May 999 and subsequent amendments), as amended by Consob Resolution no. 14990 of 14 April 2005. This report is not subject to an accounting audit.

Based on the aforementioned art. 82, the quarterly report has been drawn up by applying, solely to the valuations, the international accounting standards IFRS according to the contents of Attachment 3D of said regulations. Thus, this quarterly report has not been drawn up in compliance with the accounting standards regarding infra-annual reporting (IAS 34 "Interim Financial Reporting").

The format of the income statement for the first three months of 2006 was reclassified, with respect to the version previously published. Specifically, the reclassification involved costs for the use of third party assets. "other operating costs" and "costs for services", for a total of Euro 20,537 thousand, consistent with the format used for the income statement for the entire financial year 2006.

Appendix to Consolidated Report	**31/03/2006**	**31/03/2006 reclassified**	**Change**
Total reclassifications			
Income statement			
Costs for services	(121,337)	(141,874)	-20,537
Other operating costs	(28,251)	(7,714)	20,537
	-149,588	**-149,588**	**0**

The format used for the income statement requires the classification of costs by nature, which is considered as better representing company results,. In addition, sub-totals have been inserted in order to point out the interim figures (operating income) also used in disclosing data to third parties.

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

3.04 Accounting standards and policies

The quarterly report of the Hera Group as at 31 March 2007 includes the quarterly financial statements of the Parent Company, Hera SpA and those of the subsidiary companies. Control is obtained when the Parent Company has the power to determine the financial and operating policies of a company in such a way as to benefit from its activities.

Subsidiary companies whose size is insignificant, where the voting rights are subject to serious and long term restrictions and the subsidiary companies held for the exclusive purpose of their subsequent disposal are excluded from the scope of line-by-line consolidation.

Investments representing non-current assets in associated companies whose size is significant are carried at equity. Those of an insignificant size are instead carried at cost.

The companies held exclusively for the purpose of their disposal are excluded from consolidation and assessed at the lower between cost and fair value. These investments are recorded as separate items.

There are no companies consolidated under the proportional method.

The list of companies included within the scope of consolidation, including the changes with respect to the previous year, is illustrated at the end of these notes.

The financial statements used for the preparation of the balance sheet and income statement schedules were those which the companies included within the scope of consolidation reclassified and adjusted (on the basis of specific instructions issued by the Parent Company) for the purposes of consistency with the accounting policies and principles of the Hera Group. With regard to associated companies, adjustments in shareholders' equity values were considered in order to adapt to IAS/IFRS principles. Specifically, the income statement includes, on a line-by-line basis, the income and charges of the companies included in the scope of consolidation, while the income and charges, and profits and losses generated from operations carried out between companies included in the scope of consolidation have been eliminated. Dividends received from the parent company and recorded in the income statement among financial income are eliminated during the process of consolidating the relative companies.

The valuation of the financial statement items has been carried out aspiring to the general criteria of prudence and accruals, with a view to the business as a going-concern. For the purposes of the accounting entries, priority is given to the economic substance of the transactions rather than their legal form.

The accounting standards applied to the Group are set forth below.

Tangible assets – Tangible assets are recorded at acquisition or production costs, including accessory costs, or at the value based on expert appraisals of the business assets, if relating to purchased companies, net of the related accumulated depreciation and any impairment. The production cost includes the portion of the direct and indirect costs reasonably attributable to the asset (such as: transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notary fees, land registry expenses). Cost includes any professional fees and, for certain assets, capitalised financial charges up to the moment the asset enters into service. Cost also comprises the costs for reclamation of the site on which the tangible fixed asset exists, if complying with the provisions of IAS 37.

As of the date of changeover to the IFRS – 1 January 2004 – the Group adopted the criteria of fair value as a replacement for cost (fair value as deemed cost) for the tangible fixed assets, applying it selectively to certain categories of assets; the additional value which emerged was credited directly to the reserves. The adoption of the fair value occurred on the basis of an expert appraisal carried out by an independent expert which made it possible, amongst other things, to identify the individual plant and machinery components of a significant amount and with a different useful life, in accordance with the approach for components envisaged by IAS 16.

Ordinary maintenance costs are charged in full to the income statement. Improvement, modernization and transformation costs which increase the value of the assets, are charged to the balance sheet assets concerned.

The book value of tangible fixed assets is subject to assessment so as to identify any losses in value, and on any occasion that events or changes in circumstances indicate that the book value cannot be recovered (for details, see the section “losses in value – impairment”).

Depreciation starts to be applied when the assets are ready for use. The tangible fixed assets are systematically depreciated in each accounting period using the economic-technical rates considered representative of the residual possible usefulness of the assets. The following tables contain the useful lives taken into account for the depreciation of the assets.

General services	Min %	Max %
Land	0	0
Buildings	1.50	3.00
Property complex - Via Razzaboni Mo		
- land	0	0
- buildings	1 – 1.25	2 – 2.5
- external building works	1.66	3.33
Light construction	5.00	10.00
General plant	7.50	15.00
Equipment	5.00	10.00
Office furniture and machines	6.00	12.00
EDP machines	10.00	20.00
Vehicles and internal means of transport	10.00	20.00
Automobiles	12.50	25.00
Measurement and laboratory equipment	5.00	10.00
Remote control equipment	10.00	20.00
- remote control apparatus (RTU)	5.00	10.00
- supervision centres	4.16	8.33
- data transmission network (telephone cable)	2.50	5.00
- data transmission network (fibre optics)	3.33	6.67
Public lighting	4.00	8.00
- type 1 centre	2.00	4.00
- type 2 centre	1.25	2.50
- lighting unit (multiple points)	1.25	2.50
- lighting unit (single points/columns)	2.00	4.00
- flux controllers	1.25	2.50
- distribution network	1.43	2.86
- votive lighting	1.66	3.33
Electricity substations	3.50	7.00

Purification service	Min %	Max %
Land	0.00	0.00
Buildings/Civil works	1.50	3.00
Buildings IDAR construction section	1.50	3.00
General and specific plant	7.50	15.00
Specific IDAR plant	5.00	10.00
Specific ITFI plant	5.00	10.00
Specific plant	5.00	10.00
- Purification plant/Civil works	1.66	3.33
- Purification plant/Installations	3.33	6.67
Lifting plant	6.00	12.00
Laboratory equipment	5.00	10.00
Network	2.50	5.00
Electricity substations	3.50	7.00
Equipment	5.00	10.00
Furniture	6.00	12.00

District heating and gas service	Min %	Max %
Land	0	0
1st stage pressure reducer stations - Abstraction		
- Buildings	2.50	5.50
- General plant	7.50	15.00
- Specific plant	4.00	10.00
2nd stage pressure reducer stations – district – Specific plant-user stations	5.00	10.00
User transformers – Specific plant	4.00	8.00
Distribution network in steel	2.22	8.00
Distribution network in cast iron or spheroidal cast iron	2.00	8.00
Distribution network in PE or PVC	2.86	8.00
Outlets/Intakes	2.50	8.00
Meters	4.00	10.00
Cathodic protection	4.00	8.00
Electricity substations – Specific plant	3.50	7.00
Cogeneration and district heating:		
- Production – Buildings	2.50	5.50
- Production – General plant	4.50	9.00
- Production – Specific plant	4.50	9.00
Distribution network	2.86	8.00
Meters	2.50	5.00
Heat exchange units	4.50	9.00
- Boilers	1.43	2.86
- Heat exchangers	2.50	5.00
- Expansion tanks	1.66	3.33
Pumping stations		
- Electricity substations	2.00	4.00
- Generators	2.75	4.55
- Pumps	3.33	6.67
- Electricity substations	3.50	7.00
Equipment	5.00	10.00

Water service	Min %	Max %
Land	0	0
Buildings/Civil works	1.75	3.50
Wells		
- Buildings/Civil works	1.75	3.50
- General and specific plant	1.25	2.50
- Disinfection plant	2.50	5.00
- Pumps	5.00	10.00
- Building works	1.43	2.86
Abstraction – Buildings/Civil works	1.25	2.50
Lifting and fresh water stations		
- Buildings/Civil works	1.75	3.50
- General plant	7.50	15.00
- Specific plant	6.00	12.00
- Fresh water plant	4.00	8.00
- Disinfection plant	2.50	5.00
- Transformers	2.00	4.00
- Pumps	3.34	6.67
- Reservoirs	1.25	2.5
- Filtration plant and filters	2.78	5.56
- Generators and blowers	2.28	4.55
- Building works	1.43	2.86
Reservoirs	2.00	4.00
- Disinfection plant	2.50	5.00
- Building works	1.11	2.22
Pipelines and distribution network	2.50	5.00
Distribution network in steel, cast iron or spheroidal cast iron	1.00	2.00
Distribution network in reinforced cement-PE-PVC	1.43	2.86
Outlets/Intakes and connections	2.22	5.00
Meters	4.00	10.00
Electricity substations – Specific plant	3.50	7.00
Vehicles	10.00	20.00

Electricity Production and Distribution Service.	Min %	Max %
Land	0	0
Buildings	1.50	3.00
MV underground and overhead distribution network	2.00	4.00
LV underground and overhead distribution network	4.00	8.00
HV/MV – LV/MV transformers	3.50	7.00
- station transformers	2.00	4.00
- pole transformers	2.50	5.00
Connections	3.33	8.00
Meters	4.00	10.00
Tables	1.66	3.33
Limiting devices	1.66	3.33
Masonry and single-pole stations	1.66	3.33
Polyfers	1.25	2.50
Receiver stations	1.66	3.33

Waste Management service	Min %	Max %
Land	0	0
Buildings	1.50	3.00
Secondary building units (warehouse)	1.50	3.00
General plant	7.50	15.00
Specific IIR plant	5.00	10.00
- land	0	0
- buildings	1.00 – 1.25	2.00 – 2.50
- fixed plant with real estate pertinency	1.66 – 2.00	3.33 – 4.00
- external building works	1.66	3.33
- electricity generation plant	2.00	4.00
- general plant	2.50	5.00
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.50	5.00
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity generation	2.50	5.00
- waste-to-energy line control systems	5.00	10.00
Specific BIOGAS plant, storage + IRE	5.00	10.00
- land	0	0
- buildings	1.00 – 1.25	2.00 – 2.50
- fixed plant with real estate pertinency	1.66 – 2.00	3.33 – 4.00
- external building works	1.66	3.33
- electricity generation plant	2.50	5.00
- CDR packing	2.50	5.00
- selection, chopping, feeding and sorting plant	2.50 – 3.33	5.00 – 6.67
- ventilation plant	3.33	6.67
- general plant – deactivation plant – storage reservoirs	2.50	5.00
- control systems	5.00	10.00
- containers and bins	5.00 – 10.00	10.00 – 20.00
- internal handling equipment	4.16	8.33
Specific waste composting plant	5.00	10.00
- land	0	0
- buildings	1.00 – 1.25	2.00 – 2.50
- fixed plant with real estate pertinency	1.66 – 2.00	3.33 – 4.00
- external building works	1.66	3.33
- general plant and lifting equipment	3.33	6.67
- pre-selection plant	2.50	5.00
- mixing plant	3.33 – 5.00	6.67-10.0
- palleting plant	5.00	10.00
- energy recovery plant	2.50	5.00
- screening and refining plant	3.33 – 4.16	6.67-8.33
- weighing plant	2.25	5.00
- dioxidization / organic treatment systems	3.33	6.67
- second maturing	5.00	10.00
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10.00	20.00
Waste containers and equipment	5.00	10.00
General equipment	5.00	10.00
Snow service equipment	5.00	10.00
Sanitary equipment	5.00	10.00
Light construction	5.00	10.00
Automobiles	12.50	25.00
Controlled landfills		

Land is not depreciated. Landfills are depreciated on the basis of the percentage filled.

Gains and losses deriving from the sale or disposal of assets are determined as the difference between the sales revenues and the net book value of the assets, and are charged to the income statement.

Leasing – Leasing agreements are classified as financial leases when the terms of the agreement are such that they essentially transfer all the risks and benefits of ownership to the lessee. The assets forming the subject matter of financial leasing agreements are recorded among tangible fixed assets and stated as Group assets at their fair value as of the date of acquisition, or, if lower, at the current value of the minimum payments due for the leasing; they are depreciated on the basis of their estimated useful life on a consistent basis with the assets owned. The corresponding liability vis-à-vis the lessor is recorded in the balance sheet. The payments for lease instalments are divided up into the principal portion and the interest portion and the financial charges are booked directly to the income statement for the year. All the other leases are considered to be operating leases and the related costs for the lease instalments are recorded on the basis of the conditions anticipated in the agreement.

Intangible assets – Intangible assets which are identifiable and can be monitored, and whose cost can be reliably determined based on the supposition that said assets will generate future economic benefits, are recorded in the accounts. These assets are stated at cost in accordance with the policies indicated for tangible fixed assets and if they have a defined useful life they are amortised systematically over the period of the estimated useful life. The amortisation commences when the asset is available for utilisation or in any case begins to produce economic benefit for the business. If the intangible fixed assets have an undefined useful life, they are not amortised but subjected to an annual impairment test, even in the absence of indicators which disclose losses in value.

Research and development costs for new products and/or processes are essentially booked to the income statement in the period they are incurred.

The advertising expenses are charged directly to the income statement.

Industrial patent rights and know-how are representative of assets which are identifiable and capable of generating future economic benefits under the Company's control; these rights are amortised over the related useful lives.

Concessions and licences mainly comprise rights for the concession under management of local public services and are amortised on a straight-line basis over either the economic-technical life of the assets granted or the duration of the concession involved, whichever period is shorter. The residual value of the intangible fixed assets which corresponds with the water concessions contributed by the merged companies and/or the spun-off business segments, is by contrast amortised in consideration of the average residual management duration in light of the agreements currently in force with the area agencies. The residual value of the intangible fixed assets which corresponds with the concessions for the management of the methane gas distribution networks contributed by the merged companies and/or the spun-off business segments is amortised in consideration of the residual transitory management duration anticipated by current legislation (Letta Decree and Marzano Law).

The gains and losses deriving from the disposal of an intangible fixed asset are determined as the difference between the disposal value and the book value of the assets; they are recorded in the income statement at the time of disposal.

Business combinations – IFRS 3 is applicable to the business combinations which have come about as from 31 March 2004. The Company has applied this standard for the acquisitions of the Agea Group, the Meta Group and the Geat Distribuzione Gas Group.

IFRS 3 envisages that the business aggregations be recorded in accordance with the acquisition method. Specifically, the acquisition cost is determined by the sum total of the current values, as of the date of exchange, of the activities given, the liabilities incurred or undertaken and the financial instruments issued by the group in exchange for control over the company acquired, in addition to the costs directly attributable to the combination; the only exception is represented by non-current assets which are classified as “held for sale” in compliance with IFRS 5 and stated and valued at current values less the sales costs.

The goodwill deriving from the acquisition is recorded as an asset and initially valued at cost, represented by the additional value of the acquisition cost when compared with the Group portion of the current values of the identifiable assets, liabilities and potential liabilities recorded. If, after the re-calculation of these values, the Group portion of the current values of the identifiable assets, liabilities and potential liabilities exceeds the acquisition cost, the surplus is recorded via the income statement.

Availing itself of the faculty envisaged by the IRFS, the Group has not retroactively applied IFRS 3 to the business combination transactions which took place before the date of changeover to the IAS/IFRS Standards; these transactions have been recorded at the same values determined on the basis of the previous accounting principles.

Goodwill deriving from consolidation represents the additional value of the acquisition cost with respect to the percentage due to the Group of the assets and liabilities, stated at fair value, of the subsidiary, associated or jointly controlled investee companies as of the acquisition date.

Goodwill deriving from the acquisition of an associated company is included in the book value of the investee company.

Losses in value (Impairment) - As of each balance sheet date and when events or situation changes indicated that the book value cannot be recovered, the Group takes into consideration the book value of the tangible and intangible fixed assets in order to assess whether there is any indication that said assets have suffered a reduction in value. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total of the writedown. The recoverable amount is either the net sales price or the usage value, whichever is the greater. Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the financial flows to which said assets belong. Future cash flows are discounted back to a discount rate (net of taxation) which reflects the current valuation of the market and takes into account the risks associated with the specific business activities.

If the recoverable amount of an asset (or of a unit generating financial flows) is estimated as lower than the related book value, the book value of the assets is reduced to the lower recoverable value and the loss in value is booked to the income statement. When there is no longer any reason for a writedown to be maintained, the book value of the asset (or the unit generating financial flows), with the exception of goodwill, is restated at the new value deriving from the estimate of its recoverable value; however, this new value cannot exceed the net book value which the asset would have had if the writedown had not been made for the loss in value. The write-back of the value is charged to the income statement, unless the asset is valued at revalued value, in which case the value write-back is charged to the revaluation reserve.

Treasury shares

In application of IAS 32 and 39, treasury shares are recognised as a reduction in shareholders' equity. Also, any differences generated by future purchase or sale transactions are recorded directly as changes in shareholders' equity, without passing via the income statement.

Equity investments and securities – The equity investments recorded in this item relate to long-term investments.

- **Investments in associated companies –** An associated company is a company over which the Group is able to exercise significant influence, (but not control, or joint control), by means of participation in the decisions on the financial and operating policies of the investee company. Investments in associated companies are carried at equity, except in the cases where they are classified as “held for sale”, or when they are not of a significant value; in such an event they are carried at cost, with write-down if necessary based on the results of the impairment test. In accordance with the equity method, the investments are stated in the balance sheet at cost, as adjusted for the changes subsequent to acquisition in the net assets of the associated companies, net of any losses in value of the individual investments. The additional value of the acquisition cost with respect to the percentage due the Group of the current value of the identifiable assets, liabilities and potential liabilities of the associated company as of the acquisition date is recognized as goodwill. The goodwill is included in the book value of the investment and subject to an impairment test.
- **Other equity investments and securities** – The other equity investments and securities belong to the category anticipated by IAS 39 “financial assets available for sale”. They comprise instruments representative of shareholders’ equity and are stated at fair value. When the market price or fair value cannot be calculated, they are assessed at cost and can be adjusted in application of IAS 36.

If the reasons for the write-down cease to exist, the investments carried at cost are revalued within the limits of the write downs made and the effect is booked to the income statement, or to shareholders’ equity if the investments are held as assets available for sale. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations vis-à-vis the investee company or in any event cover its losses. Financial assets which the Company intends or is able to maintain until maturity, are stated at cost represented by the fair value of the initial payment made in exchange, increased by the transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method.

Other non-current assets – These are stated at their face value, and possibly adjusted for any losses in value.

Contract work in progress – When the result of a contract can be reliably estimated, contract work in progress is valued on the basis of the contractual payments accrued with reasonable certainty, on a percentage of completion basis *(cost-to-cost)*, so as to allocate the revenues and the economic result of the contract to the pertinent individual accounting periods, in proportion to the stage of completion of the work. The positive or negative difference between the value of the contracts and the advance payments received is recorded respectively among the balance sheet assets or liabilities. Contract revenues, in addition to the contractual payments, include the variations, the price review and the recognition of the incentives up to the extent it is probable that they represent effective revenues which can be determined reliably.

When the result of a contract cannot be reliably estimated, the revenues referable to the related contract are recorded solely within the limits of the contract costs incurred which will probably be recovered. The contract costs are recorded as expenses during the accounting period in which they are incurred.

When it is probable that the total contract costs will be greater than the contractual revenues, the expected loss is immediately stated at cost.

Inventories – Inventories are recorded at purchase cost, including directly chargeable related costs, or net estimated realizable value, whichever is the lower. Cost is determined on the basis of constant average cost. The net realizable value is calculated on the basis of the current costs of the inventories at year end, less the estimated costs necessary for achieving the sale.

The value of obsolete and slow-moving stock is written down in relation to the possible use or realization, by means of the provision of a specific materials obsolescence allowance.

Inventories of work in progress and finished products are valued at weighted average manufacturing cost for the period, which comprises the raw materials, the consumables and the direct and indirect production costs excluding general expenses.

Trade receivables – Trade receivables are recorded at face value, reduced by an appropriate writedown in order to reflect the expected realisable value.

Financial assets – Financial assets are recorded and reversed from the financial statements and are initially valued at cost, inclusive of the charges directly associated with the acquisition. As of subsequent balance sheet dates, the financial assets which the Group intends and is able to hold until maturity are recorded at cost, amortized/depreciated on the basis of the effective interest rate method, net of the writedowns made in order to reflect any losses in value. Financial assets other than those held until maturity, are classified as held for trading purposes or available for sale and are valued at fair value at each period end, with recognition to the income statement or shareholders' equity.

Cash and cash equivalents – The item relating to liquid funds and cash equivalents includes cash and bank current accounts and deposits repayable on demand and other short-term financial investments with high liquidity which are readily convertible into cash and are subject to an insignificant risk regarding their change in value.

Loans – Financial liabilities, with the exception of derivatives, are initially stated at cost, corresponding to the fair value of the liability net of the transaction costs which are directly attributable to the issue of said liability. Following the initial statement, financial liabilities are valued on the basis of amortised cost, using the original effective interest rate method.

Employee leaving indemnity and other employee benefits – The liabilities relating to the defined-benefits plans (such as employee leaving indemnities - TFR) are calculated net of any assets serving the plan on the basis of actuarial suppositions and on an accruals basis in line with the employment services necessary for obtaining the benefits; the valuation of the liability is checked by independent actuaries. The gains and losses deriving from carrying out the actuarial calculation are charged to the income statement as a cost or revenue when the net cumulative value of the "actuarial" gains and losses not recorded for each plan at the end of the previous accounting period exceeds by more than 10% the highest value among the obligations referring to defined benefit plans (known as the corridor method).

Provisions for risks and charges – The provisions for risks and charges comprise the amounts set aside as recorded in the financial statements on the basis of current obligations (as emerging from past events) which the Group believes it probably will have to meet. The provisions are set aside on the basis of the best estimate of the costs required to meet the fulfilment, as of the balance sheet date, and are discounted back when the effect is significant and the necessary information is available. In such an event, the provisions are determined by discounting back the future cash flows at a pre-taxation discount rate which reflects the current market valuation and takes into account the risk associated with the business activities. When the discounting back is carried out, the increase in the provision due to the passing of time is recorded as a financial charge. If the liability is associated with an intangible asset (such as the recovery of sites), the provision is recorded as a matching entry to the asset to which it refers and the recording of the charge in the income statement takes place by means of the depreciation process of the tangible fixed asset to which the charge refers.

Trade payables – These concern commercial supply transactions.

Other current liabilities – These concern sundry transactions and are stated at face value.

Derivative financial instruments – The Group holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate fluctuations and the risk of changes in methane gas and electricity prices. In relation to said activities, the Group must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas linked to the sale of said commodities. The instruments used for the handling the price risk, both with regards to the price of the goods and the related Euro/Dollar exchange rate, are substantiated in commodity-swap agreements, finalized at pre-establishing the effects on the sales margins irrespective of the changes in the afore-mentioned market conditions.

On a consistent basis with the chosen strategy, the Group does not enter into derivative transactions for speculative purposes.

The transactions which, in observance of the risk management policies, satisfy the requisites laid down by the accounting standards for hedge accounting treatment are classified as “hedging”, while those which, despite being entered into for hedging purposes, do not satisfy the requisites required by the standards, are classified as “trading”.

For registration purposes, the hedging transactions are classified as *“fair value hedges”* if they cover the risk of fluctuation in the market value of the underlying asset or liability; or as *“cash flow hedges”* if they cover the risk of changes in financial flows deriving both from an existing asset or liability, or from a future transaction.

As far as derivative instruments classified as fair value hedges are concerned, which observe the conditions for the accounting treatment as hedging transactions, the gains and losses deriving from the determination of their market value are booked to the income statement. The gains and losses deriving from the adjustment to fair value of the element underlying the hedge, are also booked to the income statement.

In relation to the instruments classified as cash flow hedges which observe the conditions for the accounting treatment as hedging transactions, the gains and losses deriving from the determination of their market value are booked to shareholders’ equity.

The changes in the fair value of the derivative instruments which are not classified as hedging are recorded in the income statements for the period in which they occur.

Grants – Capital grants are stated in the income statement over the period necessary for correlating them to the related costs; they are represented in the balance sheet by recording the grant as deferred revenue. Operating grants, including those received from users for connection purposes, are considered to be revenues for services carried out during the accounting period and are therefore recorded on an accruals basis.

Revenue recognition - Revenues and income are stated net of returned items, discounts and rebates, and net of direct taxes related to the sales of products and services rendered. They are broken down into revenues deriving from operating activities and financial income which accrues between the sale date and the payment date.

In further detail:

- the revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided, but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels),
- revenues from services rendered are recognised on the basis of services provided and in compliance with the relevant contracts,
- revenues from the sale of goods are recognised at the time the Group transfers the significant risks and benefits associated with ownership of the assets to the purchaser,

Financial income and charges – Financial income and charges are recognised in accordance with the accruals principle.

Translation of foreign currency balances – The functional and reporting currency adopted by the HERA Group is the Euro. Foreign currency transactions are initially recorded using the exchange rate in force as of the transaction date. Foreign currency assets and liabilities, with the exception of fixed assets, are recorded using the exchange rate in force as at the year end date and the related exchange gains and losses are duly charged to the income statement; any net gain which might arise, is set aside in a specific restricted reserve until the date of realization.

New IFRS and IFRIC interpretations

Over the last few months the IASB and the International Financial Reporting Interpretations Committee (IFRIC) have issued new Standards and Interpretations. Even though, at present, said Standards and Interpretations are not yet obligatory, the Group is considering said aspects with regard to its financial and economic situation.

Financial risk management

As required by IAS 32, comments on the main aspects associated with financial risk management are provided below.

Market risk

The Group is exposed to exchange rate risk and price risk, connected with the acquisition costs of raw materials and the determination of the sales tariffs. No financial instruments to hedge against said risk are available; hence the relative risk management policy falls within ordinary corporate management.

Credit risk

The credit risk is associated above all with commercial transactions. However, the Group does not have any significant risk concentrations.

Interest rate risk

Reference should be made to the specific section of the notes to the accounts.

Significant estimates and valuations

The preparation of this quarterly report required the directors to use estimates and valuations, with effects on the balance sheet figures, based on historical data and on the forecasts of specific events that should reasonably occur on the basis of currently available information. These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by next year are set forth below. Specific information is provided on the nature of these estimates and the assumptions on which they have been based; as regards the reference book values, reference should be made to the notes to the accounts.

Employee leaving indemnity

The estimate of employee leaving indemnities calculations considers the effects as at 31 March 2006, determined on the basis of the significant demographic and actuarial assumptions reported in the specific paragraph (discounting back rate, etc.). As from 1 January 2007 the Finance Bill and related decrees for implementation introduced important amendments to the regulations governing employee leaving indemnities, amongst which the worker’s right to choose where to allocate the accruing leaving indemnities. Specifically the worker may assign the new flows of leaving indemnities to selected pension schemes or allow it to remain in the company (in which case the company will pay the employee leaving indemnity contributions to a treasury account set up at the INPS). As of today, the current state of uncertainty over interpretation of this new legislation, the possible different interpretations of the IAS 19 qualification of accruing employee leaving indemnities and the consequent amendments of the actuarial calculations related to accrued leaving indemnities, as well as the impossibility of estimating the choices that will be made by employees on allocation of the accruing leaving indemnities (for which each employee has until 30 June 2007 to decide) mean that it is too early to make any assumption of actuarial amendment to the calculation of the leaving indemnities accrued as at 31 March 2007.

Allocations to provisions for risks.

These provisions have been made by adopting the same procedures as previous years and hence by referring to the updated reports of the legal counsel and the consultants following the disputes, as well as on the basis of developments in the related proceedings.

3 05 List of Companies

List of Companies Consolidated by the Line-by-Line Method

Name	Registered Office	Share capital	Percentage held		Total	Overall share
			D8rect	Indirect		
Parent Company:						
Hera Spa	Bologna	1,016,752,029				
Company:						
Acque Srl	Pesaro	102,700		100.00%	100.00%	49.79%
Akron Spa	Imola (BO)	1,152,940	57.50%		57.50%	57.50%
Ambiente 3000 Srl	Bologna	100,000	51.00%		51.00%	51.00%
Ares Spa consortile	Bologna	1,125,240	100.00%		100.00%	100.00%
Asa Spa	Castelmaggiore (BO)	1,820,000	51.00%		51.00%	51.00%
Aspes gas Srl	Pesaro	1,000,000		100.00%	100.00%	49.79%
Aspes Multiservizi SpA	Pesaro	10,963,627	49.79%		49.79%	49.79%
Ecologia Ambiente Srl	Ravenna	20,000,000	100.00%		100.00%	100.00%
Ecosfera Spa	Ferrara	1,000,000	51.00%		51.00%	51.00%
Eris Scrl	Ravenna	300,000		51.00%	51.00%	51.00%
Famula On-line Spa	Bologna	4,364,030	60.00%		60.00%	60.00%
Frullo Energia Ambiente Srl	Bologna	17,139,100	51.00%		51.00%	51.00%
Gal.A. Spa	Bologna	300,000	60.00%		60.00%	60.00%
Hera Bologna Srl	Bologna	1,250,000	100.00%		100.00%	100.00%
Hera Comm Srl	Imola (BO)	88,591,541	100.00%		100.00%	100.00%
Hera Comm Mediterranea Srl	Carinaro (CE)	50,000		50.01%	50.01%	50.01%
Hera Energie Bologna Srl	Bologna	500,000		67.00%	67.00%	67.00%
Hera Ferrara Srl	Cassana (FE)	810,000	100.00%		100.00%	100.00%
Hera Forlì-Cesena Srl	Cesena (FC)	650,000	100.00%		100.00%	100.00%
Hera Gas Tre Spa	Bologna	120,000	100.00%		100.00%	100.00%
Hera Imola-Faenza Srl	Imola (BO)	750,000	100.00%		100.00%	100.00%
Hera Luce Srl	San Mauro Pascoli (FC)	264,012	89.58%		89.58%	89.58%
Hera Modena Srl	Modena	1,000,000	100.00%		100.00%	100.00%
Hera Ravenna Srl	Ravenna	850,000	100.00%		100.00%	100.00%
Hera Rete Modena Srl	Bologna	22,221,850	100.00%		100.00%	100.00%
Hera Rimini Srl	Rimini	1,050,000	100.00%		100.00%	100.00%
Hera Servizi Funerari Srl	Bologna	10,000	100.00%		100.00%	100.00%
Herasocrem Spa	Bologna	2,218,368	51.00%		51.00%	51.00%
Hera Trading Srl	Imola (BO)	2,600,000	100.00%		100.00%	100.00%
Ingenia Srl	Imola (BO)	52,000	74.00%		74.00%	74.00%
Medea Spa	Sassari	4,500,000	100.00%		100.00%	100.00%
Metaservice Srl	Modena	2,492,000		100.00%	100.00%	97.00%
Nuova Geovis Spa	Sant'Agata Bolognese (BO)	2,205,000	51.00%		51.00%	51.00%
Recupera Srl	Voltana di Lugo (RA)	1,673,290	93.95%		93.95%	93.95%
Romagna Compost Srl	Cesena (FC)	3,010,001	70.96%		70.96%	70.96%
Sinergia Srl	Forlì (FC)	579,600		59.00%	59.00%	59.00%
Sis SpA	Montecalvo in Foglia (PU)	103,300		41.75%	41.75%	20.78%
Sotris Spa	Ravenna	2,340,000	70.00 %		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%	97.00%

The table below summarises the changes in the scope of consolidation compared to 31 December 2006

Companies consolidated by the line-by-line method		
Companies which entered the scope of consolidation in 2007	**Companies which exited the scope of consolidation in 2007**	**Notes**
	Gas Riccione SpA	company transferred by Hera Comm Srl to Sgr Servizi SpA with effective date 1 January 2007
	Viviservizi Srl	company in liquidation from 28 March 2007
	Metaenergy Srl	merged by incorporation into Hera Comm Srl with effective date 1 January 2007
	Seas Lavori e servizi Scrl	company in liquidation from 4 June 2006

List of Group Companies valued under the Equity Method

Name	Registered office	Share capital	Percentage owned		Total	Overall share
			Direct	Indirect		
Acantho Spa	Imola (BO)	15,875,781	47.46%		47.46%	47.46%
Adriatica Acque Srl	Rimini (RN)	89,033		30.00%	30.00%	26.14%
Agea Reti Srl	Ferrara	19,000,000	39.72%		39.72%	39.72%
Agess Scrl	Forlì (FC)	79,750	21.44%		21.44%	21.44%
Attivabologna Srl Cons. in liquid.	Bologna	2,558,600		96.40%	96.40%	96.40%
Dyna Green Srl	Milan	30,000		33.33%	33.33%	33.33%
Estense global service	Ferrara	10,000	23.00%		23.00%	23.00%
FlamEnergy Trading Gmbh	Vienna	2,000,000		50.00%	50.00%	50.00%
Modena Network Spa	Modena	3,000,000	30.00%		30.00%	30.00%
Oikoten Scrl	Siracusa	1,101,730		46.10%	46.10%	46.10%
Refri Srl	Reggio Emilia	2,800,000	20.00%		20.00%	20.00%
Sat Spa	Sassuolo (MO)	27,752,560	46.50%		46.50%	46.50%
Sgr Servizi SpA	Rimini	5,982,262		29.61%	29.61%	29.61%
Service Imola Srl	Borgo Tossignano (BO)	10,000	40.00%		40.00%	40.00%
Set Spa	Milan	120,000	39.00%		39.00%	39.00%
Sinergie Ambientali Srl	Bologna	100,000	50.00%		50.00%	50.00%

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