GRUPPO HERA

Consolidated Half Year Report as at 30 June 2007

Contents

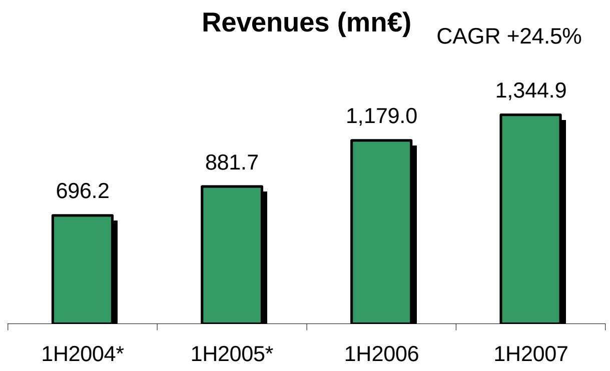
1 – THE HERA GROUP

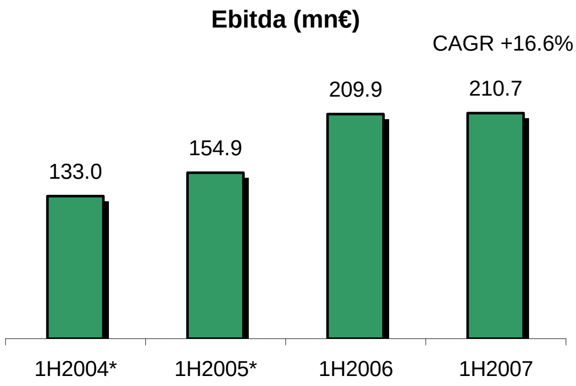
1.01 Hera's Mission

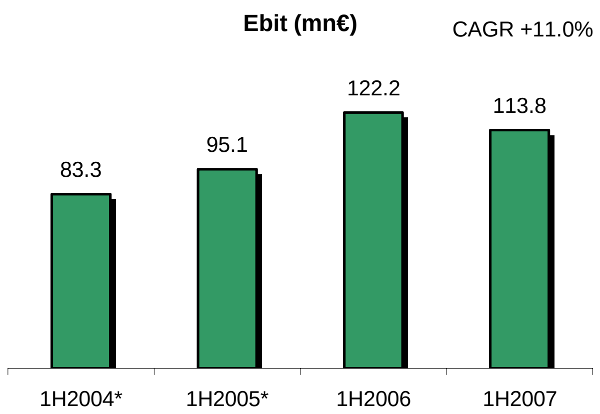
"Hera's goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by respecting the local environment".

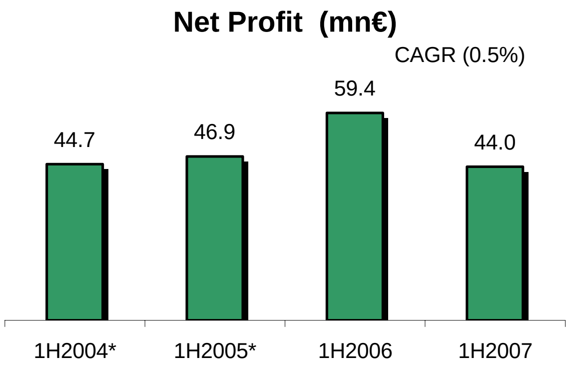
"For Hera, being the best means inspiring the pride and trust of:
***customers**, who receive, thanks to Hera's responsiveness to their needs, quality services that satisfy their expectations; **the women and men who work at Hera**, whose skills, engagement and passion are the foundation of the company's 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 Highlights









Economic highlights (mn€)	1H2004*	1H2005*	1H2006	1H2007	Cagr %
Revenues	696.2	881.7	1,179.0	1,344.9	24.5%
Ebitda	133.0	154.9	209.9	210.7	16.6%
Ebit	83.3	95.1	122.2	113.8	11.0%
Net profit	44.7	46.9	59.4	44.0	(0.5%)

** IAS adjusted*

1.03 Company Officers

Consiglio di Amministrazione	
Presidente	Tomaso Tommasi di Vignano
Vice Presidente	Giorgio Razzoli
Amministratore Delegato	Maurizio Chiarini
Consigliere	Mara Bernardini
Consigliere	Filippo Brandolini
Consigliere	Luigi Castagna
Consigliere	Pier Luigi Celli
Consigliere	Piero Collina
Consigliere	Piergiuseppe Dolcini
Consigliere	Giuseppe Fiorani
Consigliere	Lanfranco Maggioli
Consigliere	Vander Maranini
Consigliere	Nicodemo Montanari
Consigliere	Fabio Alberto Roversi Monaco
Consigliere	Roberto Sacchetti
Consigliere	Luciano Sita
Consigliere	Bruno Tani
Consigliere	Stefano Zolea
Collegio Sindacale	
Presidente	Antonio Venturini
Sindaco effettivo	Fernando Lolli
Sindaco effettivo	Sergio Santi
Sindaco supplente	Roberto Picone
Sindaco supplente	Stefano Ceccacci
Comitato per il controllo interno	
Presidente	Giorgio Razzoli
Componente	Stefano Zolea
Componente	Vander Maranini
Componente	Luigi Castagna
Comitato per la remunerazione	
Presidente	Giorgio Razzoli
Componente	Pier Luigi Celli
Componente	Piero Collina
Componente	Nicodemo Montanari
Comitato esecutivo	
Presidente	Tomaso Tommasi di Vignano
Vice Presidente	Giorgio Razzoli
Componente	Maurizio Chiarini
Società di revisione	
	PricewaterhouseCoopers

1.04 Strategy and new industrial plan

Consolidation of the Italian multi-utility sector

In 2007, in the Italian local multi-utility sector, the pace of consolidation among operators increased as a result of their intention to become larger in size hence manage to effectively compete in an energy sector dominated by large-scale national and international players. The ongoing consolidation process is supported by renewed attention by the Italian government which, however, is yet to introduce significant incentives to foster aggregation between operators. As far as this process is concerned, the protracted negotiations for the merger of Aem Milano and Asm Brescia, which had been formally announced by the financial community on 6 June 2007 and approved by the Board of Directors of the two former municipal enterprises on 25 June, were finalised in the first six months of 2007.

In the context of the consolidation process taking place among Italian utilities, Hera appears to be one of the most active players. Since it was established in 2002, Hera has always based its Group strategy on increasing in size to strengthen its competitive positions in all of its key businesses. This strategy has been followed by seizing further opportunities for expansion, primarily represented by multi-utility companies located in the neighbouring areas (an important aspect to guarantee the creation of further operating efficiencies). These companies have been integrated into the Group according to the "total" merger model (merger and reorganisation of operations), capable of exploiting economies of scale and reaching increased levels of operating efficiency.

The success of this strategy is evident from Hera's figures highlighting a doubling of the Ebidta in the last four years, and from the significant number of further mergers with multi-utility companies (besides the business combination of 11 companies which gave rise to the Hera Group in 2002).

2002	2003	2004	2005	2006	2007
Seabo, Area, Unica, Amia, Amir, Taularia, Asc, Amf, Sis and Team	**Geat**	**Agea**	**Meta**	**Geat Gas, SAT** (46.5%), **Aspes*, Enel** (network in the province of Modena)	**Megas Trade**, SAT** (100%)

**Hera holds a 49.7% equity investment in Aspes Multiservizi SpA, included in the scope of consolidation.*
*** Megas Trade, whose business name was later changed to HeraComm Marche, was transferred to Hera following the merger of Urbino-based Megas and Pesaro-based Aspes.*

Consolidated Income Stat. data (m€)	2002	2003	2004	2005	2006
Revenues	1.067	1.222	1.493	2.101	2.312
EBITDA	192	243	293	386	427

After the 2006 acquisition of 23% of Multiservizi Spa, a company operating in the northern area of the Marche region, Hera increased its holding to 49.7% and became a strategic reference shareholder for Aspes; during the first half of 2007, after the merger agreement between Urbino-based Megas and Pesaro-based Aspes, which then gave rise to Marche Multiservizi (Hera's holding in Aspes-Megas becoming equal to 41.8%), Megas Trade, a company that sells gas and electricity in the Urbino area, was transferred to the Hera Group. The creation of Marche Multiservizi represents an important step in the consolidation path undertaken for the services rendered in the Marche region and lays the foundation for further possible business combinations beyond the boundaries of the Emilia-Romagna region.

Hera's management elaborated a strategy involving further expansion through mergers and acquisitions with the aim of strengthening the multi-utility model and eventually double the size of the company.

Such strategy would not only increase the potential for creating value of the proven business model (exploitation of synergies and revenue achievement) on a large scale, but it would also allow the creation of a major Group at national level that is capable of competing more effectively in a market undergoing considerable changes.

The further expansion strategy and the identification of possible candidates have gained growing consensus among investors (both public and private). The evaluation, by Hera's main shareholders, of possible merger transaction is now at an advanced stage.

Strengthening of the core businesses of energy and waste

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

With a view to strengthening the Group’s competitive edge in its core businesses, Hera continues to follow a strategy of “upstream integration” of its gas and electricity sales and distribution businesses, as well as its special waste treatment business.

All of the energy resources procurement activities are managed by Hera Trading srl, a company specialised in optimising the purchases of methane gas and electricity. Thus, Hera has prepared strategic and organisational initiatives which provide the Group with the opportunity to maximise its level of competitiveness and profitability in energy businesses undergoing progressive liberalisation.

As regards “upstream integration” in the gas business, the Group has further diversified the procurement of methane gas, increasing its international shipping capacity with imports totalling 780 million cubic metres, also due to important supply contracts subscribed with the VNG Group (one of the most important German companies selling methane gas). In 2006, Hera and the VNG Group signed a strategic agreement for the sale of gas in Europe and for the expansion of research and development activities.

The expansion and rationalisation of the sale and distribution of gas were pursued through the acquisition of small to medium-sized companies operating in the reference market, where the Group has reached over 90% penetration.

Acquisitions in the gas sector	Activity	Ownership
Argile Gas (Bologna)	Sale	100.0%
Gasgas (Ferrara)	Sale	100.0%
Tecnometano (Ferrara)	Distribution	100.0%
TS Distribuzione (Bologna)	Distribution	100.0%
TS Energia (Bologna)	Sale	100.0%
SGR Servizi (Rimini)	Sale	29.6%
Geat Gas (Riccione)	Sale and Distribution	100.0%

Hera is the first Italian multi-utility company to acquire a joint venture interest (9%) with other international operators in a company (Galsi) set up for the construction of a gas pipeline. Hera's participation in the project allowed the Group to secure a 15-year term contract for the import of 1 billion cubic metres of gas directly from Algeria as soon as the gas pipeline comes on line.

In accordance with the strategic policies of the industry’s major European players, Hera has implemented a dual fuel commercial strategy according to which electricity is offered to customers that are already provided with gas services.

In 2003, this policy led to the acquisition (through the Energia Italiana/Acea-Electrabel Consortium) of a 5.5% indirect shareholding in Tirrenopower S.p.A. (the third generation company sold by Enel S.p.A. with installed power greater than 2,600 MWh). In addition, in 2004, acquisitions continued first with a 15% holding in Calenia Energia (a company involved in building an 800 MWh CCGT plant in Sparanise), and then with 39% of Set Spa (a company involved in building a 400 MWh CCGT plan in Teverola). Moreover, the Group’s investment plans also include the construction of a new CCGT cogeneration plant in Imola, with installed capacity of 80 MWh. These initiatives will enable coverage of an important share of the demand from business customers, through own power generation which the Group aims to bring to perfectly balanced levels (taking further opportunities for expansion of approximately 300/400 MWh of installed capacity). The electricity distribution network in the province of Modena was acquired from Enel in 2006 thus enhancing also the regulated portion of the business.

Acquisitions in the energy sector	Installed capacity	Ownership
Tirreno Power	Generation (2.600 MW)	5.50%
Calenia Energia	Generation (800 MW)	15.00%
SET	Generation (400 MW)	39.00%
Rete en.el. (Modena)	Generation (400 MW)	100%

As regards the waste business, worthy of mention are the acquisition of the Centro Ecologia Ambiente in Ravenna from the Eni Group, which contributed a waste to energy (wte) plant specific for the treatment of special waste. This transaction helped consolidate Hera's leadership in this sector thereby completing the range of special waste treatment services offered.

The 2007-2010 Industrial Plan, that will be presented to the stakeholders from September 2007, reconfirmed the internal growth strategies (synergies, turnover growth and construction of new plants); the Group's growth forecast to 2010 envisages a significant improvement in EBITDA which will be supported by an investment plan of over Euro 1.4 billion, mainly 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 2010 and a constantly rising dividend policy until 2010.

Sustainable strategy over the long term and Hera governance

Hera's underlying strategic objective is to guarantee the creation of wealth over the long term for its main stakeholders. This objective takes shape in strategic management attuned to social responsibility and the creation of management instruments and methods capable of guaranteeing compliance with the fundamental principles of the Group.

For Hera, Social Responsibility represents a valid tool for increasing competitiveness, and a key element for achieving sustainable development.

For this reason Hera is pursuing a balanced strategy that takes account of economic aspects, reduced environmental impact, increased service quality and, on a more general level, issues of the greatest importance to the various stakeholders.

As a result, in the last four years the Group's governance has been improved to guarantee an approach that is sustainable with the setting up of a CSR organisational unit reporting to the Managing Director, an Internal Auditing function, an Environmental Management System (EMS) and, last but not least, an ethical code which is currently under review.
The organisational system described above aims at obtaining the commitment of all staff members towards the achievement of strategic objectives and compliance with the principles and values advocated by the Group.

1.05 Business Sectors

The Hera Group is active in over 180 municipalities in the seven provinces of Bologna, Rimini, Ravenna, Forlì - Cesena, Imola-Faenza, Ferrara and Modena, serving an area which covers approximately 70% of Emilia Romagna (a region with a GDP and per-capita consumption rates among the highest in Europe) and the northern part of the Marche region (through Marche Multiservizi).

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, where this sector is characterised by a considerable dearth of infrastructures, the Hera Group constitutes an outstanding example boasting 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 and Marche regions in which the Group operates), on the basis of long-term concessions (2011), covering a population in excess of 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 57 MWh.

In the 2007-2010 period, the Group intends to increase the recovery of energy from waste, further reducing the environmental impact of the service managed through the use of landfills. The three-year plan in fact envisages an increase in capacity for the current 4 WTE plants and the replacement of an old one so as to bring the overall incineration capacity to 1 million tonnes (the present capacity being approximately 0.6 million tonnes per annum) and the electricity generation capacity to well over 100 MWh (the present capacity being approximately 56 MWh). All the plant development projects have already obtained the necessary permits and the construction sites have been started up. On the other hand, the Group plans to develop other types of plants as well as test new and exclusive technologies to capture CO_2 and employ it to produce biogases.

Special waste

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

The Hera Group is the leading operator 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 2007-2010 plan envisages to increase the exploitation of plant capacities thanks to the positive evolution experienced by the market in the last few years. According to the Plan the results of the business area are expected to improve significantly as a result of the development of a "full service" commercial offer for business customers (an integrated offer of industrial waste treatment and disposal services as well as the gradual reclamation of industrial sites) and the progressive adjustment of the regulated tariffs to the legal provisions which discipline municipal waste collection, transportation and disposal services.

Integrated Water Cycle

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

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

The Group avails of an extensive and efficient water system as well as of purification plants serving the population in the area covered. The rationalisation, efficiency-increasing and tariff adjustment activities (in line with legal requirements) remain the key points of the 2007-2010 Industrial Plan, which envisages a significant improvement in the results of the business area and a challenging plant expansion and modernisation program.

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 an activity that was liberalised on 1 July 2007, while distribution is still managed under a monopoly regime based on long-term concessions (those relating to methane gas expiring in 2010 and those relating to electricity in 2030).

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.

The new 2007-2010 Industrial Plan highlights that the results from the sale of gas are expected to remain substantially unchanged and envisages a considerable improvement in the electricity market by offering the service in question to customers that are currently supplied with gas services ("*dual fuel" offer)*. Furthermore, the upstream integration strategy is expected to continue both with regards to electricity generation through the development of plants and the further diversification in methane gas supplies.

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, particularly important are the District Heating activities, in which Hera takes a leading role in Italy, and those relating to Public Lighting, in which Hera ranks second on the domestic market.

The Group effectively provided approximately 425 GWh in 2006 and managed over 310,000 light points within the area in which it operates: the development plans envisage the significant expansion of both these activities through investments and processes to heighten efficiency.

The 2007-2010 Industrial Plan envisages growing results from further rationalisation and increased efficiency of the activities, as well as from the development of district heating plants.

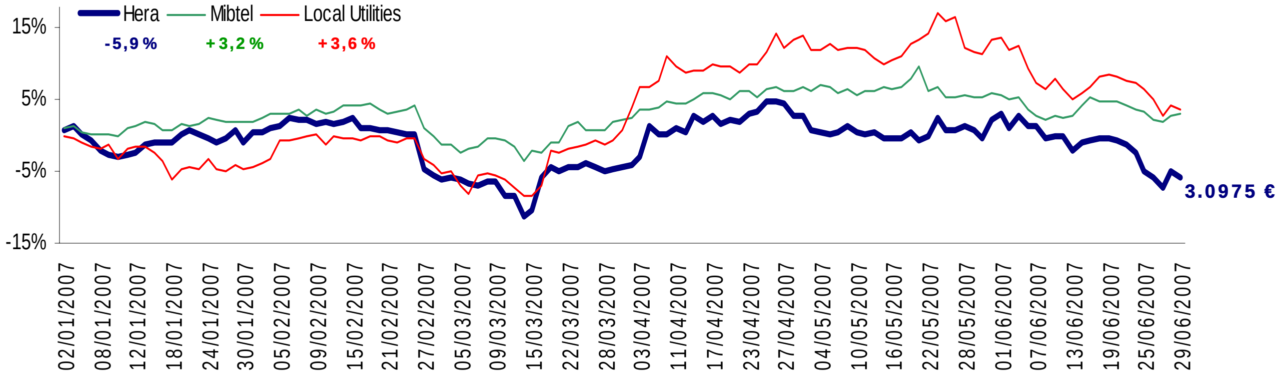
1.06 Hera on the Stock Exchange

In the first part of 2007 the financial markets highlighted volatile trends influenced by the protracted historical upward trend, concern about increases in inflation, interest rates and oil prices that reached their all time high. In February, significant downward adjustments in European stock exchange lists coincided with a particularly negative performance by the Asian markets (Shanghai Stock Exchange), also due to the decline in durable goods (which affected the New York Stock Exchange) which, however, was offset in the following months. Further negative trends in the stock exchange lists occurred in June as a result of the interest rate increase and, again, at the end of July, due to the concern about the US sub-prime mortgages.

In this scenario, the trend registered by Hera's shares was in line with the market phenomena highlighted above, though its price remained close to Euro 3.3 throughout the six months under review, also thanks to its fast improving results (despite the negative impact of the weather conditions of last winter) and the key role assigned to the Group in the consolidation process that the sector is currently undergoing.

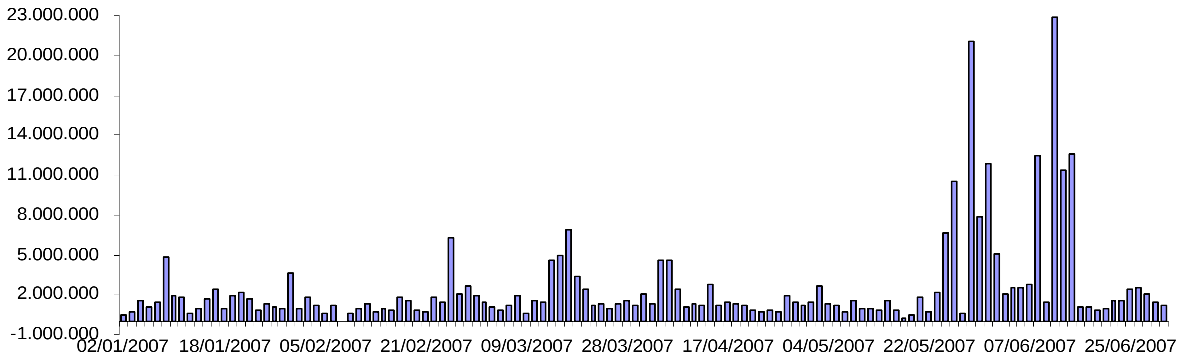
At the end of the six months under review, the trend of Hera's shares was slightly lower compared to the beginning of the year (-5.9%) due to both the dividend payment (Euro 0.08 per share) and to the increase in interest rates that adversely affected the securities of the utility sector.

Hera Share Performance in the first half of 2007



Hera share volumes traded in the first half of 2007

Daily average: 2.47 million counter-value (over 21 million on 29 May and almost 23 million on 12 June)



The daily average counter-value of the six months under review increased from Euro 6.7 million to Euro 8.0 million whilst the average liquidity level remained substantially unchanged with a daily average counter-value equal to 2.5 million shares (versus 2.7 million shares of the first half of last year).

Hera's shares are 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

At present, 14 independent analysts regularly cover Hera Group's shares (and half of these analysts are international), namely: Axia (ethical analysis), Caboto, CAI Chevreux, Cazenove, CentroSim, Citigroup, Euromobiliare, Intermonte Securities, Kepler, Mediobanca, Merril Lynch, Rasbank and Studi investimenti. In July also Banca Leonardo started the coverage of Hera's shares by assigning a target price of Euro 3.5 (excluding the effects of a possible transaction of extraordinary finance) in line with analysts' consensus (of Euro 3.45 with 11 *Buy/Outperform* ratings).

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.

On 17 May 2007 Hera finalised a Put-Bond worth Euro 100 million with Deutsche Bank AG London; this transaction is relatively new to the reference market and extremely competitive.

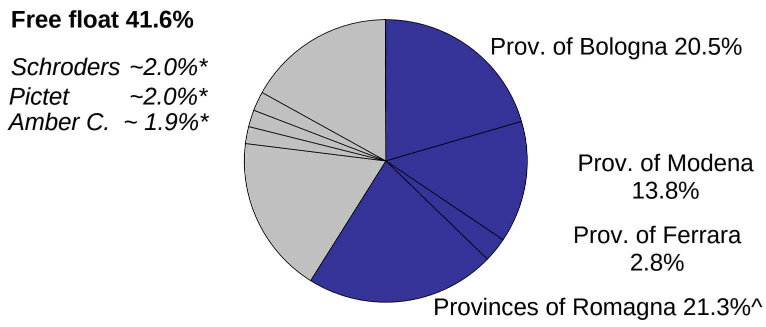
Rating

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 Group's solid financial standing and satisfactory profitability over the short and medium/long-term.

Shareholding Structure

The share capital is represented by no. 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. At 30 June 2007, the Hera Group capitalised Euro 3.15 billion.

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 58.4% 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"

^ includes the investments of the municipalities of Emilia-Romagna and CON.AMI

Some international institutional investors (Amber Capital, Pictet and Schroders) hold a "significant" shareholding of approximately 2% of the share capital.

Hera has a Treasury Share repurchase program applicable to max. no. 15 million shares which was exercised while holding 0.42 million shares in the portfolio at the end of the first half of 2007. The Shareholders' Meeting of 26 April 2007 renewed the treasury share repurchase program increasing the overall number of shares allowed to be repurchased from Euro 45 million to Euro 60 million.

Relations with the Financial Market

The 2006 financial statements 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 50 meetings with investors.

As the annual results were published, all the data relating to the 2006 financial year were made available on the website (www.gruppohera.it), in real time, at the time they were approved by the Board of Directors and converted into a format that was suitable for navigating; the data could also be downloaded in excel format by analysts.

On 14 May 2007 the results of the first quarter 2007 were approved and, at the same time, presented to the financial community during a conference call webcast on the Group's website.

Investor relations included several visits to the Hera Group by analysts and investors, both foreign and Italian, as well as the participation by management in a conference organised by brokers in foreign markets.

Hera's investor relations kept in close contact with institutional investors via the website which is more and more considered as the backbone of Group's financial communication. The Investor Relations section, available on the website (www.gruppohera.it), has been regularly updated in real time and periodically changed so as to improve the availability of the information, dedicating specific sections to each of the main investor categories.

2 – HERA GROUP CONSOLIDATED INTERIM REPORT

2.01 – DIRECTORS' REPORT

2.01.01 Corporate Events

The first half of 2007 was characterised by the continued rationalisation of the Group's corporate structure which, already in 2006, had led to the disposal/liquidation of 24 investee companies as well as to 3 mergers, including the merger by incorporation of Geat Distribuzione Gas Spa into Hera Spa.
The main mergers and acquisitions that took place during the year are listed below:

Increase in the equity investment held in SGR Servizi Srl
With effect from 1 January 2007 Hera Comm Srl has increased its stake in SGR Servizi Srl from 20% to 29.6% by contributing 100% of Gas Riccione on account of future share capital increases: Gas Riccione is a gas sales company that operates in the Riccione area, with more than 20,000 customers and is included in the consolidation area of Geat Distribuzione Gas S.p.A. which merged with Hera Spa in 2006.

Merger of MetaEnergy Srl in Hera Comm Srl
With effect from1 January 2007 MetaEnergy Srl merged into Hera Comm Srl; the former is a 100% subsidiary of Hera Comm Srl and operates in the purchase, sale and exchange of gas and electric energy.

Hera Comm Mediterranea S.r.l.
On 5 February 2007 Hera Spa sold its equity investment (50.01%) in Hera Comm Mediterranea Srl, a company operating in the production and sale of energy, to Hera Comm Srl.

Merger of Meta Service Srl in Uniflotte Srl
The merger by incorporation of Meta Service Srl into Uniflotte Srl was finalised with legal effect from 1 April 2007 (according to the Italian Civil Code); Meta Service Srl is a wholly-owned subsidiary of Uniflotte Srl and its activity covers the maintenance, wash, sale and rental of vehicles and equipment.

Recupera Srl
On 17 May 2007 Hera Spa acquired the equity investment (6.05%) held by Area Spa in Recupera Srl, a company that provides consulting services in the ecology, chemistry and agricultural domain thus bringing its stake to 100% of the company's share capital.

Isgas Energit Multiutilities Scarl
On 21 May 2007 Hera Spa sold its equity investment (5%) in Isgas Energit Multiutilities Scarl, a company operating in the gas sector, to Medea Spa.

Ecosfera Spa

On 30 May 2007 Hera Spa acquired the stakes held by Area Spa (22.50%), Finmedia Srl (22.50%) and Sies Srl (4%) in Ecosfera Spa, a company that operates in the collection and disposal of industrial and civil waste, bringing its equity investment to 100% of the company's share capital.

Ares Spa Consortile

On 14 June 2007 Ares Spa Consortile, a company operating in the energy-environmental sector transferred its company assets to Hera Spa, sole shareholder.
The company will be put into voluntary liquidation by September 2007.

Gastecnica Galliera Srl

On 27 June 2007 a preliminary sale contract was signed for the transfer to Hera Spa of 74% of the shareholding in Gastecnica Galliera Srl, a company that distributes methane gas in the territory of the Municipality of Castello d'Argile.
The deed is expected to be finalised by the end of October.

Aspes Multiservizi Spa

On 28 June 2007 the Framework Agreement aimed at finalising the integration of Megas in Aspes Multiservizi Spa was signed; this transaction will give rise to a new company named Marche Multiservizi, in which the Hera Group will hold a 41.87% stake. As part of the above transaction, Hera Spa planned to acquire Megas Trade in 2008; the latter is a company boasting over 35,000 gas customers in the Pesaro - Urbino area.

Attention is also drawn to (i) the voluntary liquidation of **Viviservizi Scarl**, a company operating in the meter reading sector and (ii) to the striking off the Companies' Register of **Sinergie Ambientali Srl**, a company whose activity is the management of equity investments in the industrial and services sectors.

2.01.02 Performance of the Hera Group in the First Half of 2007

2.01.02.01 Financial and economic results

Consolidated summary results of the HERA Group

(millions of €)	30/06/06	Inc.%	30/06/07	Inc.%	% change
Revenues	**1,179.0**		**1,344.9**		**+14.1%**
EBITDA	**209.9**	**17.8%**	**210.7**	**15.7%**	**+0.4%**
EBIT	122.2	10.4%	113.8	8.5%	-6.9%
Pre-tax profit	**99.3**	**8.4%**	**77.6**	**5.8%**	**-21.9%**

2.01.02.02 Financial and economic results

The first six months in 2007 was characterised by an exceptionally mild climate trend that significantly influenced the economic results of the Hera Group in the segments of gas and district heating due to lower sales.

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

Concerning development, territorial and business, the following primary factors should be highlighted:

- in December 2005 the companies from Modena (Meta Group) were absorbed – with organizational integration in 2006 – taking into account the structure adopted by the Group.
- at the end of June 2006 Hera Rete Modena Srl was acquired from Enel Spa. The object of the company is the distribution and sale of electricity in 18 cities in the province of Modena. in the second half of 2006 activities were integrated in the territorial company of Modena;
- at the end of 2006 the companies operating in the Pesaro area belonging to Aspes Multiservizi Spa entered the scope of consolidation;

The effect of these changes will be indicated, where relevant, 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 (mln/€)	**30/06/06**	**Inc%**	**30/06/07**	**Inc%**	**Abs. Change**	**Change %**
Revenues	1,179.0		1,344.9		+165.9	+14.1%
Ch. in Stock Fin. prod. & WIP	3.9	0.3%	(0.1)	0.0%	-4.0	-101.9%
Other operating revenues	15.1	1.3%	20.0	1.5%	+4.9	+32.6%
Raw materials & consumables	(616.6)	-52.3%	(740.0)	-55.0%	-123.3	+20.0%
Service costs	(282.9)	-24.0%	(338.4)	-25.2%	-55.5	+19.6%
Other operating expenses	(16.1)	-1.4%	(27.1)	-2.0%	-11.0	+68.1%
Personnel costs	(142.2)	-12.1%	(150.6)	-11.2%	-8.4	+5.9%
Capitalised costs	69.9	5.9%	102.0	7.6%	+32.1	+46.0%
EBITDA	**209.9**	**17.8%**	**210.7**	**15.7%**	**+0.8**	**+0.4%**
Adm./Dep. and provisions	(87.8)	-7.4%	(96.9)	-7.2%	-9.2	+10.5%
EBIT	**122.2**	**10.4%**	**113.8**	**8.5%**	**-8.4**	**-6.9%**
Financial operations	(22.8)	-1.9%	(36.2)	-2.7%	-13.3	+58.3%
Pre-tax profit	**99.3**	**8.4%**	**77.6**	**5.8%**	**-21.7**	**-21.9%**
Tax	(39.9)	-3.4%	(33.6)	-2.5%	+6.3	-15.8%
Net profit for period	**59.4**	**5.0%**	**44.0**	**3.3%**	**-15.4**	**-26.0%**

In the first six months of 2007, revenues amounted to Euro 1,344.9 million compared with Euro 1,179.0 million in the same period of 2006, disclosing growth of 14.1%; the EBITDA rose from Euro 209.9 million to Euro 210.7 million in 2007, +0.4%, (2,006 a), and the EBIT decreased from Euro 122.2 million to Euro 113.8 million (6.9%). Pre-tax profit decreased by 21.9%, passing from Euro 99.3 million of the first six months of 2006 to Euro 77.6 million of the same period in 2007.

The increase in **Revenues**, equal to Euro 165.9 million, should be viewed in relation to two opposing factors: (i) the reduction in revenues of the Gas segment for approximately Euro 86.7 million, following the decrease in volumes distributed and sold, as pointed out in the analysis of business areas (ii) the increase in revenues in all other segments, in particular in the Electricity Area (+ Euro 217.6 million). It is also noted that the consolidation of the Aspes Group companies accounts for approximately Euro 30.6 million.

Costs of raw materials and consumables, equal to Euro 740.0 million (+20.0%), 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 55.5 million and **Other operating costs** up by Euro 11.0 million) amounted in total to Euro 66.5 million (+22.2%), feeling the effect of Euro 17.0 million relating to the consolidation of Aspes. Net of this item, the rise in costs emerged as contained at Euro 49.5 million which, taking into account the capitalised costs described below for Euro 26.0 million and the increase in costs for transport of Euro 22.7 million, shows practically no change in costs compared to the previous year: it should be considered that this result despite increases in costs, some of which high, and the increase in Group turnover, confirms the attention placed on a policy that focuses on searching for efficiency, a policy that began when the group was formed.

Personnel costs rose from Euro 142.2 million of the first half of 2006 to Euro 150.6 million in the same period of 2007 (+5.9%), with a ratio to revenues of 11.2%: The increase in costs is due to the consolidation of the Aspes Group companies for about 8.0% and the acquisition of former Enel networks in the province of Modena. Not of the effects of consolidation we would therefore maintain costs at 2006 levels. This result was obtained also thanks to the effect of applying IAS standards related to pension reform.

The increase in **Capitalised costs**, which rose from Euro 69.9 million to Euro 102.0 million, is mainly due to increased investments underway particularly in the water segment.

As at 30 June 2007, the Group's consolidated **EBITDA** increased from Euro 209.9 to 210.7 million, a change of 0.4%. This result is particularly good considering the exceptionally mild climatic conditions mentioned above which significantly reduced sales of gas and heat from district heating and the application in 2007 of resolution 134 by the authority for electricity and gas (Aeeg), which considerably affected sales margins on residential customers. These negative events were compensated (i) by positive trends in the segments of waste management and water cycle, (ii) the increase in volume and margins in the electricity segment and (iii) the contribution from Pesaro companies amounting to about Euro 7.2 million.

The percentage-based incidence of the EBITDA on Revenues decreased slightly from 17.8% of the first quarter 2006 to 15.7% in 2007.

Amortisation, Depreciation and Provisions increased by 10.5%, passing from Euro 87.8 million in 2006 to Euro 96.9 million in the first six months of this year: this increase is linked, by over a third, to the consolidation of Aspes for approximately Euro 3.7 million and to the amount of investments carried out.

In the light of the above-mentioned information, the first six months of 2007 highlight an **EBIT** equal to Euro 113.8 million, down 6.9% compared to the same period of the previous year. This result, which is particularly positive if we take into account the combined effects mentioned above, 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 22.8 million to Euro 36.2 million, involving an increase of 58.3% 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 77.6 million, down by 21.9% compared to the previous year.
Taxes decreased from Euro 39.9 to 33.6 million: the tax rate for six months, amounting to 43.3%, is in line with that of 2006 (44%). The comparison with the tax rate in the first half of 2006 is not significant in relation to certain changes in tax laws that increased taxation for the Group.

As a result of the above, **net profit** decreased from Euro 59.4 million of the first six months of 2006 to Euro 44.0 million of the same period in 2007.

Analysis of the Group's balance sheet

The evolution of the Group's net capital employed and the sources of financing for the accounting period as at 31 December 2006 and for the situation as at 30 June 2007.

Invested capital and financial sources (mln/€)	**31/12/06**	**%**	**30/06/07**	**%**	**Abs. Change**	**Change %**
NET FIXED ASSETS	2,921.9	108.6%	3,027.7	108.1%	105.7	3.6%
NET WORKING CAPITAL	167.9	6.2%	186.5	6.7%	18.7	11.1%
GROSS INVESTED CAPITAL	*3,089.8*	*114.9%*	*3,214.2*	114.8%	124.4	4.0%
MISC. PROVISIONS	*(400.2)*	*-14.9%*	*(413.5)*	-14.8%	(13.3)	3.3%
NET INVESTED CAPITAL	**2,689.6**	**100.0%**	**2,800.7**	**100.0%**	**111.1**	**4.1%**
TOTAL SHAREHOLDERS' EQUITY	*1,516.3*	*56.4%*	*1,477.4*	*52.8%*	(38.9)	-2.6%
NON CURRENT NET FINANCIAL INDEBTEDNESS	948.8	35.3%	1,144.4	*40.9%*	195.6	20.6%
CURRENT NET FINANCIAL INDEBTEDNESS	224.5	8.3%	178.9	*6.4%*	(45.6)	-20.3%
NET FINANCIAL INDEBTEDNESS	*1,173.3*	*43.6%*	*1,323.3*	*47.2%*	150.0	12.8%
SOURCES OF FINANCING	**2,689.6**	**100.0%**	**2,800.7**	**100.0%**	**111.1**	**4.1%**

The net capital employed in the first six months of 2007 increased, passing from Euro 2,689.6 million to Euro 2,800.7 million.

With regards to net fixed assets, there was an increase in tangible and intangible fixed assets which as at 30 June 2007 amounted to Euro 2,452.0 million against Euro 2,351.7 in December. The increase is due to the amount of investments made during the first six months of 2007; reference should be made to the pertinent section for details.

Provisions as at 30 June 2007 amounted to Euro 413.5 million, compared with Euro 400.2 million as at 31 December 2006. The increase is essentially attributable to provisions for employee leaving indemnities (TFR) net of amounts paid out, provisions for the post-closure of landfills and provisions for restoring networks and plants granted under use to the Group owned by the spun-off companies (asset companies). The new law on employee leaving indemnities and the accounting methods according to international accounting standards resulted in a decrease in the provision for employee leaving indemnities.

Net working capital increased from Euro 167.9 million as at 31 December 2006 to Euro 186.5 million as at 30 June 2007. This decrease was attributable to the implementation of new invoicing systems in Modena and Ferrara, which resulted in delays in issuing invoices, already being collected. For a breakdown of the single items that have had an effect on net working capital, the reader is referred to the explanatory notes.

The shareholders' equity, which rose from Euro 1,516.3 million to Euro 1,477.4 million, was affected by the payment of the previous year's dividends.

The statement of reconciliation between the six-month statutory financial statements of the Parent Company and the six-month consolidated financial statements as at 30 June 2007 is presented below:

STATEMENT OF RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

	NET PROFIT (LOSS)	NET SHAREHOLDERS' EQUITY
BALANCE AS PER PARENT COMPANY FINANCIAL STATEMENTS	70,518	1,419,196
Elimination of effects from transactions made between consolidated companies net of tax effects:		
- Reversal of write-downs to equity investments in subsidiaries	0	0
Impact of change and standardization of policies on valuation within the Group net of tax effects:		
- Cash dividends	(71,639)	
- Measurement at equity of companies recorded in financial statements at cost	1,456	441
Book value of consolidated investments		(362,815)
Net shareholders' equity and profit of consolidated companies	37,346	273,222
Allocation of differences to assets of consolidated companies and related amortisation/depreciation:		
- Consolidation goodwill		120,868
- Other adjustments	(305)	(12,063)
TOTAL	37,375	1,438,848
Allocation of portion pertaining to minority interests	6,624	38,573
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS	43,998	1,477,421

Financial situation of the Hera Group

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

Net financial position (mln/€)	31/12/06	Inc%	30/06/07	Inc%	Abs. Change	Change %
Cash on hand	213.6		140.0			
Other current loans	12.8		9.1			
Current financial indebtedness	(450.9)		(328.0)			
Net current financial indebtedness	**(224.5)**	**19.1%**	**(178.9)**	**13.5%**	**45.6**	**-20.3%**
Non-current loans	19.2		23.7			
Financial assets from derivative instruments	0.0		17.4			
Non-current financial indebtedness	(968.0)		(1,185.5)			
Net non-current financial indebtedness	**(948.8)**	**80.9%**	**(1,144.4)**	**86.5%**	**(195.6)**	**20.6%**
Net financial indebtedness	**(1,173.3)**	**100.0%**	**(1,323.3)**	**100.0%**	**(150.0)**	**12.8%**

The net financial position rose with respect to 31 December 2006, passing from Euro 1,173.3 million to Euro 1,323.3 million as at 30 June 2007. The increase was mainly the result of the important investment plan completed.

These transactions allowed the Group to improve the balance of its asset structure, offsetting the high level of fixed assets with a net financial position consisting entirely of medium/long-term debt, which as at 30 June 2007, cover over 86% of total indebtedness.
Moreover, Hera has been issued ratings by Standard & Poor's (A+) and Moody's (A1).

Reference should be made to the section on financial operations for further details on transactions in the first six months.

Hera Group investments

The Group's tangible and intangible investments totalled Euro 181.3 million, compared to Euro 131.9 million in the same period of the previous year.
In the same period also financial investments were made amounting to Euro 3.6 million. These investments refer to the increase in potential in the energy sectors, through investments in new plants (e.g. Galsi), and for joint ventures in energy trading (e.g. Flameenergy GMBH).

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

Total investments (mln €)	**30/06/06**	**30/06/07**	**Abs. Change**	**Change %**
Gas	11.5	11.6	0.2	1.5%
Electricity	4.6	10.7	6.1	132.1%
Integrated water cycle	43.8	64.8	21.0	47.9%
Waste management	35.5	63.4	27.9	78.4%
Other services	12.9	12.1	-0.8	-6.0%
Central Structure	23.6	18.7	-4.9	-20.8%
Total operating investments	**131.9**	**181.3**	**49.4**	**37.4%**
Total financial investments	**124.6**	**3.6**	**-121.0**	**-97.1%**
Total	**256.5**	**184.9**	**-71.6**	**-27.9%**

Investments relating to the gas service in the area in question are mainly relative to expansion, enhancement and upgrading of networks and plant systems. Investments by the company Medea regard the construction of a methane gas pipeline in Sassari.

Gas (mln €)	**30/06/06**	**30/06/07**	**Abs. Change**	**Change %**
Territory	10.4	11.0	0.7	6.5%
Medea	1.1	0.6	-0.5	-45.3%
Total gas	**11.5**	**11.6**	**0.2**	**1.5%**

Investments in the Electricity service relate to the expansion of the service and extraordinary maintenance of plant systems and distribution networks for the Modena and Imola area and the co-ordination of the electricity networks, while investments in combined cycle electricity and thermal power plants (CCGT) concern the Imola facility under construction.

Electricity (mln €)	**30/06/06**	**30/06/07**	**Abs. Change**	**Change %**
Territory	4.2	6.0	1.8	41.5%
CCGT	0.4	4.7	4.3	1142.1%
Total electricity	**4.6**	**10.7**	**6.1**	**132.1%**

Investments relating to the integrated water cycle are up on the whole, compared to the same period of last year, mainly due to agreements signed with local ATOs (Territorial Waste Management Agencies)**,** and consequently reflected in tariff increases. They mainly regard expansion, enhancement and upgrading of networks and plant systems, in particular with regard to sewerage systems.

Integrated water cycle (mln €)	**30/06/06**	**30/06/07**	**Abs. Change**	**Change %**
Water system	25.8	31.2	5.4	20.9%
Purification	9.0	13.9	4.9	54.7%
Sewerage	9.0	19.6	10.6	117.2%
Total water cycle	**43.8**	**64.8**	**20.9**	**47.7%**

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

Waste management (mln €)	**30/06/06**	**30/06/07**	**Abs. Change**	**Change %**
Existing plants	4.9	12.1	7.2	148.6%
Investee companies	5.8	11.3	5.5	94.1%
New plants:				
WTE Canal Bianco (FE)	12.6	22.6	10.0	78.9%
WTE Modena 4° linea	7.8	8.9	1.1	14.5%
WTE Forlì	4.4	8.5	4.0	91.3%
Total waste management	**35.5**	**63.4**	**27.9**	**78.4%**

District heating service investments concerned extension work to the service mainly in the areas of Bologna (Euro 2.0 million), Imola (Euro 1.1 million), Ravenna (Euro 0.4 million), Forlì Cesena (Euro 1.6 million), Ferrara (Euro 1.5 million) and Modena (Euro 0.2 million). In the Public Illumination sector, investments were in relation to the installation of new light units and extraordinary maintenance of already existing units. 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 (mln €)	**30/06/06**	**30/06/07**	**Abs. Change**	**Change%**
District Heating	6.1	6.8	0.7	11.1%
Public lighting	2.5	0.8	-1.7	-66.3%
Heat management and micro cogeneration	2.7	2.3	-0.4	-14.4%
Other	1.6	2.2	0.6	37.0%
Total other services	**12.9**	**12.1**	**-0.8**	**-6.0%**

Investments in the central structure were down on the whole by 20%. The main part concerns consolidation of the company IT system and maintaining Group real-estate assets.

Central structure (mln €)	**30/06/06**	**30/06/07**	**Abs. Change**	**Change %**
Real-estate investments	4.4	4.9	0.5	11.9%
IT systems	12.0	8.1	-3.9	-32.8%
Fleets	4.5	4.3	-0.2	-4.7%
Other investments	2.7	1.4	-1.2	-46.1%
Total structure	**23.6**	**18.7**	**-4.9**	**-20.6%**

2.01.02.02 Regulatory Framework

The main changes that have been made to the regulatory framework and tariff system in the reference markets

1. Energy: evolution of the regulatory framework

While waiting for the presentation of the "third package" for the liberalization of energy markets put forward by the European Commission, Italian legislation (starting with law 239/2004, known as the "Marzano law", to regulate markets) continued to be brought in line with EU laws on energy markets: to implement directive 2003/54/CE, the electricity market was opened to competition and the Authority for electricity and gas strengthened regulations on transparency and services in network management (resolution no. 11, 28 January 2007, containing rules on accounting and functional separation).

Since 1 July it is possible also in Italy for every customer to choose freely their provider of electricity; bill no. 73 of 18 June 2007, later converted to law no. 125 of 3 August 2007, introduced the complete liberalization of demand for electricity thus eliminating the figure of the "non-eligible" customer. In the same provision the legislator determined groups of customers where there is the option to remain under complete or partial rate protection and regulated by the Authority for electricity and gas:

- in the service of "higher protection" there are domestic customers and business consumers powered with low voltage "and have fewer than 50 employees and annual total sales lower than Euro 10 million". These customers are powered, with rates regulated by the Authority, by operators who are restricted in their provision and who take on the position of "higher protection operators". To serve protected customers the operators make their procurements from a single buyer
- in the service "safeguard" there are temporarily all the end customers who, even if not having the characteristics of protection, did not choose a vender on the free market. For this group the prices are not strictly regulated but still need to reflect cost characteristics; procurement from the single buyer is optional and in any case allowed for a limited period. The segment "safeguard" shall be subject to competition procedures that are to be defined with later provisions from the government.

Legislative and administrative activity in the energy sector was, in general, marked by adopting EU regulations.

A great amount of importance was placed on approving a package of environmental directives that promote and foster heat cogeneration and energy efficiency in building; a new national plan for allocating the right to emit CO2 ("emissions trading" directive) was drafted and presented to the European commission for approval; the bill to adopt the new directive on energy efficiency was assigned for an opinion from the commissions in question and it will have a considerable impact on the next definition of objectives for energy savings and on determining related subjects and financial activities.

It should also be mentioned that a controversial law was overturned by the legislature of the EU law for 2007 (the prohibition, now abrogated, to perform post-meter activities for distributors in the areas subject to concession).

On the other hand, the intense legal activity in the sectors related to utilities since the beginning of the legislature in certain circumstances does not seem to follow entirely linear routes. The substantial "block" in parliament on reviewing important framework bills (the "Bersani bill" to complete reforms in energy markets and the "Ronchi bill" for reforms on incentives for renewable energy sources) translate into the extraction, from projects in question, of specific regulations approved in emergency provisions. This is the case of the bill mentioned above on electricity liberalization and the careful revision made for the 2007 budget on incentives for renewable energy sources (abrogated for sources not explicitly included in the EU definition, except for rights acquired).

An important line of intervention on incentives and aggregations, initially contained in the original "Bersani Bill" on energy, there is a bill on general liberalization of markets and professions from the same minister who proposed it and approved in the first instance by the House of Representatives on 13 June. The law provides for the introduction of "non-tax incentives" to aggregate companies that distribute natural gas.

1.1 Electricity: Regulations and the Tariff Framework

Concerning the complete liberalization of demand, the Authority for electricity and gas presented a package of regulatory provisions with the objective to prepare the electricity market for complete liberalization of demand and establish technical-economic conditions to operate higher protection and safeguard services. The provisions concern:

- the adoption of tools to compare prices (resolution 110 of 9 May 2007), basically consisting of the obligation for vendors to include in commercial offers a standard sheet enabling consumers to compare different offers. Concurrently, a non-compulsory association of qualified vendors was founded
- the revision of rates for domestic customers (resolution no. 135 of 13 June 2007 and no. 159 of 27 June 2007). While waiting to prepare a more detailed rate scheme, in order to correct and where possible eliminate crossed subsidies in the current protection scheme, a transitory scheme was introduced by redefining components and suspending multi-time options. The first quarterly rate update with new references kept rate levels unchanged for protected customers

- new legislation on rescinding from contracts extended to the natural gas market (resolution no. 144 of 25 June 2007): for end domestic customers and for smaller non-domestic customers who for the first time opt for the free market, maximum advance notice in the event of rescission is set at a month. For non-domestic end customers who already belong to the free market the advance notice required is 3-6 months for yearly/multi-year contracts; for vendors the rescission is set at 6 months unless the parties have other agreements
- formation of a consolidated law on regulations for sales (Integrated Sales Law, approved with resolution no 156 of 27 June 2007, determining and regulating new market areas formed by government decree (higher protection and safeguard)
- legislation for gaining access to databases to prepare commercial offers for providing electricity and gas (resolution no. 157 of 27 June 2007), which the distributor is required to provide within 20 business days from the date when a request is received from the electricity vendor.

In view of the 3rd regulatory period for electricity supply and conditions and rules (October 2008 – September 2011), the Authority issued a series of reference documents, among which are the following:

- document no. 24/07 on conventional determination by time of profiles for withdrawing electricity provided by end customers not treated based on time (load profiling);
- document no. 34/07 on rates for providing services for transmission, distribution and measurement of electricity;
- document no. 35/07 with instructions for regulating despatching services, transmission services, distribution of electricity and measurement of sales services for critical execution of provision contracts, which is among the procedures on switching
- document no. 36/07 on technical and commercial quality of electrical services, with introduces the "double indicator" for black-outs (number and length), regulation of quality also for transport in high and very high tension and for minor electricity companies.

1.2 Natural Gas: Regulations and the Tariff Framework

The Authority intervened again on economic conditions for providing natural gas to end customers allegedly in order to provide a solution to the situation of uncertainty as an effect of later rulings, with different contents, issued by the State Council on judgements proposed against the same resolution no. 248 of 29 December 2004 (in particular, while one of the appeals proposed by the Administration against one of the rulings of the Lombardy Regional Administrative Court (TAR) to annul the resolution was accepted by Section VI on 5 May 2006, two other appeals proposed to annul other TAR rulings were dismissed by plenary meeting with decisions made on 11 January 2007).

In particular the Authority, with resolution no. 79/07 of 29 March 2007, retroactively determined the economic conditions for providing natural gas to end customers "*non-eligible*", and the policies for updating the group, assuming:

- for 2005, updated values equal to those found when applying indexing criteria from resolution no. 195/02, in place of the contested resolution no. 248/04;
- for the first half of 2006, the figures for updating as per resolution no. 298/05 and no. 63/06. Intervention is also provided for renegotiating wholesale contracts stipulated after 1 January 2005 and pertaining to the period in question, connecting to the fulfilment of that obligation, the payment, to companies operating in sales, of 50% of the difference deriving from the figures calculated with the two methods (resolution no. 195/02 and resolution no. 248/04), multiplied by volumes consumed;
- for the subsequent period up to 1 July 2006, the figures resulting from the application of policies introduced with resolution no. 134/06.

It should be mentioned that legal uncertainty on the matter still remains: even if resolution no. 248/04 can be considered totally annulled (the remaining rulings of the Lombardy Regional Administrative Court (TAR) to annul the provisions by effect of rulings from the Council of State which, with the decision of 28 June 2008, found it impossible to proceed for the remaining appeals made by the Authority), there are numerous recourses pending to annul the subsequent resolution no. 134/06 and resolution no. 79/07.

Rate dynamics

With the tariff adjustment for the second quarter 2007 (resolution no. 80/07), the Authority proceeded to reduce economic conditions with a decrease of about 2.37 €c/mc for customers eligible for protection, equivalent to a average decrease of 2.1%, due to the effect of the adjustment of end prices to the development of international energy markets. In the subsequent tariff adjustment resolution for the third quarter 2007 (resolution no. 158/07), the Authority made an additional revision of economic conditions with a decrease of about 1.10 €c/mc for non-eligible customers, equivalent to an average decrease of 1.6%. The trend in prices for crude oil means that undetermined price increases are expected for the last quarter of 2007.

2. Local Public Services: The Evolution of the Regulatory Framework

With bill no. 772 for the reorganization of local public services, better known as the Lanzillotta Bill, the government initiated systematic reform of local public services to create a more mature scheme for market competition.

The government act was presented by the government to the senate on 7 July 2006 and assigned to the permanent commission for constitutional affairs on 20 July 2006; the examination of the project supported by a survey that included 36 collective hearings, ended by the commission in question only on 31 May 2007. The act in question was approved immediately by the senate on 2 August.

The provision focuses on the "exceptional" nature of direct credit lines, particularly those given by local entities to companies wholly under their control ("in-house"), subject of a bitter dispute at the level of EU law.

From the report appended to the bill it is possible to deduce that acquisition rights are to be taken into account for subjects who have based investment plans and industrial plans on certain durations of concessions assigned as transitory in view of final liberalization of the market, under the supervision of an authority dedicated to guarantees.

From the general rule for market liberalization fostered by the bill it seems that water is excluded due to a more general orientation, repeated in other provisions under examination or resolved (such as the additional postponing of the timeframe to carry out tenders still considered as the general model to award service contracts as per article 113 of the consolidated act of local bodies), which gives rise to extensive debate and makes it impossible to assess the consequences before the entire legislative process is complete.

The reform of local public services shall necessarily be coordinated with other provisions being approved or already approved and undergoing revision, which greatly influences the operating model.

Together with the specific bill (no. 1366) to reorganize the independent Authorities in the sector, there is the will of the government to rationalize jurisdictions on regulation; in particular, the bill assigned to the Authority for electricity and gas the power to regulate the water sector. For that purpose the Authority for energy would have jurisdiction over what is now the responsibility of CIPE/NARS.

Concerning the environment, the provision of reference is legislative decree no. 152 of 3 April 2006 known as the "Environment Code".

Following statements of ineffectiveness of 17 decrees issued in May 2006 due to no prior assessment by the Court of Accounts, the entire body of the decree, also by request of the regions, was and still is undergoing a long and complex process of review with timeframes and ways that have been affected by the stratification of pending initiatives on the issue (among these, the above-mentioned Lanzillotta law and numerous initiatives for the promotion of renewable energy sources).

An initial "corrective act", legislative decree 284/2006, already in force and extended the operability of the Basin Authority, disbanded the Authority on water resources and waste reforming the committee on water resources (previously disbanded by legislature 152) and the national observatory on waste. The same decree extended from six to 12 months the term to adjust the charter of the national consortium for packaging (CONAI) to the decree, in particular concerning transparency, effectiveness, efficiency and finance, as well as free competition in the sector.

The second of a series of "corrective decrees" drafted by the executive concerning regulations on sewage systems, on the definition of waste and on legislation for secondary raw materials, sub-products and ground and rocks from digs, is currently being reviewed by parliament.

On 27 July 2007, the council of ministers approved the third scheme "corrective decree", which intervenes on the assessment of environmental impact, strategic environmental assessment and the integrated environmental authorization (part II of the code), which according to the executive was drafted in order to bring the code in line with EU regulations and thus overcome the proceedings of open infractions put forward by the European Commission.

For the second and third corrective decrees of the code it is necessary to wait for opinions from the State-Region Conference and the parliamentary commissions in question.

2.01.02.03 Tariffs

Gas Distribution tariff framework

The first half of 2007 saw, with the end of the 2006 financial period, a stable regulation framework on the mechanisms to determine tariffs for gas distribution. With the issue of resolution no. 218/06, the authority for electricity and gas (Aeeg) completed their revision of the gas regulation system for the current regulation period defining the levels of rates for the scheduled productivity recovery rate on recognised management costs and on technical amortisation of invested capital.

Thanks to the important merger operations concluded by Hera over the last few years, the incentive mechanism included in resolution 218 resulted in the recognition to Hera Spa of company-specific productivity recovery rates of 3.7% for the thermal year 2005/06, 3.1% for the thermal year 2006/07 compared to base values of (respectively) 4.8% and 4.6% recognised to companies not affected by merger processes.

With resolution 53/07 of March 2007, Aeeg formally approved Hera Spa distribution tariffs for thermal years 2005/06 and in particular 2006/07. The six-month financial statements of Hera Spa for 2007 thus reflect the tariff levels approved for the last thermal year and are consequentially based on stable tariff parameters.

Against this backdrop, gas distribution revenues for the first half of 2007 amounted to Euro 57 million, with distribution volumes of about 1,077 million of cubic metres, with a corresponding average unit tariff of Euro cents 5.29 per cubic metre.

Consolidated (without Aspes Group)

Gas distribution - revenues from transport	30/06/06	30/06/07	% change
Hera Spa without Geat Riccione			
- Revenues (Mln Euro)	65.8	55.9	-15%
- Volumes (Mln cm)	1,340	1,061	-21%
- Average tariff (€cent/cm)	4.91	5.27	7%
Hera Spa with Geat Riccione			
- Revenues (Mln Euro)		56.9	
- Volumes (Mln cm)		1,077	
- Average tariff (€cent/cm)		5.286	

Consolidated (with Aspes Group)

Gas distribution - revenues from transport	30/06/06	30/06/07	% change
Hera consolidated			
- Revenues (Mln Euro)		59.3	
- Volumes (Mln cm)		1,118	
- Average tariff (€cent/cm)		5.31	

Compared to the first half of 2006, it should be noted that, against a decrease of 21% in amounts of gas distributed due to peculiar and unfavourable climatic trends (from 1,340 to 1,061 million cubic metres), there was a mitigated reduction in overall revenues of around 15% (from Euro 66 to 56 million). The attenuation of the decrease in revenues compared to the percentage of amounts distributed is justified with a corresponding increase in the average tariff by about 7% (from 4.91 to 5.27 cents Euro/cubic metre), attributable for the most part to the method of setting tariffs based on the structure of variable quotas to fulfil batches with tariff levels progressively decreasing. In this way, a drop in volumes is associated to the application of tariff payments on average higher. This comparison was made by isolating the effect of the expansion of perimeter due to the merger with Geat Ticcione, which had not been discussed at the end of the first half of 2006.

With the Aspes Group also entering consolidation for the six-month report as at 30 June 2007, it should be mentioned that the consolidated figure of revenues from gas transport for Hera Group amounts to Euro 59.3 million, against distributed volume of 1,118 million cubic metres and an average tariff of 5.31 cents Euro/cubic metre.

Compared to what we said above regarding the legal framework, it is noted that ASPES MULTISERVIZI did not benefit from incentives recognised by AEEG to HERA Spa in relation to the scheduled productivity recovery rate.

Electricity Distribution: tariff framework

The first half of 2007 was marked by substantial continuity with the first half of 2006 in terms of the tariff system that regulates electricity distribution. In fact, both of the periods in question fall into the second regulatory period introduced by resolution 5/04 of the Authority for Electricity and Natural Gas.

In this framework, the main differences compared to the first half of 2006 are due to the application of resolution 203/06, which adjusted tariff parameters for distribution and transmission in 2007, which only partially changed the figures compared to the previous year, from the slight change in prices but above-all from the change in the perimeter from the acquisition of former Enel networks.

In this context, compared to the first half of 2006 the results of tariff revenues from electricity distribution for the first half of 2007 show an increase in the average unit revenue of 2.2%, passing from 2.12 Euro KW/hour to 2.17 Euro KW/hour, which, along with a 46.3 % increase in volumes (from 763 GW/hour for the first half of 2006 to 1.116 GW/hour for the first half of 2007), leads to an overall increase in revenue of approximately 49.5%.

Instead at a constant perimeter, compared to the first half of 2006 the results of tariff revenues from electricity distribution for the first half of 2007 show an increase in the average unit revenue of 1.4%, passing from 2.12 Euro KW/hour to 2.15 Euro KW/hour, which, along with a 3.2% increase in volumes (from 763 GW/hour for the first half of 2006 to 1.116 GW/hour for the first half of 2007), leads to an overall increase in revenue of approximately 4.6%.

Integrated Water Service: tariff framework

In the first half of 2007, the route to tariff convergence was continued which over the next financial periods will lead to full application of the standardized method.
Overall, revenues from tariffs for water management, excluding Aspes Multiservizi Spa from the consolidation perimeter, amounted to Euro 156.5 million against water volumes sold of 111.7 million cubic metres, with a corresponding average unit tariff of Euro cents 140.1 per cubic metre.
The increase in average unit revenue is consistent with tariff agreements issued by Aato.

Integrated water service (exc. Aspes group)	**31/12/06**	**30/06/07**
Revenues (millions Euro)	315.3	156.5
Volumes (millions of cm)	233.1	111.7
Average unit revenue (cent Euro/cm)	135.3	140.1

Thanks to the consolidation of ASPES, the revenues from the integrated water service recorded by the Hera Group for the first half of 2007 amounted to Euro 163.8 million, with 116.5 million cubic metres sold.

Integrated water service (Aspes Group consolidated)	**30/06/07**
Revenues (millions of Euro)	163.8
Volumes (millions of cm)	116.5
Average unit revenue (cent of Euro/cm)	140.6

Urban Hygiene: tariff framework

In the first half of 2007, the urban hygiene service was provided to 145 municipalities, including Pesaro and Urbino. Of these, 50% (72 municipalities) adopted the tariff system in accordance with Presidential Decree 158/99 covering 64% of the population in the areas served.

Urban hygiene (exc. Aspes Group)	30/06/06	30/06/07	Increase %
Revenues (millions of Euro)	151	159	0.053
Residents served ('000)	2,305	2,327	0
Average unit revenue (Euro per resident)	65.5	68.3	0.043

Urban hygiene (Aspes consolidated)	30/06/06	30/6/07	Increase %
Revenues (millions of Euro)		167	n/a
Residents served ('000)		2,462	n/a
Average unit revenue (Euro per resident)		67.8	n/a

Net of consolidation of Aspes Group, the increase in revenues for urban hygiene services to municipalities in the comparison between the first half of 2006 and the first half of 2007, amounts to 5.3%. The increase in the average unit revenue is also due to adjustments based on inflation and on evasion recovery procedures.

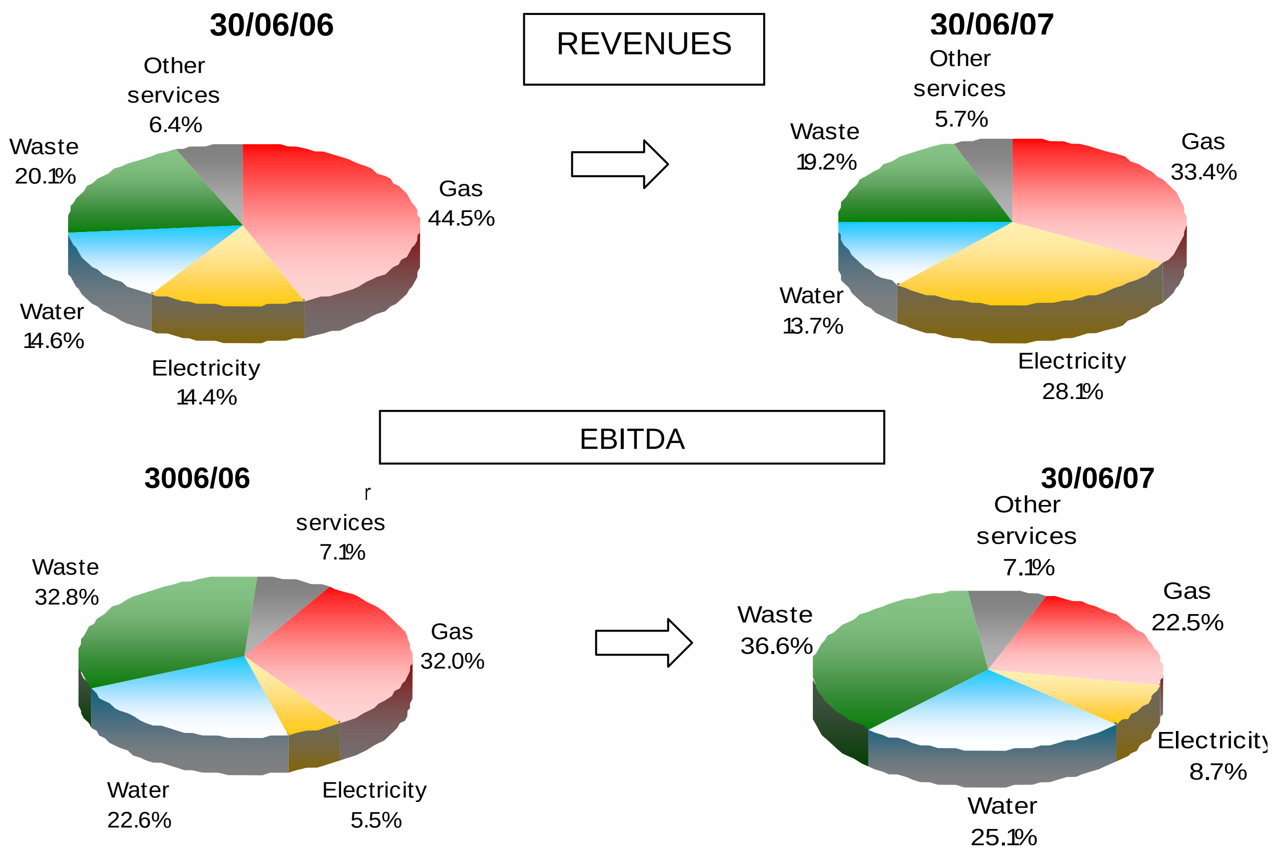
2.01.02.04 Analysis by Business Area

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 concerned with the distribution and sale of Electricity, (iii) Integrated Water Cycle sector (Water System, 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 half of 2007 compared with the same period of 2006: with regards to the contribution towards EBITDA, the importance of the water cycle, waste management and electricity areas increased and that of the gas segment decreased and the other services remain unchanged. Also concerning revenues the percentage of the gas segment decreased above all in relation to the decrease in volumes sold and distributed, while the importance of the electricity segment increased steadily above all thanks to the acquisition of former Enel networks in Modena and commercial development in the area.

In order to provide the necessary details on performance in the first six 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



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.

2.3.1 *Analysis of the Gas Segment*

In the first six 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:

(mln/€)	30/06/06	30/06/07	Abs. Change	Change %
Area EBITDA	**67.1**	**47.3**	**-19.8**	**-29.5%**
Group EBITDA	209.9	210.7	+0.8	+0.4%
Percentage	*32.0%*	*22.5%*	*-9.5 p.p.*	

The first six 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	30/06/06	30/06/07	Abs. Change	Change %
Volume distributed (millions of cm)	1,340.0	1,077.3	-262.7	-19.6%
Volume sold (millions of cm)	1,448.0	1,208.5	-239.6	-16.5%
- of which volume for trading	*134.2*	*157.1*	*+22.9*	*+17.1%*

With regards to the climate trend described above, distributed volumes dropped from 1,340.0 million cubic metres in the first six months of 2006 to 1,077.3 million in the same period of 2007, despite 40.8 million cubic metres deriving from the consolidation of Aspes Pesaro.

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

The results are summarised below:

Income statement (mln/€)	**30/06/06**	**Inc%**	**30/06/07**	**Inc%**	**Abs. Change**	**Change %**
Revenues	564.4		477.7		-86.7	-15.4%
Operating costs	(483.2)	-85.6%	(422.8)	-88.5%	+60.4	-12.5%
Personnel costs	(24.5)	-4.3%	(20.8)	-4.3%	+3.7	-15.1%
Capitalised costs	10.3	1.8%	13.1	2.8%	+2.8	+27.1%
EBITDA	**67.1**	**11.9%**	**47.3**	**9.9%**	**-19.8**	**-29.5%**

Revenues in the Gas area segment decreased by 15.4%, passing from Euro 564.4 million in 2006 to Euro 477.7 million in the first six 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 19.8 million, passing from Euro 67.1 million to Euro 47.3 million. Net of the contribution from the Pesaro area companies, the decrease would have come to Euro 21.0 million, or 31.3%.

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 11.9% in 2006 to 9.9% in 2007.

2.3.2 Analysis of the Energy Segment

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 reached 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 over 3.1%, passing from 5.5% in 2006 to 8.7% in 2007 also because of the decrease in the gas areas due to unfavourable climatic conditions. It is noted that, before the acquisition of the Modena area, the percentage-based importance was less than 3.0%.

(mln/€)	30/06/06	30/06/07	Abs. Change	Change %
Area EBITDA	**11.6**	**18.3**	**+6.7**	**+57.5%**
Group EBITDA	209.9	210.7	+0.8	+0.4%
Percentage	*5.5%*	*8.7%*	*+3.1 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.

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

Income statement (mln/€)	30/06/06	Inc%	30/6/07	Inc%	Abs. Change	Change %
Revenues	183.4		401.0		+217.6	+118.6%
Operating costs	(170.4)	-92.9%	(381.6)	-95.2%	-211.2	+124.0%
Personnel costs	(5.0)	-2.7%	(9.3)	-2.3%	-4.3	+84.8%
Capitalised costs	3.6	1.9%	8.1	2.0%	+4.6	+128.5%
EBITDA	**11.6**	**6.3%**	**18.3**	**4.6%**	**+6.7**	**+57.5%**

Sales revenues increased by 118.6%, passing from Euro 183.4 million in 2006 to Euro 401.0 million in the first half of 2007, as a result of the above-mentioned factors.

The increase in revenues by business area is illustrated below.

(millions of Euro)	30/06/06	Inc%	30/06/07	Inc%	Abs. Change	Change%
Revenues from sales	28.9	28.3%	35.8	8.7%	+6.8	+23.6%
non-eligible customers	100.5	98.4%	153.0	37.3%	+52.5	+52.3%
eligible customers	17.5	17.1%	25.0	6.1%	+7.5	+42.9%
Revenues from distribution	36.6	35.8%	187.3	45.6%	+150.7	+412.1%
Trading	9.6	9.4%	135.1	32.9%	+125.5	+1308.6%
Other	27.0	26.4%	52.2	12.7%	+25.2	+93.5%
Total revenues	**102.1**	**100.0%**	**410.3**	**100.0%**	**+308.3**	**+302.0%**

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	30/06/06	30/06/07	Abs. Change	Change %
Volume sold (Gw/h)	**1,428.7**	**2,080.8**	**+652.1**	**+45.6%**
Non-eligible customers	341.8	437.7	+95.9	+28.1%
Eligible customers	1,086.9	1,643.1	+556.2	+51.2%
Volume distributed (Gw/h)	**763.2**	**1,116.2**	**+353.1**	**+46.3%**

The increase in volumes is related to (i) the acquisition of the former Enel grid for non-eligible customers 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.

The EBITDA rose in comparison to the same period of 2006, passing from Euro 11.6 million to Euro 18.3 million (+57.5%), as a result of the contribution from the former Enel network, the synergies permitted by the incorporation of the Modena area and higher volumes.

2.3.3 *Analysis of the Integrated Water Cycle Segment*

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:

(mln/€)	30/06/06	30/06/07	Abs. Change	Change %
Area EBITDA	**47.4**	**52.9**	**+5.5**	**+11.6%**
Group EBITDA	209.9	210.7	+0.8	+0.4%
Percentage	22.6%	25.1%	+2.5 p.p.	

The results at the end of June 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 (mln/€)	30/06/06	Inc%	30/06/07	Inc%	Abs. Change	Change %
Revenues	185.0		195.4		+10.3	+5.6%
Operating costs	(143.1)	-77.3%	(164.6)	-84.3%	-21.5	+15.1%
Personnel costs	(39.6)	-21.4%	(44.4)	-22.7%	-4.8	+12.1%
Capitalised costs	45.0	24.3%	66.5	34.0%	+21.5	+47.8%
EBITDA	**47.4**	**25.6%**	**52.9**	**27.1%**	**+5.5**	**+11.6%**

In the first half of 2007, revenues were generated for a total of Euro 195.4 million, up by 5.6% when compared with the same period of 2006, in relation to the consolidation of Aspes Pesaro for Euro 8.8 million, the tariff increases linked to the agreements with the ATOs. A reduction in the amount of work carried out compared to the previous year affected the figure for the period.

The increase in overall costs amounts to Euro 26.3 million. Taking into consideration the increase in capitalized costs for Euro 21.5 million, and the consolidation of Pesaro companies for about Euro 8.0 million, operating costs decreased in relation to the lower amount of work carried out ant the efficiency obtained.

The main quantitative figures of the business area illustrated below reveal that, net of volumes of the Pesaro companies for 8.0 million cubic metres, there would be a slight decrease in comparison to the previous year (-0.2 million cubic metres, -0.1%), against the trend seen in previous years.

Quantitative data	30/06/06	30/06/07	Abs. Change	Change %
Volume sold (millions of cm)				
Water System	111.8	115.7	+3.8	+3.4%
Sewerage	100.1	103.1	+3.0	+3.0%
Purification	96.7	99.5	+2.8	+2.9%

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 5.5 million, passing from Euro 47.4 million in 2006 to Euro 52.9 million in 2007.

It is also noted that the rise in EBITDA 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.

2.3.4 Analysis of the Waste Management Area

The Waste Management segment, confirming the previous results, is growing both in terms of profitability and percentage-related importance.

(mln/€)	30/06/06	30/06/07	Abs. Change	Change %
Area EBITDA	**68.8**	**77.2**	**+8.3**	**+12.1%**
Group EBITDA	209.9	210.7	+0.8	+0.4%
Percentage	32.8%	36.6%	+3.8 p.p.	

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 (mln/€)	30/06/06	Inc%	30/06/07	Inc%	Abs. Change	Change%
Revenues	255.7		274.3		+18.6	+7.3%
Operating costs	(128.0)	-50.1%	(137.2)	-50.0%	-9.1	+7.1%
Personnel costs	(61.3)	-24.0%	(64.7)	-23.6%	-3.4	+5.6%
Capitalized costs	2.5	1.0%	4.8	1.7%	+2.3	+94.5%
EBITDA	**68.8**	**26.9%**	**77.2**	**28.1%**	**+8.3**	**+12.1%**

Revenues at the end of the first half of 2007 disclosed an increase of 7.3%, rising from Euro 255.7 million in 2006 to Euro 274.3 million of the same period this year. The increase in sales is linked to the integration of the Pesaro area for Euro 12.2 million, while the remaining balance concerns the additional revenues in the urban hygiene segment for adjustments in tariffs and the additional volumes of services provided.

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 35.9% in the first half of 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 2.4%. Net of the contribution from the Pesaro area companies and sub-products of plants, 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	30/06/06	Inc%	30/06/07	Inc%	Abs. Change	Change %
Urban waste	829.4	37.3%	822.0	37.3%	-7.5	-0.9%
Market waste	737.7	33.1%	710.0	32.2%	-27.7	-3.8%
Special waste from sub-product plants	470.8	21.1%	471.3	21.4%	+0.5	+0.1%
Direct customers subsidiaries	188.3	8.5%	202.8	9.2%	+14.5	+7.7%
Waste treated by type	**2,226.2**	**100.0%**	**2,206.1**	**100.0%**	**-20.1**	**-0.9%**
Landfills	764.7	34.3%	775.6	35.2%	+11.0	+1.4%
Waste to Energy plants	284.9	12.8%	285.4	12.9%	+0.5	+0.2%
Selection plants	158.8	7.1%	129.3	5.9%	-29.5	-18.6%
Composting plants	166.9	7.5%	176.1	8.0%	+9.2	+5.5%
Stabilization and chemical-physical plants	447.8	20.1%	443.2	20.1%	-4.6	-1.0%
Other	403.0	18.1%	396.4	18.0%	-6.7	-1.7%
Waste treated by plant	**2,226.2**	**100.0%**	**2,206.1**	**100.0%**	**-20.1**	**-0.9%**

The quantitative data presented above reveals a higher use landfills due to the shut-down of the Ferrara waste-to-energy plant together with the construction of the new line and amounts disposed of by Aspes Group.

EBITDA for the Waste Management segment increased from Euro 68.8 million in the first half of 2006 to Euro 77.2 million of the same period in 2007, with an increase of 12.1%.

2.3.5 Analysis of Other Services Segment

The Other Services Segment, which includes the Public Lighting, District Heating and Heat Management Services, weighs in on the overall EBITDA of the Group for around 7.1%, in line with the previous year.

(mln/€)	30/06/06	30/06/07	Abs. Change	Change %
Area EBITDA	**15.0**	**15.0**	**+0.0**	**+0.2%**
Group EBITDA	209.9	210.7	+0.8	+0.4%
Percentage	7.1%	7.1%	-0.0 p.p.	

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

Income statement (mln/€)	30/06/06	Inc%	30/06/07	Inc%	Abs. Change	Change %
Revenues	81.1		81.1		+0.0	+0.0%
Operating costs	(62.0)	-76.5%	(64.0)	-79.0%	-2.0	+3.3%
Personnel costs	(11.8)	-14.6%	(11.5)	-14.1%	+0.4	-3.1%
Capitalized costs	7.8	9.6%	9.4	11.6%	+1.7	+21.5%
EBITDA	**15.0**	**18.5%**	**15.0**	**18.5%**	**+0.0**	**+0.2%**

Revenues are in line with the previous year and in particular this result is due to higher volumes in public lighting, which compensate the lower income from district heating, for volumes distributed.

As far as the rationalisation and reorganisation of the area carried out in the last years is concerned, which led to the progressive discontinuation of 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, it's worth mentioning the constant increase in the margin linked to public lighting activities and the launch of industrial microgeneration initiatives, as pointed out in the section regarding investments. These increases allowed to keep the profit unchanged (Euro 15.0 million), despite the significant impact of the lesser volumes of heat sold and electricity from district heating sold due to the particularly mild winter season already mentioned several times.

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

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Quantitative data	30/06/06	30/06/07	Abs. Change	Change%
District heating				
Volume heat distributed (Gwht)	274.3	210.9	-63.4	-23.1%
Public lighting				
Lighting units (thousands)	297.9	306.8	+8.9	+3.0%
Municipalities served	57	58	+1	+1.8%

2.01.03 Commercial Policy and Customer Care

In the first six months of 2007 also the customers of Modena and Ferrara were migrated to the customer management platform of the group (Siebel – Isu): for the first time since the Hera Group was founded all customers are managed using the same billing and CRM system.

Concerning accessibility to contact channels, despite some minor improvements needed after Modena and Ferrara were migrated to the systems, the high performance already measured in the previous period were confirmed, in particular:

- ✓ *mass market call centre*: 95% of calls answered with an average queue time of 31 seconds (measured on 90% of calls answered);
- ✓ *business call centre*: 98% of calls answered with an average queue time of 21 seconds (measured on 90% of calls answered);
- ✓ helpdesks: average wait time of 20 minutes

Business activities on the free markets led to an important positive balance, net of losses due to pressure from competitors:

- ✓ electric power: net acquisitions for over 200 GW/hour against an increase of 2800 outlets
- ✓ gas: net acquisitions for over 30 million cubic metres with an acquisition focus on companies and concentration of business losses on families that provoked a net decrease of about 5000 outlets

The effects of sales activities in the first half of 2007 and those from the second half of 2006 on volumes provided can be summed up as follows:

- ✓ electric power: rise from 1,429 GW/hour in the first half of 2006 to 2,054 GW/hour in the first half of 2007 for an increase of 44%
- ✓ gas: decrease from 1,311 million cubic metres in the first half of 2006 to 1,051 million cubic metres in the first half of 2007 for a decrease of 20% mainly due to lower consumption during the particularly mild winter, only partially compensated for by sales.

2.01.04 Trading and Procurement Policy

As far as gas is concerned, the first six months of 2007 were dedicated, on the one hand, to the handling of procurement contracts becoming effective from October 2006 as well as long-term ones; and, on the other hand, to finalising the new contracts for the 2007/2008 thermal year.

As regards the shipping activities carried out by Hera Trading Srl, the exceptionally mild winter surely had a significant impact and gave rise to widespread gas surpluses throughout Europe hence a fall in prices. In short, many operators found it difficult, if not impossible, to treat the gas accumulated in storage reservoirs with ensuing damages resulting from reduced sales and the devaluation of any gas left over.

During the second quarter, Hera Trading Srl has taken part to the award procedure for the sale of natural gas volumes in the period covering 1 October 2007 – 30 September 2009 – order by the Italian Anti-Trust Authority no. 16530 of 6 March 2007, acquiring 3 lots for a total of 120 million cubic metres/year.

In May and June new contracts were finalised for the following thermal year for a total of 300 million cubic metres of Russian gas and expiring contracts were renewed for additional 180 million cubic metres/year.

Still in May and June, spot contracts were finalised for the importation of summer gas for a total of 120 million cubic metres.

As regards electric energy, the first six months of 2007 were characterised by the activation of power administration agreements concerning the electricity generated by the plants of Teverola and Sparanise, the management/optimisation of Hera Comm's purchase portfolio through transactions carried out on the Stock Exchange as well as bilateral and settlement platforms, and the consolidation of the trading activity used not only for short-term broking operations but also to reduce Hera Comm's exposure to the national standard price.

Following the conclusion of auctions held at the end of 2004, from 1 January 2005 Hera Trading Srl still appears to be one of the suppliers for the Sole Purchaser for the non-eligible market.

As for the management of price and exchange rate risk, company operations, by now consolidated in the gas segment, registered considerable growth also in the electricity segment; moreover, from the very first months of 2007 a Concentrated Risk Portfolio has been in place which, based on macro hedging rather than specific hedging formulas, enables the netting of positions and the hedging of volumes. This new procedure makes hedge transactions less costly and allowed Hera Comm to significantly increase its portfolio of offers without being exposed to risks.

Lastly, due to the obligations connected with the activation of the Power Administration Agreements concerning the electricity generated by the plants of Teverola and Sparanise (*Scheduling, Settlement, Dispatching service market*), the consolidation of the electric energy trading activity, as well as the considerable increase in the volumes of self-supplied gas volumes, in June the Board of Directors of Hera Trading Srl approved the gradual strengthening of the company's organisational structure, which is currently being implemented.

2.01.05 Financial Policy and Rating

During the first half of 2007, various financial transactions were carried out in order to guarantee an increasingly sound financial structure and a cost of money at more competitive levels.

The financial policy objectives which the Company set itself at the start of the year were as follows:

1. interest-rate risk: Definition and application of a strategy for hedging the interest rate risk which is accurate and consistent with consequent total coverage of the long-term debt at a fixed rate and fully compatible with the IAS/IFSR3.
2. Debt quality: Consolidation of the short-term debt in favour of the long-term portion.
3. credit line: Attainment of abundant uncommitted and committed credit facilities, so as to ensure sufficient liquidity for covering each financial commitment at least over the next two years.
4. financial charges: Further reduction of the cost of money.

In this light, during the first half of 2007, the following was carried out:

1. interest-rate risk: All hedging transactions in place are perfectly consistent with the underlying debt and in compliance with IAS standards.
2. Debt quality: In the first six months, re-financing transactions were carried out in order to consolidate long-term debt and to reduce charges. Among these: on 17 May 2007 a put bond was issued for a total of Euro 100 million entirely subscribed by Deutsche Bank AG London. The bond – the first launched in Italy in the market of reference – for the firs three years is regulated by Euribor 3 months reduced by 29 points. If the put option is not exercised by the bond holder at the end of the third year, the bond shall be regulated for an additional 10 years at a fixed rate of 4.593% in addition to the Hera credit spread. In this case Hera shall be entitled to exercise a call option on the entire amount in the remaining period. If instead the put option is exercised at the end of third year, the bond shall be repaid at the same amount.
   The liquidity as at 31 December 2006 on the Group's books amounted to about Euro 140 million; there are also three committed 3-year stand-by contracts for a total of Euro 250 million, unutilized as of 30 June 2007.
   The portion of long-term debt on the total is 86%.
   The Hera Group's total cost of debt stands at around 4.3% despite recent market increases.
   Concerning commodity hedging, the usual conservative approach was maintained to the cover the risk brought on by raw materials.
   The Group is not exposed to exchange rate risks.

The credit facilities and the related financial activities are not concentrated on any specific financial backer but are distributed equally among leading Italian and international banks.

Readers are reminded that Hera S.p.A. has a Bond outstanding for Euro 500 million, featuring a fixed rate coupon of 4.125%, maturing in February 2016.

Thanks to the cash flow produced and the sound equity and financial structure, overall it is believed that the Group is thus able to meet the important investment plan envisaged by the Industrial Plan.

Hera S.p.A. maintained an "A1 stable" long-term rating from Moody's and an "A stable" rating from Standard & Poor's and it is the Group's intention to endeavour so as to maintain these highly outstanding rating levels in the future.

2.01.06 Research and Development

In the first half of 2007, Group's research activities chiefly concerned the optimisation of network management, the environmental monitoring systems, the recovery of energy and materials from waste, and the technological development in renewable sources.
Leading research projects concerned:

CO2 Project. This project was started up in 2005, with the objective of reducing sludge from wastewater treatment and greenhouse gas emissions. It involves experimentation of an innovative technology for capturing CO_2 issuing from exhaust gas produced by combustion processes and its use in the process of anaerobic digestion of sewage sludge. The first stage of the experimentation was successfully completed in 2006, and the conclusive tests demonstrated a CO_2 capturing capacity of up to 70% of the emissions treated. Activities continued with the second stage, involving the use of the captured CO_2 to reduce the sludge contained in the digesters (- 20%) and produce a greater quantity of methane gas (+ 30%). Based on the results obtained in the first six months of the year, we are confident in the outcome of the final tests which will be carried out by July 2007.

Emerging Pollutants Project. The presence in the water of non-conventionally detected contaminants is considered to be one of the most important environmental problems of the last decade. The contaminants mainly relate to pharmaceuticals, hygiene products, drugs and their metabolites. The problem is perceived both in Europe and in the United States. Accordingly, Hera has put together a research project, started in 2007, the objective of which is to set up accurate, sensitive and rapid analytical methods for determining which compounds are present in waste waters and in those intended for human consumption, and to what extent. In the first six months the activity involved the systematization of all currently available knowledge gained from previous national and international experiences.

Environmental Catalysis Project. This project, set up in 2006 but commenced in 2007, envisages checking the use of traditional catalytic converters, used to reduce NOx emissions as well as dioxins.

Electro-osmotic reclamation of sewage sludge. The aim of the project is to apply electrokinetic techniques used for reclaiming polluted land and for improving the characteristics of sewage sludge. The initial tests carried out on a micro-prototype produced significant results in terms of removal of pollutants. The testing continued in 2007 with the construction of a larger scale prototype.

Ferrara Waters Project Actions designed to support the management of the Ferrara water system via application of state-of-the-art technological solutions (mathematical simulation models and forecasting models for refurbishment of water pipes). During 2006, the mathematical model of the network was developed and the first measures for implementing a "division into districts" carried out. Effective leakage detection campaigns have also been carried out, availing of acoustic instrumentation. The setting-up of an optimization model to plan actions for the refurbishment of the waterway network instead continued in 2007.

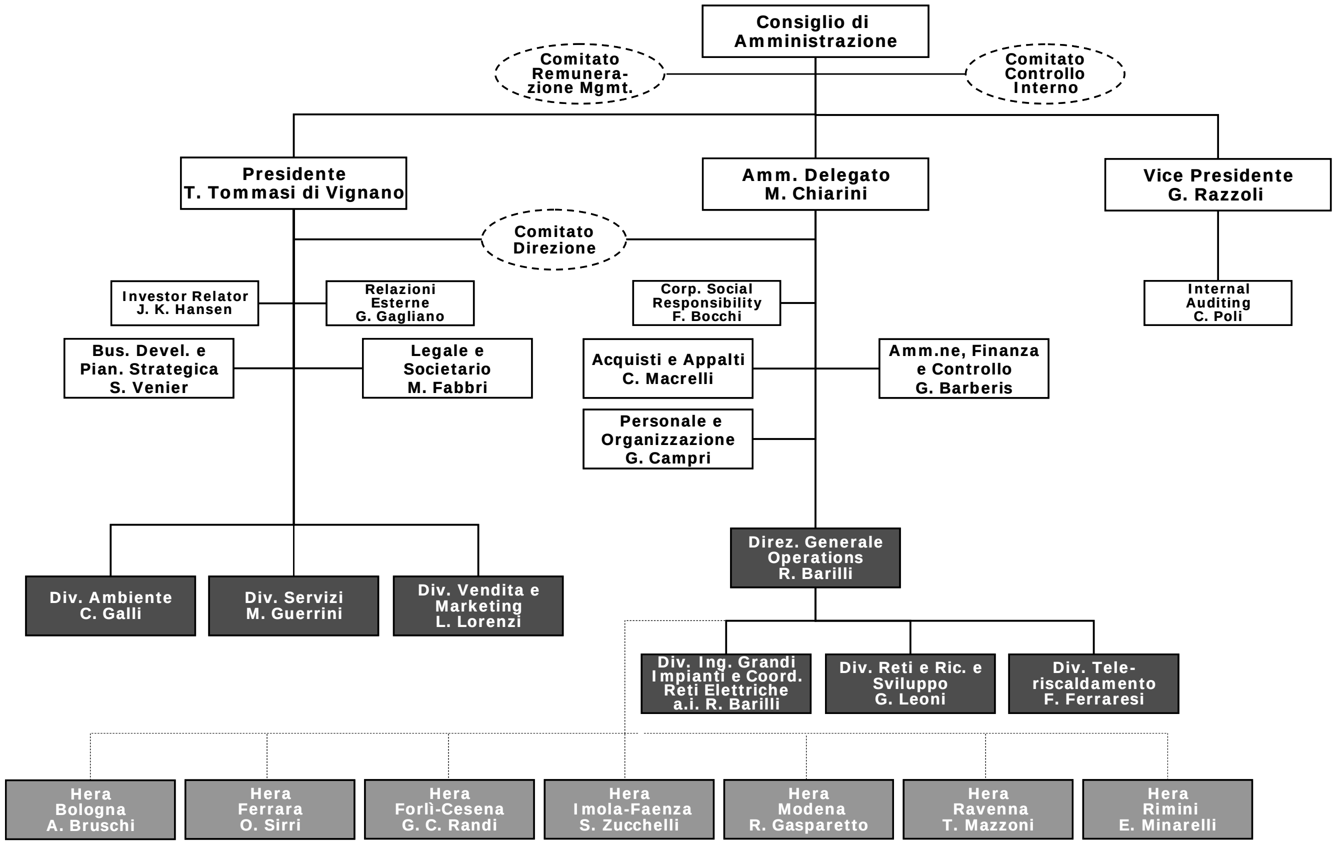
Automatic Leakage Detection Project. The project has come about as a natural development of the X-Water project (remote reading of users' meters) and involves the study of innovative systems for the automatic detection of water losses to be used with the remote reading system. The test field was developed and the first tests carried out in the first half of 2007.

Fuel-Cell Project. Construction of plants for distributed production of electricity and heat through combustion cells fuelled by methane or hydrogen. During 2006, a polymeric-membrane cell prototype fuelled by reformed methane was created. Early in 2007 the prototype was transferred to the ENEA laboratories for the testing phase.

Energy efficiency of plants. In the first half of 2007 preliminary activities were undertaken to enable Hera Spa to take part to a European project for the evaluation of the energy efficiency of the water service plants, a project coordinated by the Water Research Center of Swindon (UK).

2.01.07 Human Resources and Organisation

The Organisational Macrostructure



Human Resources

At 30 June 2007 the Hera Group had 6,224 employees (consolidated companies), with the following breakdown by role: managers (108), middle managers (277), employees (2,682), and workers (3,157). This workforce was the result of the following changes: new recruits (93), leavers (96). It should also be noted that hiring was essentially aimed at changing the employee mix by increasing the number of qualified staff. Lastly, there was an overall increase in the number of employees with university degrees of 42 units (from 621 units, or 9.97% of total indefinite-term employees, to 663 units, or 10.65%).

Organisation

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

Moreover, important activity centralisation projects are being implemented and, due to their technical, technological and management complexity require a long-term implementation phase. Specifically:

- rationalization of laboratory analysis: this involves the centralisation of the analysis activities, presently decentralized throughout the territory, within three laboratories with specializations in: water, sludge and atmospheric emissions and special waste;
- remote-control centralization: this involves creating a single remote control centre for all of the Hera Group's fluid networks (water cycle, gas, and district heating), and centralising the remote control of electricity grids in the Modena centre.

During 2007, with the aim of improving the effectiveness and efficiency of the Group's procurement processes, a project was implemented for the introduction of an e-procurement system whose implementation stage will be completed by the end of 2007.

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

Finally, attention is drawn to the fact that in 2006 the subsidiary Aspes Multiservizi (and its subsidiaries) was consolidated in the Hera Group. The data relating to the Hera Group staff therefore include also personnel of the Aspes Group (335).

Industrial Relations

Labour union activity initially focused on finalising the absorption of Meta SpA, also by correctly allocating its activities to the subsidiaries Hera Luce Srl and Uniflotte Srl in line with the Group's organisation.

Still complying with the rationalisation and standardisation process that the Group intends to pursue, the labour union negotiation concerning the rationalisation of the Group's analytical laboratories for water and environmental services was completed. The main objective of the project is to reorganise the Group's twelve laboratories, that are presently decentralised, and create a structure subdivided by matrices hence centralise analytical activities in three laboratories. After a complex dispute, labour union negotiations ended with an agreement by the parties that triggered off the centralisation and rationalisation process.

Furthermore, several negotiations commenced with the aim of standardising current working hours. In particular, worthy of notice is the negotiation on the standardisation within the environment division concerning both white- and blue-collar staff. The negotiation ended with a union agreement envisaging a change from 13 to 2 types of working hours for employees and just one type of working hours for blue-collar staff.

The preliminary phase for defining the rules governing the National Collective Labour Agreements currently in force having regard to the goods/products sectors managed was completed, in accordance with Group's agreements; the phase will be implemented in the second half of the year.

Training

In the first six months of 2007 the intense training activity and professional refresher courses continued for both technical and operating staff as well as specific activities aimed at maintaining and enhancing the operating skills required for activities that are deemed to be critical from the point of view of service quality, safety and potential environmental impacts.

As part of the programs for consolidating and developing the trades school model the training of internal trainers was extended to all territories more specifically with regard to trades that were the subject of the first "work sites" set up in 2006 (e.g. operation of special Rsu vehicles, maintenance of gas-water networks, waste sampling…).

Besides extending the scope of application of the work sites set up (e.g. to activities involving the maintenance of sewerage systems and district heating), new "work sites" were set up in Ferrara and Rimini (operation of water treatment and depuration plants) as well as in Modena and Imola (management of electricity substations).

In the sales, marketing and customer management area the project based on the *integrated management of business processes* which involved all personnel from the mass market area was finally completed, the update on the resolutions by the Italian Authority for Electricity and Gas continued and, as a result, a complex training activity was carried out on the liberalisation of the electricity market and the commercial offer for residential customers and VAT numbers.

The training activity provided to support the implementation and consolidation of the company's new IT systems as well as training on specific topics such as quality, safety and environmental issues continued in the January – June period of 2007. In particular, in line with the company's programs on the subject, a project was defined and launched to take place along with the OHSAS 18001 certification process; in the first half of 2007 this process involved the personnel from the safety and environment area of all Group companies in refresher courses on applicable legal requirements and in training for the role of the RSPP (Head of Health and Safety) and of internal auditor of OHSAS 18001 management systems. Lastly, training on compliance with legal requirements (fire protection, first aid, …) is still in progress.

Plenary meetings were organised, additional Improvement groups were set up and Focus Groups were started with regard to the Sustainability Report, the new Ethical Code and internal communication instruments, as part of the initiatives undertaken to involve and listen to workers.

Further one-to-one coaching as well as training on the economic and management aspects of public utilities that involved graduates and other potential new recruits were launched as part of the institutional initiatives and to support development processes of management and managerial competences. Moreover, a collaboration was started with the Fondazione Alma Mater to develop a training course on "regulation and market in public utility services" for newly appointed middle managers.

A total of 71,900 man hours (see the table below) were put in by approximately 4,900 people (~80% of staff), for a total of over 10,500 participations in professional training events/refresher courses.

Investment for the period, net of costs for non- production, stands at more than Euro 532,000.

Training Programme	***Man Hours***
Professional training and specialised courses	35,600
Quality, Safety and Environment	5,500
Managerial training	8,300
Information Technology	22,500
Total	71,900

2.01.08 Information systems

In the first half of 2007, the operation of the IT systems has been in line with the Group's development plans, guaranteeing on-going support for the business activities. The importance of the above activity may be briefly explained by the volume of the main information handled, namely:

- more than 2 million customers handled;
- over 6 million bills issued;
- more than 1 million contacts handled through physical branches and the Call Centre.

In the same period, as regards the development of projects aimed at satisfying new business needs, implementing regulatory changes or maximising internal efficiency, the following are worth mentioning in order of importance:

- completing the rollout of the Group's customer management systems on the Modena territory;
- rollout of the Group's customer management systems on the Ferrara territory, migrating the data from the previous systems;
- commencing the development of systems to manage the new liberalised electricity market;
- development of a remote-reading system for electrical energy meters.
- development of a new bill printing system featuring higher flexibility and lower operating costs.

For the sake of completeness and importance it is worth mentioning a number of technological projects carried out to guarantee the Group the necessary processing and storing power and reliability, namely:

- increased processing performance by the central systems;
- rollout of centralised authentication, file serving and e-mail services on the territory;
- enhancement of the backup system by developing a second-level storage system.

2.01.09 Quality and Environment

Starting from 1 January 2007, the Hera Group's Quality, Safety and Environmental function has been integrated into the Head Office Personnel and Organisation Division.

In the first six months of the year, actions were taken to disseminate culture and increase awareness about quality, environment and safety issues, first of all through the launch of a Group training plan for 2007 and 2008, also with the intention of attaching value to the motivation and the sense of belonging by all involved staff; furthermore, training was guaranteed on technical subjects concerning certification activities currently under way.

The review of the company's system for managing procedures commenced in collaboration with the Organisation function. Moreover, all specific procedures concerning the system for the management of quality, safety and environment are currently being updated.

Document verifications were implemented in May by the certification company Dnv for the purpose of obtaining the OHSAS 18001 standard certification (expected for the second half of 2008).

Furthermore, in June, Dnv started carrying out the verifications for the renewal of the 9001 quality certification and the first maintenance of the 14001 environmental certification, for both Hera Spa and all the Territorial Operative Companies. This process will end in the second half of 2007.

An important specific goal was achieved by the Hera Ferrara Territorial company which extended its field of application for the Emas registration to the integrated water service, obtaining from the certification company the validation of the environmental declaration which will be examined by the Ecoaudit interministerial committee so that all company's activities be recorded in the Emas register. On the basis of this result, in the second half of the year, a plan of activities and related time schedules will be drawn up in order to extend this additional certification to the entire Group.

2.01.10 Relevant Events After the End of the Period

Aspes Multiservizi Spa

On 4 July 2007 Hera Spa acquired from the public no. 7,695 shares of Aspes Multiservizi Spa, equal to 0.07% of the share capital, bringing its stake to 49.86%.

Refinancing of SET Spa

In July, SET Spa's current loan was refinanced in July; SET Spa owns the 400 MW power plant based in Reverola (CE) in which Hera Spa holds a 39% stake. The new loan, made available by Dexia Crediop Spa, Banca Opi Spa and Kommunal Credit Austria AG, amounts to Euro 180 million, compared to the previous one of Euro 125 million, and was subscribed at improved conditions from the point of view of both economic terms and guarantees granted by the shareholders. The decision to proceed with the refinancing was determined by the Company's changed operating conditions, given that the works for the construction of the plant were completed last December 2006 and production started successfully in the first half of 2007.

Merger by incorporation of Sat Spa in Hera Spa

On 20 July 2007 Hera Spa and Sat Spa's public shareholders subscribed the Framework Agreement aimed at finalising the absorption of Sat Spa by Hera Spa.

Subsequently, on 23 July 2007, the administrative bodies of Hera Spa and Sat Spa approved the related Merger Project.

The transaction will be completed by the end of 2007 and will become effective from 1 January 2008.

2.02 INTERIM SUMMARY OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.02.01 Interim Income Statement as at 30 June 2007

	Notes	30-June-07 € /000	30-June-06 € /000
Income statement			
Revenues	4	1,344,871	1,178,959
Change in stock of finished goods and work in progress		-73	3,894
Other operating revenues	5	20,029	15,100
Use of raw materials and consumables (net of change in stock of raw materials and stocks)	6	-739,981	-616,636
Services costs	7	-338,389	-282,919
Personnel costs	8	-150,613	-142,176
Amortisation/depreciation and provisions		-96,942	-87,765
Other operating costs	9	-27,146	-16,147
Capitalised costs	10	101,998	69,861
EBIT		113,754	122,171
Share of profit of subsidiaries	11	1,339	1,148
Financial income	12	9,595	17,290
Financial charges	12	-47,092	-41,275
Pre-tax profit		77,596	99,334
Taxes for the period	13	-33,600	-39,889
Profit for the period from discontinued operations			
Net profit for the year		43,996	59,445
Attributable to:			
Shareholders of Parent Company		37,375	55,218
Minority shareholders		6,621	4,227
Earnings per share	13.1		
base		0.037	0.055
diluted		0.037	0.055

2.02.02 Interim Balance Sheet as at 30 June 2007

	Notes	30-June-2007	31-Dec-2006
		€ /000	€ /000
ASSETS			
Non-current assets			
Tangible fixed assets	14	2,222,739	2,120,445
Intangible fixed assets	15	229,304	231,248
Goodwill and consolidation differences	16	397,560	398,927
Equity investments	17	130,178	123,543
Financial assets	18	28,131	19,474
Deferred tax assets	19	47,907	47,778
Financial instruments - derivatives	20	23,927	7,877
		3,079,746	2,949,292
Current assets			
Inventories	21	44,481	44,590
Trade receivables	22	970,651	1,000,322
Long-term contracts	23	23,707	23,593
Financial assets	24	9,552	17,462
Financial instruments - derivatives	20	5,199	4,587
Other current assets	25	117,668	107,051
Cash and cash equivalents	26	140,009	213,629
		1,311,267	
TOTAL ASSETS		4,391,013	4,360,526

cont.d

	Notes	30-June-07 € /000	31-Dec-2006 € /000
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves	27		
Share capital		1,016,752	1,016,752
- Reserve for own shares at par value		-423	-115
Reserves		379,229	368,982
- Reserve for own shares value exceeding par value		-928	-237
Reserves for derivative instruments valued at fair value		6,844	648
Profit (loss) for the period		37,375	90,105
Group shareholders' equity		1,438,849	1,476,135
Minority interest share		38,573	40,208
Total shareholders' equity		1,477,422	1,516,343
Non-current liabilities			
Loans - maturing beyond the next year	28	1,176,517	937,243
Employee leaving indemnity and other benefits	29	105,485	113,050
Provisions for risks and charges	30	161,786	152,551
Deferred tax liabilities	31	146,221	134,624
Payables for financial leases maturing beyond the next year	32	13,407	31,004
Financial instruments - derivatives	20	6,511	7,838
			0
		1,609,927	1,376,310
Current liabilities			
Banks and other borrowings - maturing within the next year	28	319,294	443,846
Payables for financial leases maturing beyond the next year	32	8,716	9,485
Trade payables	33	650,892	746,482
Tax liabilities	34	117,625	86,362
Other current liabilities	35	201,447	174,831
Financial instruments - derivatives	20	5,690	6,867
		1,303,664	1,467,873
Total liabilities		2,913,591	2,844,183
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,391,013	4,360,526

2.03 Consolidated explanatory notes to the financial statements of the Hera Group

Introduction

Hera SpA (the Company) is a joint-stock company established in Italy and enrolled in the Bologna Companies' Register. The addresses of the registered offices and the locations where the main activities of the Group are carried out are indicated in the introduction to the Financial Statement Dossier. The main activities of the Company and its subsidiaries (the Group) are described in the report on operations.

The Hera Group has drawn up the consolidated financial statements in compliance with the current regulations in force, applying the IAS/IFRS international standards starting from 31 December 2005. Starting from 1 January 2005, the Hera Group adopted the new International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board IASB, the updates to the pre-existing standards (IAS), as well as the documents of the International Financial Reporting Interpretations Committee (IFRIC) deemed applicable to the operations carried out by the Group starting from financial year 2005.

These financial statements are comprised of the Income Statement, Balance Sheet, Cash Flow Statement, Changes in Shareholders' Equity and Explanatory Notes to the Accounts (hereinafter, also Explanatory Notes).

Sufficient obligatory information to present a true and fair view of the group's financial and equity position and of the income for the period has been provided.

Information on the company's operations and on significant events after period end is provided in the Directors' Report.

When comparing the balance sheet balances as at 30 June 2007 and as at 31 December 2006, as well as the income statements relating to the first six months of 2007 and 2006, it is necessary to take into account the changes in the scope of consolidation listed in the statement at the end of these Explanatory Notes; note the contribution from the Aspes Group, which was fully consolidated as from 31 December 2006.

In the consolidated Income Statement as at 30 June 2006 "costs for use of third party assets" have been reclassified from item "Other operating costs" to item "Service costs".

Income Statement	30-Jun-2007	30-Jun-2006 reclassified	Change
Service costs	240,676.00	282,919.00	- 42,243.00
Other operating costs	58,390.00	16,147.00	42,243.00
	299,066.00	299,066.00	-

The formats used for the Income Statement provide for costs to be classified according to their nature, as this is deemed to best represent corporate results. Sub-totals have been included to highlight the intermediate aggregates (operating revenues) used also in the reports on the balance sheet data provided to third parties. The Balance Sheet is presented with distinction between current and non-current assets and liabilities. The Cash Flow Statement has been drawn up using the indirect method.

This Interim Summary of the Consolidated Financial Statements as at 30 June 2007 was approved by the Board of Directors on 12 September 2007.

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.

Scope of consolidation

The consolidated financial statements as at 30 June 2007, hereinafter "Interim Summary of the Financial Statements", include the financial statements of the Parent Company, Hera S.p.A., 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, as well as subsidiary companies where the voting rights are subject to serious and long term restrictions are excluded from the scope of line-by-line consolidation, and valued at cost.

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 period, is illustrated at the end of these notes.

Accounting policies and consolidation principles

The Interim Summary of the Financial Statements as at 30 June 2007 is composed of Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Shareholders' Equity and Explanatory Notes, and were drafted according to the IFRS principles issued by IASB and adopted by the European Union.

The Financial Statements and the relevant Explanatory Notes have been drafted according to IAS 34 "Interim Financial Reporting"; it is noted that, as provided for by IAS 34, these interim statements provide detailed rather than summary tables in order to provide a better and clearer view of the economic, equity and financial positions. The explanatory notes were drafted in summary format, integrated where necessary in order to provide relevant data on events occurring in the half year.

The interim summary financial statements as at 30 June 2007 must be read in conjunction with the annual financial statements as at 31 December 2006.

In drafting the interim summary financial statements as at 30 June 2007, the same formats, principles and criteria used in drafting the annual statements as at 31 December 2006 were applied.

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 restate them according to IAS/IFRS.

When drawing up the consolidated balance sheet and income statement schedules, the assets and liabilities as well as the income and expenses of the consolidated companies are included on a line-by-line basis. However, the receivables and payables, income and expenses, gains and losses resulting from operations carried out between companies included in the scope of consolidation have been eliminated. The book value of the equity investments is eliminated against the corresponding portion of the subsidiary's shareholders' equity.

The difference between the book value of the equity investments and the corresponding portion of shareholders' equity is recorded in the consolidated shareholders' equity. In the case of acquisitions, the above-mentioned difference is allocated to the assets and liabilities. Any remaining difference, if negative, is recorded under the consolidation reserve item in relation to purchases made prior to 31 March 2004, (or, if it is the result of expected unfavourable economic results, in the account "consolidation provision for future risks and charges"); if it is positive, the difference is recorded as an asset under "consolidation differences". The total of capital and reserves of subsidiaries pertaining to minority interests is recorded within shareholders' equity in the account "minority interests in capital and reserves". The portion of the consolidated result relating to minority interests is recorded in the account "Net profit (loss) for the period pertaining to minority interests".

The dividends recorded among financial income of the consolidated companies are eliminated during the process of consolidation of the various companies, against the retained earnings reserves under shareholders' equity. The dividends resolved by companies valued at cost are maintained under financial income.

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 give to the economic substance of the transactions rather than their legal form.

The adopted criteria and principles are indicated 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, notarial fees, land registry expenses). Cost includes any professional fees and, for certain assets, capitalized 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 fair value as deemed cost method 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	1.5	3
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	10
General plant	7.5	15
Equipment	5	10
Office furniture and machines	6	12
EDP machines	10	20
Vehicles and internal means of transport	10	20
Automobiles	12.5	25
Measurement and laboratory equipment	5	10
Remote control equipment	10	20
- remote control apparatus (RTU)	5	10
- supervision centres	4.16	8.33
- data transmission network (telephone cable)	2.5	5
- data transmission network (fibre optics)	3.33	6.67
Public lighting	4	8
- type 1 centre	2	4
- type 2 centre	1.25	2.5
- lighting unit (multiple points)	1.25	2.5
- lighting unit (single points/columns)	2	4
- flux controllers	1.25	2.5
- distribution network	1.43	2.86
- votive lighting	1.66	3.33
Electrical substations	3.5	7

Purification service	min %	Max %
Land	0	0
Buildings/Civil works	1.5	3
Buildings IDAR construction section	1.5	3
General and specific plant	7.5	15
Specific IDAR plant	5	10
Specific ITFI plant	5	10
Specific plant	5	10
- Purification plant/Civil works	1.66	3.33
- Purification plant/installations	3.33	6.67
Lifting plant	6	12
Laboratory equipment	5	10
Network	2.5	5
Electricity substations	3.5	7
Equipment	5	10
Furniture	6	12

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
Electrical 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		
- Electrical substations	2,00	4,00
- Generators	2,75	4,55
- Pumps	3,33	6,67
- Electrical 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-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
Electrical 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-combust. furn.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

Land is not depreciated. The 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 period. 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 provided for, 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.

Own shares In application of IAS 32 and 39, own 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 amortized 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.

Long-term contracts – When the result of a contract can be reliably estimated, long-term contracts 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 period 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 on the basis of the date of transaction 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 exceed 10% of the highest value among the obligations referring to defined-benefit plans (so-called 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 will probably 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.

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,
- costs are stated in accordance with the accruals principle.

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

Income taxes – The corporate income taxes have been calculated on the basis of an average tax rate for the period. Deferred and prepaid taxes generated following the application of the international accounting standards are effectively calculated from time to time.

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 period 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.

Earnings per share – The earnings per share are represented by the net profit for the period attributable to the shareholders holding ordinary shares, taking into account the weighted average of the ordinary shares in circulation during the period. The diluted earnings per share are obtained by means of the adjustment of the weighted average of the shares in circulation, taking into account all the potential ordinary shares with dilution effect.

New IFRS and IFRIC interpretations

Over the last 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 company 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

In drawing up the interim summary of the consolidated financial statements and related notes it has been necessary for 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 period 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.

The Group carries out an impairment test on goodwill at least once a year. This test is based on the calculation of its value in use, which requires the use of estimates.

Employee leaving indemnity

The estimate of the employee leaving indemnity as of 30 June 2007 considers the amendments introduced by Law no. 296 of 27 December 2006 (Finance Bill) and following decrees and regulations issued during the first months of 2007, as well as on the basis of the directions provided by OIC, ABI and the National Council of Actuaries. Specifically, a restatement of the employee leaving indemnity has been carried out as of 31 December 2006 with the adoption of the new methods, i.e. assuming that for all the Group's companies with more than 50 employees the amounts accrued as from 1 January 2007 are "defined contribution benefits" and therefore not calculated in the estimate. Then a calculation was made of the income statement figure representing the impact of the reform on the estimate as of 31 December 2006 (*curtailment*), as the difference between the employee leaving indemnity as of 31 December 2006 before and after the reform. The estimate of the employee leaving indemnity as of 30 June 2007 was made with the help of an actuary who issued a relevant report.

Allocations to provisions for risks.

These provisions have been made by adopting the same procedures as previous periods 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. Specifically, in the paragraph relating to provisions for risks the assumptions used to estimate the provision for risks in the INPS (Social Security) dispute are specified.

4. Revenues

The revenues for the first half-year 2007 amounted to Euro 1,364,827 thousand. The breakdown is presented below.

	30-June-2007	30-June-2006	Change
Revenues from sales and services	1,344,871	1,178,959	165,912
Change in stock of work in progress, semi-finished and finished products	-73	3,894	-3,967
Other income and revenues	20,029	15,100	4,929
Total	**1,364,827**	**1,197,953**	**166,874**

The analysis of the sales performance by business sector is presented in the report on operations.

5 Other operating revenues

Other operating revenues amounts to Euro 20,029 thousand. The breakdown is presented below.

	30-June-2007	30-June-2006	Change
Insurance reimbursements	1,166	905	261
Sale of materials and stock to third parties	426	267	159
Portion of capital grants	1,325	1,215	110
Portion of operating grants and from separated waste collection	4,294	5,444	-1,150
Rents	805	918	-113
Use of provisions	1,327	957	370
Ordinary capital gains	256	122	134
Costs reimbursed	894	541	353
Others	9,536	4,731	4,805
Total	**20,029**	**15,100**	**4,929**

The item "Portion of operating grants and from separated waste collection" decreased with respect to the previous period by Euro 1,150 thousand, mainly due to the finalisation by the Parent Company of the new Anci Conai 2004-2008 agreement, which led to the stipulation of agreements between Hera SpA and the Conai Production Chain Consortiums (Cial, Cna, Comieco, Corepla, Rilegno) in relation to separated waste collection and recovery of energy; the impact of the agreement could be seen as early as the first six months of 2006.

The change in the item “Use of provisions” is due mainly to the transfer to the income statement of the surplus registered in the landfill post-closure provision, in the amount of Euro 134 thousand, as well as to other provisions for a total amount of Euro 208 thousand.

The increase in the item "Others" mainly refers to revenues generated by the management of meteoric water (Euro 1,254 thousand), by energy efficiency bonds (white certificates for Euro 1,157 thousand and grey certificates, a change of Euro 181 thousand), and finally revenues generated by surety enforcement for about Euro 517 thousand.

The revenues described above include recurring income with the exception of gains from the transfer of assets.

6 **Use of raw materials and consumables** (net of changes in inventories of raw materials and stock)

The breakdown is as follows.

	30-June-2007	30-June-2006	Change
Methane ready for sale and LPG net of inventory changes	363,887	417,421	-53,534
Income and charges from derivatives	-4,095	-6,260	2,165
Fuel for heat generation	1,161	1,550	-389
Electricity ready for sale	317,835	139,720	178,115
Water	9,975	14,312	-4,337
Maintenance materials: handling and spare parts net of change in stock	27,569	23,489	4,080
Electricity	7,678	9,130	-1,452
Fuels and lubricants	5,294	5,530	-236
Methane for industrial use	2,230	1,520	710
Water for industrial use	266	297	-31
Chemical products	5,337	5,650	-313
Consumables and sundry materials	2,844	4,277	-1,433
Total	**739,981**	**616,636**	**123,345**

With respect to the previous period, the impact of derivative contracts on the purchasing costs of raw materials is shown separately. The mentioned reclassification is shown below.

	30-June-2006	30-June-2006 reclassified
Methane ready for sale and LPG net of inventory changes	411,161	417,421
Income and charges from derivatives		-6,260
Total	**411,161**	**411,161**

The analysis of the trend in costs for raw materials and consumables is presented in the report on operations.

7 Service costs

The breakdown is as follows.

	30-June-2007	30-June-2006	Change
Domestic usage (water, methane, heat and energy services	949	2,497	-1,548
Work and maintenance	108,475	88,150	20,325
Energy transport and storage	58,367	37,520	20,847
Insurance	5,763	5,876	-113
Cleaning and security	2,512	2,333	179
Waste transportation, disposal and collection	58,264	50,697	7,567
Announcements, advertising and disputes	3,976	3,471	505
Transport	892	722	170
Technical, organization, legal and tax assistance consultancy	18,183	15,949	2,234
Remuneration of Directors and Statutory Auditors	2,624	2,558	66
Meter reading	1,545	2,227	-682
Postal and telephone costs	1,796	1,703	93
Recruitment, training and other staff costs	4,765	4,323	442
Laboratory analyses	1,269	959	310
Bank fees and charges	2,769	2,351	418
Fees paid to local authorities	30,579	31,238	-659
Rents and leases payable	9,865	8,504	1,361
Fees payable	3,023	2,502	521
Other	22,773	19,339	3,434
Total	**338,389**	**282,919**	**55,470**

The changes in the main operating costs with respect to the previous period are commented upon in the Directors' report on operations.

The income statement figures for the first six months of 2006 were subject to reclassification with regard to costs for rents and leases from item “Other operating costs” to item “Service costs”, as shown in the following table:

Income statement	**30-June-2006**	**30-June-2006 reclassified**	**Change**
Service costs	240,676.00	282,919.00	- 42,243.00
Other operating costs	58,390.00	16,147.00	42,243.00
	299,066.00	299,066.00	-

The reclassified amount is composed of the items "Fees paid to local authorities" and "Rents and leases payable". The latter item has been further broken down as follows:

	30-June-2006	**30-June-2006 reclassified**
Rents and leases payable	11,006	8,504
Fees payable		2,502
Total	**11,006**	**11,006**

8 Personnel costs

The breakdown of personnel costs in the two accounting periods is as follows.

	30-June-2007	30-June-2006	Change
Wages and salaries	109,836	99,601	10,235
Social security contributions	35,796	33,763	2,033
Employee leaving indemnities	-4,700	4,813	-9,513
Other costs	9,681	3,999	5,682
Total	**150,613**	**142,176**	**8,437**

The average number of employees in the periods in question, analysed by category, is as follows:

	30-June-2007	30-June-2006	Change
Executives	110	99	11
Managers	275	253	22
White-collar workers	2,687	2,502	185
Blue-collar workers	3,183	3,076	107
Workforce numbers (average)	**6,255**	**5,930**	**325**

Overall the average pro-capita cost of labour for the first six months of 2007 came to Euro 24 thousand, in line with the previous half-year.

As at 30 June 2007 the actual number of employees totalled 6,224. The increase with respect to the previous period amounts to 296, and is mainly due to consolidation of the Aspes Group.

9 Other operating costs

The breakdown of other operating costs is as follows.

	30-June-2007	30-June-2006	Change
State property rents	1,846	2,237	-391
Taxation other than income taxes	9,520	1,882	7,638
Membership fees and other contributions	1,013	813	200
Special landfill levy	7,474	6,502	972
Losses on the sale of assets	78	239	-161
Losses on receivables not covered by the allowance		238	-238
Other minor charges	7,215	4,235	2,980
Total	**27,146**	**16,147**	**11,000**

The item “Taxation other than income taxes” increased with respect to the previous period, mainly due to consolidation of the Aspes Group for Euro 7,609 thousand.

The significant increase in item “Other minor charges” is mainly due to rents payables for telecommunication services that were recorded in the previous period under another cost item for Euro 2,814 thousand.

The costs described above include recurring income with the exception of losses from the transfer of assets.

10 Capitalised costs

This item is analysed as follows.

	30-June-2007	30-June-2006	Change
Increases for internally-constructed fixed assets	101,998	69,861	32,137
Total	**101,998**	**69,861**	**32,137**

This item reflects the matching balance of investments made directly by the area operating companies. For the related analysis, reference should be made to the notes to the Balance Sheet assets (tangible and intangible fixed assets).

11 Portion of profit (loss) pertaining to investee companies

	30-June-2007	30-June-2006	Change
Profits pertaining to investee companies	1,463	1,793	-330
Losses pertaining to investee companies	-124	-645	521
Total	**1,339**	**1,148**	**191**

“Income from associated companies” includes the effects generated by the valuation using the equity method (in particular by acknowledging on a pro-quota basis the income and losses reported by the respective associated companies). “Other quotas of profit/loss” include profits and losses generated from the disposal and/or liquidation of investee companies.

12. Financial income and charges

	30-June-2007	30-June-2006	Change
Bank interest income	2,020	2,106	-86
Interest income on other short-term receivables	63	135	-72
Interest charged to customers	217	395	-178
Financial income generated by derivatives on commodities	2,572	9,734	-7,162
Financial income generated by derivatives on rates	3,728	2,033	1,695
Other financial income	995	2,887	-1,892
Total financial income	**9,595**	**17,290**	**-7,697**

	30-June-2007	30-June-2006	Change
Interest expense on bank current account overdrafts	6,097	4,271	1,826
Interest expense charged by banks for medium/long-term loans	15,748	10,891	4,857
Financial charges generated by derivatives on commodities	1,670	8,874	-7,204
Financial charges generated by derivatives on rates	3,548	841	2,707
Financial charges as a result of IAS 19	2,221	1,362	859
Financial charges generated by the application of "other international accounting standards"	5,998	4,582	1,416
Other	11,810	10,454	1,356
Total financial charges	**47,092**	**41,275**	**5,817**

The change in the balance of financial operations is wholly described in the Directors' Report.

As regards derivatives on commodities, changes of approximately equal amount have been registered with respect to the first half-year of 2006, with relation both to income and charges.

As far as interest rate derivatives are concerned, income is substantially in line with charges; charges resulting from the application of "other accounting standards" are in line with the previous periods and include charges resulting from financial leasing and charges for the period resulting from the discounting back of the “Provision for the restoration of third party assets” and of the “Provision for landfill post-closure”.

13 Income taxes

This item is analysed as follows.

	30-June-2007	30-June-2006	Change
Current, deferred and prepaid taxes	33,600	39,889	-6,289
Total	**33,600**	**39,889**	**-6,289**

The total percentage of income taxes for the period on the pre-tax result came to 43.3%.

In accordance with Law Decree no. 10 of 15 February 2007, subsequently turned into Law no. 46 of 6 April 2007 and governing the terms for reimbursement of government aid declared illegitimate by the Ruling of the European Commission No. 2003/193 dated 5 June 2002, Hera Spa received communication of the notices/orders issued by the Inland Revenue office responsible for the area, which demanded the payment of a total amount of Euro 22,312,964 for the four tax period involved in the recovery.
On 31 May 2007 the Company submitted an appeal against these notices/orders to the Bologna Province Tax Commission, thereby asking for a suspension of the enforcement of the payment order. On 6 July 2007 the Bologna Province Tax Commission issued the orders whereby the Company's request for suspension was accepted and the hearing regarding the issue was arranged to be held in December.

Shareholders are also informed that, in accordance with the matters established by the agreements between the shareholders at the time of the corporate merger which led to the formation of HERA, as contained in the Stockmarket listing Information Prospectus, "the Local Authorities pledged to compensate Hera for any costs, losses or damages suffered by the same in relation to compulsory legislative rulings which revoke the tax concessions which the Company and the companies taking part in the merger have availed of". Consequently, Hera SpA did not provide for any additional provision against charges in the accounts. In accordance with the above, the associate Municipalities established adequate guarantees for the Company by granting advance payments of any amounts that Hera would have to pay if the appeal for the cancellation of the notices/orders happened to fail.

As regards the former Meta, on 11 May 2007 the Inland Revenue office of Modena communicated to Hera Spa the notices/orders for the recovery of government aid relating to the tax periods 1998 and 1999, pursuant to and by effect of Decree Law no. 10 of 15 February 2007. On 6 June 2007 the Company submitted a self-defence petition for the amendment of such notices/orders. On 11 June 2007 the Inland Revenue office of Modena issued partial self-defence measures relating to the communicated notices/orders and requesting the Company, as a way of settling the issue, the payment of a minimal amount resulting, inter alia, from the failure to acknowledge withholding taxes suffered.

13.1 Earnings per share

Earnings per share (Euro thousands)	**1st Half of 2007**	**1st Half of 2006**
Group profits (losses) for the period (A)	37,375	55,218
Weighted average number of shares in circulation for the purposes of calculating earnings (losses) per share:		
- basic (B)	1,016,393,216	1,016,337,179
- basic (C)	1,016,393,216	1,016,337,179
Earnings (losses) per share (Euro)		
- basic (A/B)	0.037	0.055
- basic (A/C)	0.037	0.055

The basic "earnings per share" are calculated on the economic result attributable to holders of ordinary shares of the parent company. The diluted "earnings per share" are equal to the base earnings in that no share categories exist other than ordinary shares and there are no instruments convertible to shares. The weighted average number of shares in circulation in the first half-year of 2007, with respect to the previous period, did not change significantly as a result of minor purchases and sales.

14 Tangible fixed assets

Tangible fixed assets are stated net of the related accumulated depreciation and present the following breakdown and changes during the period:

€ /000		Land and buildings	Plant and machinery	Other moveable assets	Work in progress	Total tangible fixed assets
Purchase cost						
Balance as at	31/12/2006	313,576	1,883,003	277,905	305,011	2,779,495
Increases		1,631	10,050	6,669	152,068	170,418
Disposals		-4	-744	-3,545	-958	-5,251
Change in the scope of consolidation		0	0	-41	0	-41
Other changes		4,764	46,225	-134	-58,468	-7,613
Balance as at	30/06/2007	319,967	1,938,534	280,854	397,653	2,937,008
Accumulated depreciation						
Balance as at	31/12/2006	47,326	449,589	162,135	0	659,050
Depreciation for the year		3,266	47,543	12,031	0	62,840
Disposals		0	-686	-3,207	0	-3,893
Change in the scope of consolidation		0	0	-4	0	-4
Other changes		-243	-2,898	-583	0	-3,724
Balance as at	30/06/2007	50,349	493,548	170,372	-	714,269
Net value						
Balance as at	31/12/2006	266,250	1,433,414	115,770	305,011	2,120,445
Balance as at	30/06/2007	269,618	1,444,986	110,482	397,653	2,222,739

For an analysis of investments in the period, reference should be made to details given in the Management Report.

15 Intangible fixed assets

Intangible assets comprise:

€ /000		Patents and know-how	Concessions, licenses, trademarks and similar rights	Other	Work in progress and prepayments	Total intangible fixed assets
Purchase cost						
Balance as at	31/12/2006	94,786	236,191	37,473	28,677	397,127
Increases		2,001	31	450	9,268	11,750
Disposals		-16	0	-4	0	- 20
Change in the scope of consolidation		-18	0	0	0	- 18
Other changes		4,156	-1,879	8,704	-4,193	6,788
Balance as at	30/06/2007	100,909	234,343	46,623	33,752	415,627
Accumulated amortisation						
Balance as at	31/12/2006	45,450	101,593	18,836	0	165,879
Amortisation for the year		8,772	7,194	2,199	0	18,165
Disposals		-11	0	0	0	- 11
Change in the scope of consolidation		-7	0	0	0	- 7
Other changes		-73	-694	3,064	0	2,297
Balance as at	30/06/2007	54,131	108,093	24,099	-	186,323
Net value						
Balance as at	31/12/2006	49,336	134,598	18,637	28,677	231,248
Balance as at	30/06/2007	46,778	126,250	22,524	33,752	229,304

Patents and know-how, totalling Euro 46,778 thousand as at 30 June 2007, mainly relate to costs sustained for the purchase and implementation of the SAP r3 and SAP/ISU IT systems. Such costs are amortised over a period of five years.

Concessions, licences, trademarks and similar rights, totalling Euro 126,250 thousand as at 30 June 2007 (down by Euro 8,348 thousand when compared with 31 December) mainly comprise the value of the concessions belonging to the Parent Company relating to the gas, water and purification plants. The decrease is mainly due to the changeover from concession to ownership for the assets relating to the purification services in the municipalities of Argelato. Castel D'Aiano and Ozzano Emilia, as envisaged by the related contracts on reaching the expiry dates of said concessions.

Other intangible fixed assets totalling Euro 22,524 thousand as at 30 June 2007 relate to improvement costs for third party assets, map-making costs, Territorial Information System (SIT) and other capitalisable costs.

Assets in process of formation, amounting to Euro 33,752 thousand as at 30 June 2007 essentially include the costs incurred for IT projects not yet completed. The increase compared to the previous period is related to the further implementation of the sap r/3 and sap/isu IT system.

16 Goodwill and consolidation differences

	30-Jun-2007	31-Dec-2006	Change
Goodwill	261,447	261,078	369
Consolidation differences	136,113	137,849	-1,736
Total	**397,560**	**398,927**	**-1,367**

As at 30 June 2007, goodwill and consolidation differences totalled Euro 397,560 thousand. Detailed below are the main values:

- residual goodwill from the 2002 integration resulting in the creation of Hera SpA of Euro 86,516 thousand;
- goodwill from the integration of Agea SpA in 2004 of Euro 41,658 thousand. This goodwill represents the excess purchase cost over and above the fair value of assets and liabilities recognised for the group. In particular, with regard to the fair value of Hera SpA shares issued following the increase in capital from the merger by absorption of Agea, in accordance with IFRS 3 the share value was calculated as the effective date of control takeover of Agea SpA;
- goodwill and consolidation difference relating to the META Group merger by absorption of Euro 118,064 thousand. This goodwill, recorded as an asset and initially valued at cost, represents the additional value of the purchase cost with respect to the Group portion in the current values of the assets and liabilities recorded. In particular, with regard to the fair value of Hera SpA shares issued following the increase in capital from the merger by absorption of META SpA, this value was calculated as of the end of 2005, essentially accepted as the effective date of control takeover of META SpA;

  goodwill relating to the merger of Geat Distribuzione Gas SpA into Hera SpA. This transaction was effective as of 1 January 2006, calculated as the effective date of control takeover by Hera SpA. This goodwill of Euro 11,670 thousand represents the excess purchase cost over and above the fair value of assets and liabilities recognised for the group.

The main consolidation differences derive from:

- Aspes Multiservizi SpA, Euro 24,758 thousand;
- Hera Rete Modena Srl, Euro 84,122 thousand;
- Asa SpA, Euro 2,789 thousand;
- Hera Luce Srl, Euro 2,328 thousand;
- Medea SpA, Euro 3,069 thousand;
- Nuova Geovis SpA, Euro 1,775 thousand;

As regards Hera Rete Modena Srl, it is noted that valuations are currently underway for the possible allocation of this difference. As envisaged by IFRS 3, as from 2004 goodwill is no longer subject to amortisation, and instead an impairment test is carried out on the corresponding value at period end.

17 Equity investments

The breakdown is presented below.

Equity investments	30-Jun-2007	31-Dec-2006	Change
Subsidiaries			
Sbi Srl	0	51	-51
Consorzio Frullo	3	3	0
Consorzio Energia Servizi	5	5	0
Calor Più Italia Scrl	7	6	1
Calor Più Modena Scrl	7	7	0
Attivabologna Srl in liquidation	1,435	0	1,435
Viviservizi Srl in liquidation	325	0	325
Seas Srl in liquidation	2	0	2
	1,784	**72**	**1,712**
Associated companies			
Acantho Spa	5,928	5,898	30
Agea reti Srl	7,774	7,759	15
Attivabologna Srl in liquidation	0	1,777	-1,777
Dyna Green Srl	151	156	-5
FlamEnergy Trading Gmbh	1,063	263	800
Modena Network Spa	758	724	34
Refri Srl	1,716	1,655	61
SGR Servizi Spa	9,993	5,687	4,306
SAT SpA	34,880	35,803	-923
SET Spa	30,433	30,087	346
Other	488	503	-15
Total	**93,184**	**90,312**	**2,872**
Other companies			
Energia Italiana Spa	24,695	24,695	0
Galsi	1,539	639	900
Ambiente Mare	300	300	0
Calenia	7,635	6,505	1,130
Other companies	1,041	1,020	21
Total	**35,210**	**33,159**	**2,051**
Total equity investments	**130,178**	**123,543**	**6,635**

Equity investments in non-consolidated subsidiary companies

Illustrated below are the changes with respect to 31 December 2006:

Sbi Srl, in liquidation from 24 January 2005, was wound up on 23 March 2007.

Attivabologna Srl, in liquidation from 19 July 2005 and already valued at cost as of 31 December 2006, is valued at cost in these financial statements.

Viviservizi Srl, in liquidation from 28 March 2007 and fully consolidated as of 31 December 2006, is valued at cost in these financial statements.

Seas Srl, in liquidation from 4 July 2006 and fully consolidated as of 31 December 2006, is valued at cost in these financial statements.

Investments in associates

Illustrated below are the main changes with respect to 31 December 2006:

Sgr Servizi Spa. On 1 January 2007 the company increased share capital and Hera Comm Srl subscribed its own quota (29.61%), vesting the whole interest held in Gas Riccione Srl.

Set Spa. During 2007 the Group paid in further Euro 741 thousand towards future share capital increases.

Equity investments in other companies

A further sum was paid in for the future increase in share capital of the investee company Calenia Energia Spa (Euro 1,130 thousand), to complete the construction project of a combined cycle power plant in the district of Sparanise.

On 31 March 2007 Galsi Spa increased share capital (from Euro 838 thousand to Euro 10,838 thousand); Hera Trading Srl subscribed and paid its own quota (Euro 900 thousand).

18 Financial assets

Financial assets break down as follows:

Financial assets	30-June-2007	31-Dec-2006	Change
Amounts receivable for loans to associated companies	23,697	19,239	4,458
Amounts receivable for mortgage loans to be collected	4,413	215	4,198
Fixed-income securities	21	20	1
Total	**28,131**	**19,474**	**8,657**

As at the end of the period the amounts receivable for loans to associated companies was composed of the interest-bearing loan issued to Set SpA. This receivable increased by Euro 4,458 thousand with respect to the previous period.

The amounts receivable for mortgage loans to be collected, i.e. Euro 4,413 thousand, relate to the subsidiary company Gala Spa for Euro 4,180 thousand and registered an increase with respect to 31 December 2006 owing to a reclassification of the same amount from item "Current financial assets".

19 Deferred tax assets

Deferred tax assets are made up as follows:

Financial assets	30-June-2007	31-Dec-2006	Change
Receivables on deferred tax assets	38,452	36,767	1,685
Receivables on IAS/IFRS deferred tax assets	9,455	11,011	-1,556
Total	**47,907**	**47,778**	**129**

As at 30 June 2007 deferred tax assets total Euro 47,907 thousand (Euro 47,778 thousand as at 31 December 2006). Receivables on deferred tax assets are generated from the temporary differences between the balance sheet profit and the taxable amount, mainly relating to the taxed provision for bad debts, to the write-down of investments, amortisation of goodwill and taxed provisions for risks and charges. Receivables on IAS/IFRS deferred tax assets are shown separately.

20. Financial instruments – derivatives

Transaction type	Underlying hedge	No. contracts	Nominal	Fair Value (€/000)		
				Positive	*Negative*	*Net*
A) Hedging derivatives on commodities						
- Swaps on energy price	Price of electricity	1	543,120 Mwh	3,460	0	3,460
- Fuel formula swaps	Fuel formula	2	84,000,000 m3	294	0	294
- Swaps on energy price	Price of electricity	1	248,738 Mwh	1,398	0	1,398
B) Hedging derivatives on rates						
- Interest rate Swaps	Mortgages	21	661 mln	18,775		18,775
- Interest rate Swaps	Mortgages	15	303 mln		(6,511)	(6,511)
TOTAL				**23,927**	**(6,511)**	**17,416**

The derivative financial instruments classified under non-current assets amounted to Euro 23,927 thousand with an increase of Euro 16,050 thousand with respect to 31 December 2006; these refer to derivatives on commodities for Euro 5,152 thousand and to interest rate derivatives for Euro 18,775 thousand. As at 31 December 2006, the derivative financial instruments amounted to Euro 7,877 thousand and included Euro 7,803 thousand for interest rate derivatives and Euro 74 thousand for derivatives on commodities.

The derivative financial instruments classified under non-current liabilities amounted to Euro 6,511 thousand with a decrease of Euro 1,327 thousand with respect to the previous period; these refer fully to interest rate derivatives.
As at 31 December 2006 the derivative financial instruments classified under non-current liabilities amounted to Euro 7,838 thousand and include Euro 5,978 thousand for derivatives on rates and Euro 1,860 thousand for derivatives on commodities.

In its entirety, the Hera Group is exposed to risk pertaining to interest rates, energy product prices and the related exchange rate; the exposure to liquidity risk is more or less inexistent. In particular, as far as rate risks are concerned, the Hera Group is exposed to the risk that a possible rise in the interest rates may generate greater financial charges against medium/long-term lending sources at floating rates. Therefore, with the aim of mitigating this risk, over the last few accounting periods the Group has stipulated a number of derivative instruments against part of its financial liabilities. Specifically, 7 interest rate swap agreements were stipulated for a notional amount as of the period end date totalling Euro 399.9 million against variable rate mortgage loans for the same amount. The value of these agreements is positive for a total of Euro 12.2 million.

With a view to restructuring the derivatives portfolio, the Hera Group has also entered into additional interest-rate derivative contracts, also in structured form, for a residual notional amount of Euro 564.1 million, the net value of which is positive by Euro 13 thousand as at period end date.

All the hedging relationships between the afore-mentioned derivative contracts and the related underlying liabilities qualify as "Cash Flow Hedges"; a specific positive equity reserve totalling Euro 6.8 million has been provided. It is noted that the fair value used as the basis for the valuations derives from market prices; in the absence of market prices, valuation models are used which take as reference the interest rate curve.

As regards risks on the prices of energy products and the relative exchange rate, the aim is to mitigate the risk of volatility in the forecast budget margins. Therefore, a number of derivative contracts were stipulated so as to briefly align the index-linking formulas of the sales (supply) prices to the index-linking formulas of the supply (sale) prices, in the event of supplies (sales) at index-linked prices; in fixed prices, in the event that said sales (purchases) are supplied (sold) at a fixed price.

The agreements in question are represented by 3 Swap agreements on the price of electric power, crude oil and gas-oil whose value is positive for Euro 3.8 million.

Trading derivatives - current financial assets

These total Euro 5,199 thousand and increased by Euro 612 thousand with respect to the closing of the previous period. The amounts refer to the positive fair values deriving from valuation of the trading derivative contracts existing as at the date in question.

The main characteristics of these assets, by category, are summarised in the following table.

Type	Underlying	No. contracts	Measurement unit	Quantity	Fair value (€/000)
SWAP	Price of electricity	73	Mwh	690,025	3,805
SWAP	Fuel formula	3	Mwh	238,499	1,030
SWAP	Crude oil	2	Barrel	12,500	60
SWAP	Refined fuels	6	Ton	11,763	304
					5,199

Trading derivatives - current financial liabilities

These total Euro 5,690 thousand and decreased by Euro 1,177 thousand with respect to the closing of the previous period. The amounts refer to the negative fair values deriving from valuation of the trading derivative contracts existing as at the date in question.

The main characteristics of these assets, by category, are summarised in the following table.

Type	Underlying	No. contracts	Measurement unit	Quantity	Fair value (€/000)
SWAP	Price of electricity	449	Mwh	543,168	3,895
SWAP	Fuel formula	7	Mwh	470,755	1,241
Option	Fuel formula	2	MW	60	347
SWAP	Crude oil	1	Barrel	2,847	16
SWAP	Refined fuels	5	Ton	28,000	191
					5,690

The fair value of the contracts stated was calculated on the basis of market prices with regard to the swaps and on internal valuation models with regard to the options.

All Group derivatives contracts have been stipulated with institutional counterparts without credit risk.

21. Inventories

Inventories are made up as follows:

Inventories	30-June-07	31-Dec-06	Change
Raw materials and stock	44,010	43,528	482
Work in progress and semi-finished products	253	368	-115
Finished products	198	674	-476
Advance payments	20	20	0
Total	**44,481**	**44,590**	**-109**

The inventories as at 30 June 2007 are recorded net of the provision of obsolete goods and total Euro 1,113 thousand (Euro 1,155 thousand as at 31 December 2006). Inventories of raw materials and consumables are mainly composed of spares and equipment destined primarily for maintenance and operation of existing systems, plus methane stocks held, for a total Euro 22,772 thousand, an increase of Euro 708 thousand with respect to 31 December 2006.

22. Trade receivables

Trade receivables	'30-June-07	31-Dec-06	Change
Trade receivables	549,173	581,390	-32,217
Trade receivables on invoices to be issued	147,353	111,521	35,832
Trade receivables on unmeasured consumption	247,585	284,803	-37,218
Receivables from associated companies	26,540	22,608	3,932
Total	**970,651**	**1,000,322**	**-29,671**

Trade receivables as at 30 June 2007 total Euro 970,651 thousand (Euro 1,000,322 thousand as at 31 December 2006) and include estimated total due this period in relation to bills and invoices to be issued after 30 June 2007. The recorded values are net of the provision for bad debts of Euro 29,421 thousand (Euro 26,738 thousand as at 31 December 2006), which is considered congruent and prudent in relation to the break-up value of the receivables. The changes occurred in the provision during the half-year are shown below.

Allowance for doubtful receivables	31-Dec-06	Provisions	Uses	Change in scope of consolidation	30-June-07
Allowance for doubtful receivables	26,738	6,340	-3,588	-69	29,421
Total	**26,738**	**6,340**	**-3,588**	**-69**	**29,421**

The recording of the allowance is made on the basis of analytical valuations in relation to specific receivables, supplemented by valuations based on historic analysis for the receivables regarding the general body of the customers (in relation to the aging of the receivables, the type of recovery action undertaken and the status of the creditor). The decrease in trade receivables compared with the previous period is mainly attributable to the seasonal reasons.

23. Long-term contracts

Long-term contracts are made up as follows:

	30-June-07	31-Dec-2006	Change
Long-term contracts	23,707	23,593	114
Total	**23,707**	**23,593**	**114**

As at 30 June 2007 long-term contracts feature a balance of Euro 23,707 thousand (as at 31 December 2006 the balance totalled Euro 23,593 thousand).

24. Financial assets

Financial assets break down as follows:

Financial assets	30-June-07	31-Dec-06	Change
Receivables for mortgage loans to be collected	402	4,648	-4,246
Portfolio securities and financing policies	6,059	5,721	338
Receivables from associated companies	0	2,464	-2,464
Amounts receivable for loans to others	3,091	4,629	-1,538
Total	**9,552**	**17,462**	**-7,910**

The main differences compared to the previous period are set forth below.

Receivables for mortgage loans to be collected have decreased by Euro 4,180 thousand with respect to 31 December 2006, following a reclassification of Gala Spa's receivables into "Non-current financial assets".

The decrease in receivables from associated companies by Euro 2,464 thousand is due to the collection of dividends from Energia Italiana S.p.A.

Detailed below are the loans granted to others:

- Other municipal areas, Euro 1,159 thousand
- Oikothen, Euro 1,804 thousand
- Other minor loans totalling Euro 128 thousand.

Loans granted to Municipalities and other creditors have decreased by Euro 1,538 thousand with respect to 31 December 2006. In particular, the following loans have been repaid:

Municipality of Coriano, Euro 1,016 thousand;
Municipality of Cattolica, Euro 683 thousand;
Italy S.p.A., Euro 277 thousand.

Furthermore, the subsidiary company Ares' loan to Oikothen company increased by Euro 461 thousand.

25. Other current assets

Other current assets comprise:

Other current assets	30-June-07	31-Dec-06	Change
Guarantee deposits	16,648	16,548	100
Indirect tax (VAT and consumption)	6,974	20,523	-13,549
Ires and Irap receivables	23,545	9,306	14,239
Withholdings on interest	603	52	551
Sundry amounts due from tax authorities	1,766	929	837
Grants	6,348	6,891	-543
Advances paid to suppliers/employees	7,294	7,264	30
Receivables due from social security institutions	484	787	-303
Insurance reimbursements	86	17	69
Other receivables	53,920	44,734	9,186
Total	117,668	107,051	10,617

The item “Guarantee deposits” comprises Euro 12,000 thousand as guarantee deposit in favour of Acosea Impianti S.r.l., Euro 1.950 thousand as guarantee deposit in favour of U.T.F. and other guarantee deposits in favour of various public authorities and companies.

Indirect tax of Euro 6,974 thousand is composed mainly of advance payments for excise and additional payments for electricity to regional tax authorities. The decrease with respect to 31 December 2006, equal to Euro 13,549 thousand, is mainly attributable to implementation of the invoicing process, which allowed the recovery of the existing receivables as at 31 December 2006.

The item “Ires and Irap receivables", equal to Euro 23,545 thousand is mainly composed of advance payments made by the companies in excess of the overall debt. The significant increase of receivables is to be accounted for together with the increase of debt.

The item “Sundry amounts due from tax authorities”, totalling Euro 1,766 thousand, is composed mainly of tax receivables relating to district heating and investments in deprived areas under the terms of Italian Law 388/200 .

The item “Grants”, totalling Euro 6,348 thousand, is composed mainly of non-refundable grants obtained from other authorities.

The item "Other receivables", amounting to Euro 53,920 thousand is composed of the following types of receivables:

·Assets companies, Euro 1,733 thousand,

·anticipated costs mainly for substitute taxes, Euro 11,343 thousand,

·14th month salaries, Euro 7,299 thousand,

·CCSE (Electricity Equalisation Fund) contributions, Euro 11,186 thousand,

·anticipated raw materials costs, Euro 1,103 thousand,

·gas release rights, Euro 429 thousand,

·TAG rights, Euro 1,369 thousand,

·Ami Consortium, 1,529 thousand,

·Acosea Impianti, Euro 2,628 thousand,

·interest income receivables, Euro 407 thousand,

·CCPE (Electricity Standardisation Fund) receivables, Euro 2,270 thousand,

·receivables for white certificates, Euro 2,457 thousand,

·other minor receivables, totalling Euro 9,357 thousand.

The increase with respect to 31 December 2006 is mainly attributable to the recording of the credit position for 14th month salaries and to the major receivables from CCSE (Electricity Equalisation Fund).

26. Cash and cash equivalents

As at 30 June 2007, cash and cash equivalents amounted to Euro 140,009 thousand (Euro 213,629 thousand as at 31 December 31 2006) and included cash, cash equivalents, cheques (bank and bankers' drafts) existing in the central fund and the decentralized funds amounting to Euro 149 thousand; they also include deposits with banks and lending institutions available for current transactions and post office current accounts for a total of Euro 139,860 thousand. The decrease with respect to the previous period is due to a rationalisation of the financial management.

27. Share capital and reserves

<u>Share capital</u>

As at 30 June 2007 share capital was Euro 1,016,752,029, fully paid-up and represented by 1,016,752,029 ordinary shares with a par value of 1 Euro each.

<u>Reserves for own shares</u>

The item Reserve for own shares includes the "reserve for own shares at par value" with a negative value equal to Euro 423 thousand and the "reserve for own shares exceeding par value" with a negative value equal to Euro 928 thousand. These reserves, established in observance of the reference accounting standards, reflect own shares held in portfolio as at 30 June 2007. The change during the period generated gains amounting to Euro 65 thousand, attributed directly to shareholders' equity reserves.

Reserves

The item Reserves equal to Euro 379,229 thousand includes the following reserves:

"legal", Euro 14,123 thousand
"extraordinary", Euro 13,593 thousand
"revaluation", Euro 2,885 thousand
"share premium reserve" for Euro 12,577 thousand
"capital account payments" for Euro 5,400 thousand
“retained earnings” for Euro 50,680 thousand,
"share swap surplus" for Euro 42,407 thousand
“IFRS3 reserve” for Euro 149,466 thousand;
"reserve for gains on sale of own shares" for Euro 477 thousand
“Ias/Ifrs reserve” for Euro 71,743 thousand;
“non available reserve Art.6 par. 2” for Euro 15,850 thousand
“reserves for dividends received for own shares”, Euro 28 thousand.

Cash Flow-Hedge Reserve

As at 30 June 2007 this reserve totalled Euro 6,844 thousand following movements confirmed by fair value assessment of the hedges.

The **Statement of changes in shareholders’ equity** is shown in paragraph 2.04 of these consolidated financial statements.

The reconciliation between the net profit and shareholders' equity of the parent company financial statements and the consolidated financial statements is set forth below.

RECONCILIATION BETWEEN THE STATUTORY FINANCIAL STATEMENTS OF THE PARENT COMPANY AND THE CONSOLIDATED FINANCIAL STATEMENTS

	NET RESULT	SHAREHOLDERS' EQUITY
BALANCES AS PER THE PARENT COMPANY'S FINANCIAL STATEMENTS	70,518	1,419,196
Elimination of the effects of transactions between consolidated companies net of tax effects:		
- Reversal of write-downs to equity investments in subsidiaries	0	0
Effect of the change and standardisation of the accounting policies within the Group, net of tax effects:		
- Dividends recorded	(71,639)	
- Valuation at equity of companies carried at cost in statutory financial statements	1,456	441
Book value of consolidated equity investments		(362,815)
Shareholders' equity and net profit for the year of consolidated companies	37,346	273,222
Allocation of differences to assets of consolidated companies and related amortisation/depreciation:		
- Goodwill on consolidation		120,868
- Other adjustments	(306)	(12,063)
TOTAL	37,375	1,438,849
Allocation of portion pertaining to minority interests	6,621	38,573
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS	43,996	1,477,422

28. Banks and medium/long and short-term loans

As at 30 June 2007, medium/long term loans totalled Euro 1,176,517 thousand (Euro 937,243 thousand as at 31 December 2006), and mainly relate to mortgages and loans of Euro 578,846 thousand and bond issues of Euro 597,671 thousand described later in these notes.

Medium/long term payables to banks also include loans obtained by subsidiary FEA Srl for a total Euro 75,012 thousand. These loans are guaranteed by mortgages and special liens in favour of the pool of banks which subscribed the project financing without recourse. Repayment of this loan, expiring on 31 December 2017, is established under contract in half-yearly floating rate instalments indexed to the 6m Euribor rate.

A list of the main mortgages existing as at 30 June 2007 is provided below, expressed in thousands of euro:

Lender	Residual balance 30/06/2007	Portion due in FY 2007	Portion due within 5 years	Portion due beyond 5 years
UNICREDIT BANCA	40,152,000.00	4,704,000.00	26,152,000.00	9,296,000.00
BANCA INTESA	8,496,543.72	995,410.98	5,534,011.04	1,967,121.70
BANCA ANTONVENETA	8,496,543.72	995,410.98	5,534,011.04	1,967,121.70
BANCA OPI	8,496,543.72	995,410.98	5,534,011.04	1,967,121.70
BAYERISCHE	8,496,543.72	995,410.98	5,534,011.04	1,967,121.70
BANCA POPOLARE DI MILANO	6,165,825.15	722,356.08	4,015,955.85	1,427,513.22
ACTELIOS	4,116,000.00		4,116,000.00	
CARIFE	47,360.13	47,360.13		
BANCA OPI	8,312,500.00	593,750.00	4,750,000.00	2,968,750.00
EFIBANCA	**14,263,310.42**	1,032,913.78	6,231,655.19	6,998,741.45
BANCA DI ROMAGNA	1,386,102.00	639,997.00	746,105.00	
CASSA DI RISPARMIO DI CESENA	**890,526.63**	74,802.47	334,167.06	481,557.10
BANCO DI SARDEGNA	**9,317,942.16**	748,190.13	2,750,110.78	5,819,641.25
CARIFE	191,622.08	100,725.69	90,896.39	-
CASSA DEPOSITI E PRESTITI	**630,910.14**	383,533.14	119,886.00	127,491.00
BANCA OPI	**1,736,842.00**	105,263.00	421,053.00	1,210,526.00
UNICREDIT BANCA	1,378,672.00	680,603.00	698,069.00	-
CARIM S.P.A.	**4,590,560.00**	352,496.00	1,549,921.00	2,688,143.00
B.CR. COOPERATIVO	**565,579.00**	78,519.00	342,733.00	144,327.00
BANCA DELLE MARCHE	36,879.40	25,691.40	11,188.00	
CARIFANO	1,236,425.00	150,940.00	654,788.00	430,697.00
BANCA NAZ. LAVORO	15,000,000.00	2,250,000.00	6,000,000.00	6,750,000.00
BANCA DELLE MARCHE	783,240.54	89,196.17	694,044.37	-
BANCA INTESA	83,317,199.86	10,822,679.87	68,631,326.81	3,863,193.18
BANCA NAZ. LAVORO	129,114.17	129,114.17	-	-
BANCA OPI	59,072,396.95	6,756,784.34	41,026,739.82	11,288,872.79
BANCA POP. RAVENNA	213,227.90	40,889.33	172,338.57	-
BANCO DI SICILIA	230,724.81	113,600.57	117,124.24	-
BEI	180,000,000.00	-	-	180,000,000.00
CARISBO	5,842,014.29	392,535.30	3,581,462.03	1,868,016.96
CASSA DEPOSITI E PRESTITI	27,225,362.78	1,856,734.63	12,866,940.47	12,501,687.68
CASSA RISP. DI CENTO	841,055.51	202,813.67	638,241.84	-
CASSA DI RISPARMIO DI CESENA	2,581,674.03	117,416.21	1,039,261.68	1,424,996.14
CASSA RISP. DI RAVENNA	1,934,796.36	44,376.41	396,589.46	1,493,830.49
CREDIOP	50,305,624.04	3,877,052.61	28,571,428.56	17,857,142.87
FON SPA	4,857,826.92	272,954.76	2,432,756.95	2,152,115.21
INTERBANCA	271,447.35	271,447.35	0.00	-
ISTITUTO S. PAOLO	2,036,144.42	129,023.82	1,907,120.60	-
MEDIOCREDITO	52,500,000.00	7,500,000.00	45,000,000.00	-
MONTE DEI PASCHI SIENA	10,008,366.19	1,045,072.12	8,963,294.07	-
UNICREDIT BANCA	5,804,827.97	2,779,643.93	2,877,432.95	147,751.09
TOTAL	**631,960,275.06**	**53,114,120.00**	**300,036,674.85**	**278,809,480.21**

On 16 February 2006, parent company Hera S.p.A. issued a Euro 500 million 10-year Eurobond repayable in full on maturity. The loan is regulated by 4.125% fixed rate annual warrants.

On 17 May 2007 the Parent Company Hera Spa issued another bond, defined "put bond", totalling Euro 100 million and fully subscribed by Deutsche Bank AG London. The bond is regulated for the first three years by a 3m Euribor rate reduced by 29 base points. If the bondholder does not exercise the put option at the end of the third year, the bond will be regulated for further ten years basing on a 4.593% fixed rate, increased by the credit spread attributable to Hera. In this case Hera will have the opportunity to exercise a call option on the whole issue in the remaining period. If, on the other hand, the put option is exercised at the end of the third year, the bond will be repaid at par.

As at 30 June 2007, the group has no debit positions calling for the application of financial “covenants”. The contract governing the bond issue of a nominal value of Euro 500 million, on the other hand, contains a “negative pledge” clause in line with international market practices.

As at 30 June 2007, short term loans totalled Euro 319,294 thousand (Euro 443,846 thousand as at 31 December 2006) and include payables to banks and other lenders.

29. Provision for employee leaving indemnities and other similar benefits

This item represents the provisions made in favour of staff for the leaving indemnity due in accordance with the law, net of the advances paid out to employees, calculated considering the overall credit which the employees will accrue as of the date they will presumably leave the company, using actuarial techniques and quantifying on an accruals basis the future liability portion discounted back to the balance sheet date.

In accordance with Italian statutory legislation, the employee leaving indemnity is reflected in the financial statements in accordance with a calculation method based on the indemnity accrued by each employee as of the balance sheet date, in the event that all the employees terminate their employment contract as of that date.
IAS 19 by contrast anticipates the adoption of a method by means of which the sum total of the liability for the benefits acquired must reflect the date of expected resignation and must be discounted back.

As previously specified in paragraph "Significant estimates and valuations", the estimate of the employee leaving indemnity as of 30 June considers the amendments introduced by Law no. 296 of 27 December 2006 (Finance Bill) and following decrees and regulations issued during the first months of 2007, as well as on the basis of the directions provided by OIC, ABI and the National Council of Actuaries.

Following this, the curtailment value (Euro +16,816 thousand) had a positive impact on the income statement for the half-year, net of actuarial differences accrued during previous periods (actuarial gain/losses) in accordance with the corridor method), (Euro -11,538 thousand), for a final net amount of Euro 5,278 thousand.

The item "gas discount" represents annual indemnities provided to Federgasacqua employees, hired prior to January 1980, which may be transferred to their heirs. Premungas is a supplementary pension fund for employee members of Federgasacqua hired prior to January 1980. This fund was closed from January 1997, and its quarterly movements regard settlement of payments made to assigned retirees. For both cases, recalculations have been made, using the same actuarial techniques applied for employee leaving indemnities.

€/000	31-Dec-06	Curtailment-act.gain/losses	Service costs	Financial charges	Use and other movements	30-June-07
Employee leaving indemnity	107,478	- 5,278	129	2,056	- 4,253	100,132
Premumgas Fund	1,824		48	57	- 362	1,567
Gas discount	3,748		4	47	- 13	3,786
Total	**113,050**	**- 5,278**	**181**	**2,160**	**- 4,628**	**105,485**

The main assumptions used in the actuarial estimate of the employee benefits are as follows:

Discounting back rate, average	4.90%
Cost of labour increase rate, average	1.54%

30 . Provisions for risks and charges

The composition and analysis of the changes in provisions for risks and charges is as follows:

€ /000	31-Dec-06	Provisions	Use and other movements	Change in the scope of consolidation	30-June-07
Pensions and similar commitments	36	0	0	0	36
Staff disputes and legal costs	12,376	744	-1,072	0	12,048
Landfill closure and post-closure costs	65,520	4,009	-2,210	0	67,319
Restoration of third party assets	49,328	7,725	365	0	57,418
Other provisions:					
Risks and charges	21,805	1,800	-2,180	-19	21,406
Tariff reductions	3,486	75	-2	0	3,559
Total	152,551	14,353	-5,099	-19	161,786

The provision for staff disputes and legal costs amounting to Euro 12,048 thousand, reflects the assessments of the outcome of lawsuits and disputes brought by employees.

The provisions also include Euro 6,206 thousand relating to the dispute pending with INPS with regard to the demand for payment of contributions on involuntary unemployment, on social security benefits (CIG, CIGS, mobility), on sick-leave for blue-collar workers and on the reduction of contribution rates for family allowances (CUAF) and for the maternity contribution with regard to employees governed by the electricity sector collective labour agreement in the Modena area.

As far as involuntary unemployment is concerned, the Group believes that it is not obliged to pay this contribution by virtue of specific contractual clauses which, limiting the power to withdraw of the employer, in fact ensures the stability of the employment relationship with the employees. Requests for exemption have been presented for each Group company in relation to this contribution. In each case where the Ministry has passed sentence rejecting the request, the reject Decree has been contested.

Specifically, in 2005 in the Ferrara Employment Tribunal issued a favourable judgment exonerating Agea from paying the contribution for involuntary unemployment. In December 2006 the Ravenna Employment Tribunal upheld two petitions against INPS inspection reports and declared the contribution for involuntary unemployment, among others, to be not due. In August 2006 the Employment Ministry issued a decree confirming exoneration from the unemployment contribution for Enel SpA and all Enel Group companies. Considering that the Hera Group's situation and above all the corporate evolution that led to its incorporation appear very similar to that of Enel SpA, Confservizi has undertaken to apply to the Ministry in order to obtain exoneration from the unemployment contribution even for the companies of the Confservizi world.

In relation to the contributions on CIG, CIGS and Mobility, the exclusion is supported not only by specific legal norms but by the fundamental consideration that the social security benefits are effectively unusable since the Hera Group runs essential services which must be constantly ensured. By contrast, INPS believes that the transformation into a joint-stock company and the transfer to private parties of even just a portion of the share capital, support the belief that the contributory obligation is enforceable. The Group's theory was upheld in 2004 by means of the sentence of the Genoa court, but subsequently amended under appeal in November 2005. An appeal is currently pending before the Supreme Court. In December 2006 the Ravenna Employment Tribunal, in the aforementioned judgment, declared that the contributions on CIG, CIGS and Mobility were also not due, contrary to INPS's claims.

With regard to the contributions for blue-collar workers' sick leave, these are considered not due in that, by express contractual clause, the Group assumes responsibility for the entire sick pay liability. This is in accordance with a norm of the corporative period applied without controversy for 60 years. In 2003, a sentence of the Supreme Court however stated the existence of the contributory obligation to the charge of the employer even if the welfare institute is not obliged to provide sickness benefits, referring to a general solidarity principle. Following this change in case law policy, the Hera Group considered it appropriate to pay the sickness contribution as from January 1, 2005, holding out however in the pending dispute relating to previous years. The Bologna Employment Tribunal, with order dated 17 January 2007, combined five lawsuits relating to as many payment requests which also included the sickness contribution and deferred to the Constitutional Court the question of the legitimacy of an old provision (Law 138/1943) with regard to the part in which it establishes that the contributions for sickness

insurance must be fully paid even by companies who by law or pursuant to collective contract are required to pay sickness benefit directly to employees.
Deferral to the Constitutional Court means that even the judgments on the part that does not concern sickness contributions will also suspended until the final judgment has been delivered, which will probably not occur for a few years.

With regard to the reduction in the rates for family allowance contributions (CUAF) and maternity contributions relating to the staff governed by the electricity sector collective agreement, the dispute (arising from incorporation of Meta SpA) concerns interpretation of Article 41 of Law 488/1999 (Finance Bill 2000). The problem was resolved with the Insurance Position Management Office of the Modena social security department, who confirmed that the claim had been correct at the time of its presentation. Consequently, as from 2001, the former Meta spa applied the reduction to the rates at the same time as the request for reimbursement of the additional contributions paid over, which were not due, relating to 2000, (reimbursement which was then made between 2001 and 2002). As from November 2003, INPS served the notices by means of which it requested the payments of the contributions at the full rate, completely amending the interpretative position previously adopted, deeming that the harmonization of the rates owed by the electricity sector was not applicable for the workers enrolled with INPDAP. The company involved the "Federenergia" industrial association in the problem, which submitted the matter to the Employment Ministry. The decision to be adopted is still pending.

Considering the information reported above, as well as the approval expressed by the Council of State upon the request of the Ministry for Employment and Social Policies concerning application of part of the afore-mentioned legislation to Enel SpA (opinion issued on 8 February 2006), prudential allocation was made to the provision set forth in the table above, which takes into account the files which have already been paid, and any liabilities deriving from the suspended files currently received, amounting to approximately Euro 16,00 million. This fund is deemed to be suitable, taking into account both the likely development of the litigation, as well as the opinions of the appointed legal advisors.

The **landfill closure and post-closure costs provision**, amounting to Euro 67,319 thousand, represents the amount set aside by the Group to cover the costs which will have to be incurred for the management of the closure and post-closure period pertaining to the landfills currently in use. The future outlays, calculated for each landfill by means of a specific appraisal, have been discounted back in compliance with the provisions of IAS 37. The increases in the provision comprise the financial component inferred from the discounting back procedure, while the uses represent the effective outlays which came about during the period.

The **provision for the restoration of third party assets**, equal to Euro 57,418 thousand, includes the provisions made in relation to the legal and contractual restrictions encumbering the Group in its capacity as leaseholder of the distribution networks owned by the asset companies. These provisions have been made on the basis of the normal depreciation rates envisaged for the assets in question; rates established contractually for the purpose of compensating the lessor companies for the wear and tear of the assets used for the business activities, applied to the value of the assets received under lease.

In observance of the matters laid down by IAS 37, the provision reflects the current value of these outlays which will be determined in future periods (as a rule on expiry of the agreements entered into with the area agencies, as far as the water service is concerned, and on expiry of the transitory period anticipated by current legislation as far as gas distribution is concerned). The increases in the provision comprise the sum total of the provisions for the period, including those discounted back, and the financial charges which reflect the element deriving from the discounting back of the flows on an accruals basis.

The **provision for risk and charges** under item "Other provisions", amounting to Euro 21,406 thousand carries allocations made against various types of risks.

Specifically:

- a "provision for self-certification of electricity tariffs" amounting to Euro 3,798 thousand deriving from estimates of "surplus" revenues pertaining to the half-year, calculated in compliance with the provisions of Resolution no. 204/99 and thereafter of the Authority for Electricity and Gas.
- a "provision for provisional plans (piani stralcio)" amounting to Euro 7,689 thousand, set up to finance investments in sewerage and purification in the water service;
- "provision for plant safety maintenance" amounting to Euro 691 thousand and related to the old waste-to-energy plant of subsidiary FEA S.r.L.

The overall amount, moreover, comprises provisions set up for waste storage, a provision for costs for restoration of freely transferable assets of the Rosola water system under concession and other minor provisions for different kinds of risks.

The **tariff reduction provision**, totalling Euro 3,559 thousand, has been provided to cover the charges deriving from the acknowledgement to retired staff of tariff concessions for electricity consumption.

Aside form those considered in these notes, the Group is not involved in other disputes which may generate possible and/or probable liabilities.

31 . Deferred tax liabilities

Deferred tax liabilities are made up as follows:

Deferred tax liabilities	30-June-07	31-Dec-06	Change
Deferred tax liabilities	45,676	44,726	950
IAS/IFRS deferred tax liabilities	100,545	89,898	10,647
Total	**146,221**	**134,624**	**11,597**

Deferred tax liabilities are generated by the temporary differences between the balance sheet profit and taxable income, mainly capital allowance exceeding statutory depreciation and capital gains instalments, etc. Deferred tax liabilities emerging following the application of IAS/IFRS are stated separately.

32. Financial leases payable

As at 30 June 2007 deferred tax assets total Euro 22,123 thousand (Euro 40,489 thousand as at 31 December 2006).

Financial leases payable during and beyond the next period	30-June-07	31-Dec-2006	Change
Payables for financial leases	22,123	40,489	-18,366
Total	**22,123**	**40,489**	**-18,366**

This item represents the booking of payables as a result of lease accounting under the financial method. The decrease with respect to the previous period is due to payments made during 2007 and amounting to Euro 14,322 thousand, to the extinction of the leasing contract of the subsidiary company Ecologia Ambiente S.r.L. following the direct purchase of plants. Following is the balance as at 30 June 2007, with the relevant breakdown into short-term and long-term portion.

	Residual balance	Current portion	Non-current portion
Payables for financial leases	22,123	8,716	13,407
Total	**22,123**	**8,716**	**13,407**

33. Trade payables

The item “Trade payables” is made up as follows:

Trade payables	327,480	375,022	-47,542
Trade payables for invoices due	291,501	338,665	-47,164
Advance payments received	5,541	3,734	1,807
Trade payables to non-consolidated subsidiaries	5,325	6,813	-1,488
Trade payables to associated companies	21,045	22,248	-1,203
Total	**650,892**	**746,482**	**-95,590**

Trade payables, all of a commercial nature and included in sums provisioned to cover invoices due, total Euro 618,981 thousand as at 30 June 2007 with respect to Euro 713,687 thousand as at 31 December 2006. The decrease by Euro 94,706 thousand is for the most part due to seasonal fluctuations in the purchase price of basic raw materials.

Payables to non-consolidated subsidiaries are composed mainly as follows:

- Calorpiù Italia Scarl, Euro 2,581 thousand,
- Attivabologna S.r.L., Euro 1,679 thousand;
- Viviservizi S.r.L., Euro 788 thousand;

Payables to associated companies, again of a commercial nature, comprise the following companies:

- Acantho, Euro 10,162 thousand
- Flam Energy, Euro 346 thousand
- Set, Euro 9,606 thousand
- Estense Global Service, Euro 565 thousand
- Service Imola, Euro 326 thousand.

The decrease with respect to 31 December 2006 is mainly due to the decrease of the debit positions with Set, Estense Global Service and Flam Energy, totalling Euro 3,761 thousand, as well as to the increase of the debit with Acantho by Euro 3,135 thousand.

34. Tax liabilities

As at 30 June 2007 tax liabilities total Euro 117,625 thousand (Euro 86,362 thousand as at 31 December 2006) and are composed as follows:

Tax liabilities	30-June-07	31-Dec-06	Change
Income tax payables (IRES, IRAP)	37,637	8,576	29,061
Tax on consumption and regional surtax	37,779	47,009	-9,230
Payables due for employee withholdings	7,651	6,222	1,429
VAT payables	24,828	13,507	11,321
Substitute tax	5	16	-11
Sewerage charges	4,609	4,606	3
Other tax liabilities	5,116	6,426	-1,310
Total	**117,625**	**86,362**	**31,263**

Income tax payables as at 30 June 2007, amounting to Euro 37,637 thousand, significantly increased with respect to 31 December 2006 following an increase in Irap and Ires taxes payable within the Hera Group.

Payables on consumption and state taxes for gas and electricity totalled Euro 33,331 thousand as at 30 June 2007, a considerable decrease with respect to the previous period.

VAT payables amount to Euro 24,828 thousand as at 30 June 2007 and reflect the Group's VAT position. The increase in this item with respect to 31 December 2006 is due to VAT payables pertaining to the second half-year of 2007 and related to gas invoicing by the subsidiary company Hera Comm S.r.l.

The item "Other tax liabilities", amounting to Euro 5,116 thousand as at 30 June 2007, is mainly composed of the payable for ecotax.

35. Other current liabilities

As at 30 June 2007 deferred tax assets total Euro 201,447 thousand (Euro 174,831 thousand as at 31 December 2006). A breakdown and a comparison with the previous period follow:

Other current liabilities	30-June-07	31-Dec-06	Change
Due to social security authorities: INPS	6,117	2,884	3,233
Due to social security authorities: INPDAP	6,279	6,057	222
Due to social security authorities: INAIL	-34	99	-133
Other authorities	6,776	5,645	1,131
Payables due to employees	23,174	19,333	3,841
Payables due to Directors and Statutory Auditors	297	356	-59
Guarantee deposits	50,053	50,622	-569
Customer deposits	932	562	370
Other	107,853	89,273	18,580
Total	**201,447**	**174,831**	**26,616**

Payables to Inps and other social security institutes have increased by Euro 4,364 thousand with respect to 31 December 2006, mainly because of the application of new regulations regarding supplementary pension funds, as provided by the Financial Bill for 2007. With this regard, see note 29 about "Employee leaving indemnity".

Payables to employees amounting to Euro 23,174 thousand as at 30 June 2007 relate to holidays accrued and not taken and productivity bonuses.

Payables for guarantee deposits to customers, amounting to Euro 50,053 thousand as at 30 June 2007, relate to guarantee deposits from clients for gas, electricity and water supply contracts.

The item Other payables amount to Euro 107,853 thousand as at 30 June 2007 and is mainly composed of debit positions with:

- Municipalities for "environmental inconvenience" and sureties
- the CCSE (Electricity Equalisation Fund)
- non-refundable grants relating to works not yet completed.

The increase by Euro 18,580 thousand with respect to 31 December 2006 comprises Euro 31 16,367 thousand resulting from the stipulation of guarantees by some associate Municipalities in favour of the Parent Company. These sureties include the disbursement of advance payments and cover the amounts that Hera Spa would have to pay if the appeal for the cancellation of the notices/orders relating to the tax moratorium failed. For further details, see Note 13.

TRANSACTIONS WITH RELATED PARTIES

Management of the services

Hera Spa is a company that was awarded the concession of local public services of an economic nature (distribution of natural gas via local pipelines, integrated water supply service and environmental service, including scavenging, collection, transportation and organization of waste treatment and disposal) in large part of the relevant areas and in almost all related Municipal party areas (provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini). The electricity distribution service is provided in the Imola district and in the municipal district of Modena, extended on 1 July 2006 following the acquisition of rights from the previous provider (Enel Distribuzione SpA) to the southern part of Modena province.

Other utilities (district heating systems, heat management, public lighting, cemetery services and public parkland management) are provided under market conditions, i.e. through specific agreements with local authorities in certain municipalities, mainly but not necessarily shareholders. Hera is responsible for waste treatment and disposal service via special agreements with local authorities, precluded from the regulation activities carried out by the optimum territorial efficiency agencies (AATO) instituted by Italian regional law no. 25/1999, although subject to monitoring by the regional public services regulatory authority (AUTORIDSU).

The regional and national specific law has appointed the AATOs to assign, control and regulate tariffs with regard to the management of integrated water service and urban hygiene service, which were previously carried out by the licensing municipalities that are represented at the shareholders' meetings of the related AATOs. In compliance with provisions of the said regional law and most significant national law (particularly art. 113 of the Consolidated Local Authority Act, as well as the segment regulations concerning the allocation of the services as sole agency), as from 2004 the Hera Group has signed special agreements with the AATOs, determining the implementation of technical planning and local tariffs.

The purpose of the agreements is a 1-year-long initial phase of implementation for the organisation of the service and a subsequent period governed by the Efficiency Plan – which is reviewed every three years – followed by the related tariff adjustment.

Energy sector

The duration of licenses for the distribution of natural gas via local pipelines, initially ten to thirty years from the original deeds of assignment signed with Municipal Authorities, has been reviewed under Italian Decree 164/2000 (the Letta Decree, in enactment of EC directive 98/30/CE) and subsequent reform of the energy markets (including the “Marzano law” concerning the reorganisation of the energy markets and the law for the conversion of the so-called “milleproroghe” extension decree dated December 2005). The residual duration of distribution agreements is not less than that foreseen in the HERA stock exchange listing.

The agreements relating to the distribution concessions concern the distribution of methane gas or other similar substances for heating, domestic uses, trades, industrial and for other general use. The tariffs for gas distribution applied to the users are collected by HERA and are fixed in accordance with the regulations in force and the periodic resolutions of the Authority for Electricity and Gas (resolution no. 170/2004 and subsequent amendments are applied upon approval of the Financial Statements to which this report is attached). The area on which HERA supplies the gas distribution service is divided into “tariff sections”, where a standardised distribution tariff is applied to the different classes of customer.

Certain agreements stipulated prior to the enactment of industry regulations (the “Letta” decree) involve the production and distribution of heat energy (“energy services”).

The contractual deeds discipline the relationship with the customer, the management of the service, the respective accessory obligations of the parties, the maintenance charges for the functioning of the distribution network and the penalties for the irregular provision of the service, which generally vary based on the type and severity of the infraction committed.

With regard to the electricity area, the contracts – with a duration of thirty years and renewable in compliance with current law – relate to the distribution of energy, including management of distribution networks and operation of related plants, ordinary and extraordinary maintenance, planning and identification of the development interventions. According to the sector authority, the concession may be suspended or revoked upon non compliance or violations attributable to the company assigned the concession, that harm in a serious manner the provision of the electricity distribution service.

The company awarded the concession is obliged to apply fixed tariffs to the users in accordance with regulations in force and deliberations adopted by the Authority for Electricity and Gas. The tariff regulation in force upon approval of the annual Financial Statements - to which this report is attached - is resolution no. 5/2004 of the Authority (integrated provisions for the distribution, sale, transport and metering of electricity). Every year, the operator submits to the Authority for its approval the rate options that it intends to apply to customers connected to the distribution grid during the subsequent calendar year. The rate options shall be in line with the expected revenues constraint, which is established in relation to the network and service characteristics.

Water sector

Hera manages the integrated water supply service under agreements with the AATOs of varying duration (not less than twenty years), for water system services, sewerage and waste treatment services or for a combination of these services.

The management of the water service includes the public services of collection, purifying, distribution and sale of drinking water for civil and industrial use; the sewerage and purification services include the management of the networks and sewage and purification plants.

In some cases, the Agreements provide for the planning and construction of new networks and plants to use in the management of the service.

The management of the service is awarded exclusively to HERA for the municipal territory involving the obligation of the Municipality not to grant to third parties usage of the subsoil of its property or state aqueducts without the prior consent of HERA.

The Agreements regulate, in addition, other aspects such as the methods of managing the services as well as reciprocal obligations between the parties relating to, principally, the charges for ordinary and extraordinary maintenance work on the networks and plants necessary for the functioning of the services. Technical and economic specifications are attached to the Agreements and govern the characteristics of the service, the compulsory quality and operating standards, as well as tariff aspects. The tariffs – which are established annually (according to long-term economic agreements) in line with law expectations and, in particular, the applicative regulations of the "Galli" law (the so-called normalised tariff method) shall be approved by the Optimal Territory Environment Agencies.

As from the last quarter of 2007, the economic sections of the agreements shall be reviewed, also taking into account the correct application of the Regional Council's President Decree no. 49 dated 13 March 2006, through which the Region approved the method to regulate and determine the tariff for the integrated water service in Emilia-Romagna. Moreover, the said decree establishes the enactment of the reviewed method as from the first periodic tariff review following 1 December 2007.

The assigning local authorities grant rights of use, even free of charge, to the management company for the integrated water service network and systems operations. In most cases involving areas managed by HERA, the local authorities have transferred ownership of the network and systems to special Asset Companies indicated in a later section of this document.

On termination of the agreement, HERA is obliged to return any assets used in provision of the service to the Asset Companies or local authorities. Any works carried out for the innovation or improvement of the networks must be returned, at the end of the concession against payment of the residual value of those assets.

HERA's dealings with customers are disciplined by sector regulations, as well as by the provisions of the regional legislator and of the Efficiency Agencies. Moreover, Service Charters will be adopted, through which the operators describe their obligations and the rights of users, as well as the commitments in terms of service and resource quality, taking into account the provisions that have been conventionally set out by the parties (Operator and Assigning Agency).

Waste management sector

The purpose of agreements signed by HERA with the Efficiency Agencies is the exclusive management of waste collection services, road cleaning and waste recovery and disposal.

The duration of the Agreements is fixed by the regional regulations as ten years. The conventions discipline the method for the functioning of the services, the amount payable to the operator for the services performed (equal to the tariff, where implemented, in accordance with Italian Presidential Decree No. 158/1999), the obligations of the parties and the cost of the rental concession for the use or occupation by the operator of roads and surrounding area for the performance of the service carried out.

For the use of the waste treatment plants, the HERA Group has stipulated specific conventions with the Municipalities where the plants are located.

Management of the networks, plants and equipment

The infrastructures necessary to carry out the related services, among which the local gas pipelines and the water and sewerage networks, are in part owned by HERA and in part owned by third parties (Municipalities, Consortium of Municipalities, Asset Companies owned by local authorities). The dealings between the service operator and the owners of the operating assets are disciplined by specific agreements signed by the parties, as well as by the regional law; the regulation of the economic elements is, in some cases, covered by rental agreements which fix the fee payable by the Operator to the owners for the use of the networks and plants.

Based on these contracts HERA must carry out, at its own expense, ordinary and extraordinary maintenance as well as the expansion of the networks, as provided for in the investment plan agreed with the Asset Companies and, where relevant, in the Area Plans drawn up by the Optimal Territory Environment Agencies.

Upon expiry of the contract, HERA will return the business division and, at the same time, pay the difference between the initial value of the assets on stipulation of the rental contract (value equal to that resulting from the net book values recorded in the Asset Companies at the date of the rental) and the value of the aforementioned assets on termination of the contract. This latter value will be calculated by deducting, from the initial value of the assets that constitute the business divisions, the depreciation incurred by the HERA Group on the rented assets up to the date of the return, and adding to these values the net investments (or rather the net book value of the investments made by HERA up to the date of the return).

Agreements for the use of infrastructures for the functioning of the services have been signed with Asset Companies, to which Municipalities (which generally hold a portion of HERA's capital) have assigned the property of the assets. In particular, there is a rental contract in force with the consortium CONAMI of Imola for use of the networks and assets necessary to carry out the distribution of gas and electricity, environmental services, water services and district heating services owned by them. With regard to the part concerning capital goods, the Asset Companies benefited from the spin-offs of business segments carried out at the same time as the merger and spin-off transactions of the former local public service concerns in favour of SEABO SpA. These transactions resulted in the creation of HERA SpA, to which – as a company that was awarded the concession of the services – the management business division was transferred.

With reference to CONAMI, the spin-off of business units with transfer of assets to the consortium (with full public capital) was carried out before the merger and spin-off date of the former local public service concerns into HERA.

With regard to the water cycle, the rental value is set by taking into account the value of the assets under the convention and of the rental contract, as well as the rate of return on net capital invested, as determined by the law and by the economic agreements signed by the operator within the framework of the Agreements with the Optimal Territory Environment Agencies. For all services, the Agreements and the related rental contracts of business units generally set the rental valid until 31 December 2006. The related contract values are being negotiated for the following years.

Transactions between HERA and Romagna Acque

The Municipalities of Ravenna, Forlì, Cesena and Rimini, shareholders of HERA, are the principal shareholders of Romagna Acque with whom the former local public service concerns operating in the above-mentioned Provinces (AMF, AMIR, AREA, SIS, TEAM and UNICA), which were subsequently absorbed into Hera, have agreed contracts for the procurement of water prior to the incorporation of the Group. Following the said spin-offs and mergers, HERA took over the above-mentioned procurement contracts.

During 2004, the shareholder Municipalities of Romagna Acque conferred to this company the ownership of the water sources, previously attributed to the relevant asset companies; at the same time Romagna Acque changed its name to “Romagna Acque - Società delle Fonti”. For the Ravenna, Forlì-Cesena and Rimini districts, therefore, Romagna Acque – società delle Fonti has sole ownership of the procurement assets, whereas ownership of the networks is retained by the above-mentioned asset companies.

Listed below are the Hera Group costs, revenues, payables and receivables recorded with respect to related parties.

In accordance with the Consob resolution no. 15519 dated 27 July 2006 and taking into account the above, the following tables summarise only the most significant transactions with related parties; more specifically, the data as at 30 June 2007 and as at 31 December 2006 are set out, as well as their weight on the Balance Sheet and Income Statement items.

	Receivables	Ratio to trade receivables note 22 BS 1.000.322	Payables	Ratio to trade payables note 33 BS 746.482	Revenues	Ratio to revenues from sales and services notes 4 and 5 IS 2.364.444	Costs	Ratio to service costs and other operating costs notes 7 and 9 IS 689.001
Municipality of Bologna	17,623	1.76%	4,960	1%	67,406	2.85%	7,465	1.08%
CON. AMI	7,035	0.70%	4,403	0.59%	4,302	0.18%	4,412	0.64%
Romagna Acque SpA	37	0.00%	7,247	0.97%	131	0.01%	23,227	3.37%
Unica reti assets	880	0.09%	4,755	0.64%	144	0.01%	10,481	1.52%
AMF assets	29	0.00%	34	0.00%	18	0.00%	51	0.01%
AMIR assets	507	0.05%	1,876	0.25%	407	0.02%	2,682	0.39%
AREA assets	671	0.07%	1,643	0.22%	798	0.03%	6,211	0.90%
TEAM assets	485	0.05%	702	0.09%	7	0.00%	1,929	0.28%
SIS SpA	1,788	0.18%	791	0.11%	69	0.00%	2,371	0.34%
Municipality of Modena	5,447	0.54%	14,405	1.93%	11,802	0.50%	5,041	0.73%
Total	34,502	3.45%	40,816	5.47%	85,084	3.60%	63,870	9.27%

Figures as at 30 June 2007

	Receivables	Ratio to trade receivables note 22 BS 970.651	Payables	Ratio to trade payables note 33 BS 650.892	Revenues	Ratio to revenues from sales and services notes 4 and 5 IS 1.364.827	Costs	Ratio to service costs and other operating costs notes 7 and 9 IS 365.535
Municipality of Bologna	22,442	2.31%	21,460	3.30%	32,925	2.41%	3,751	1.03%
CON. AMI	4,211	0.43%	2,695	0.41%	2,167	0.16%	4,581	1.25%
Romagna Acque SpA	40	0.00%	9,682	1.49%	52	0.00%	9,755	2.67%
Unica reti assets	878	0.09%	2,554	0.39%	33	0.00%	3,736	1.02%
AMF assets	27	0.00%	36	0.01%	5	0.00%	0	0.00%
AMIR assets	796	0.08%	1,251	0.19%	209	0.02%	1,045	0.29%
AREA assets	1,865	0.19%	1,507	0.23%	86	0.01%	2,538	0.69%
TEAM assets	932	0.10%	926	0.14%	6	0.00%	437	0.12%
SIS SpA	1,595	0.16%	-654	-0.10%	19	0.00%	846	0.23%
Municipality of Modena	8,642	0.89%	5,081	0.78%	5,929	0.43%	1,933	0.53%
Total	41,428	4.27%	44,538	6.84%	41,431	3.04%	28,622	7.83%

2.02.04 Changes in Shareholders' Equity

	Capitale sociale	Riserve	Riserve strumenti derivati valutati al fair value	Utile dell' esercizio	Patrimonio netto	Interessenze di minoranza	Totale
	€/000	€/000	€/000	€/000	€/000	€/000	€/000
Saldo al 31 dicembre 2004	**839.903**	**114.988**		**80.994**	**1.035.885**	**28.346**	**1.064.231**
Effeto applicazione ias 39		-6.465	-2.474		**-8.939**	-1.381	**-10.320**
Saldo al 1 gennaio 2005	**839.903**	**108.523**	**-2.474**	**80.994**	**1.026.946**	**26.965**	**1.053.911**
fusione Gruppo meta	176.849	222.829			**399.678**		**399.678**
fari value derivati variazione del periodo		2.231	-1.711		**520**	183	**703**
utilizzo riserve		-762			**-762**		**-762**
altri movimenti		-3.401			**-3.401**	42	**-3.359**
Ripartizione dell'utile 2005:					**0**		**0**
- dividendi distribuiti				-50.394	**-50.394**	-2.247	**-52.641**
- destinazione a riserva		8.974		-8.974	**0**		**0**
- utili indivisi		21.626		-21.626	**0**	-1.656	**-1.656**
Utile del periodo				**80.346**	**80.346**	**7.316**	**87.662**
Saldo al 31 dicembre 2005	**1.016.752**	**360.020**	**-4.185**	**80.346**	**1.452.933**	**30.603**	**1.483.536**

	Capitale sociale	Riserve	Riserve strumenti derivati valutati al fair value	Utile dell' esercizio	Patrimonio netto	Interessenze di minoranza	Totale
Saldo al 31 dicembre 2005	**1.016.752**	**360.020**	**-4.185**	**80.346**	**1.452.933**	**30.603**	**1.483.536**
fusione GDG		323			**323**		**323**
azioni proprie in portafoglio	-115	175			**60**		**60**
fair value derivati variazione del periodo		1.320	4.834		**6.154**	815	**6.968**
utilizzo riserve					**0**		**0**
altri movimenti		-2.267			**-2.267**	4.267	**1.999**
Ripartizione dell'utile 2005:					**0**		**0**
- dividendi distribuiti		-19.405		-51.767	**-71.172**	-5.610	**-76.782**
- destinazione a riserva utili indivisi		-7.792		7.792	**0**		**0**
- destinazione ad altre riserve		4.240		-4.240	**0**		**0**
- utili effetti ias		32.131		-32.131	**0**		**0**
Utile del periodo				**90.105**	**90.105**	**10.133**	**100.238**
Saldo al 31 dicembre 2006	**1.016.637**	**368.744**	**649**	**90.105**	**1.476.135**	**40.207**	**1.516.342**

	Capitale sociale	Riserve	Riserve strumenti derivati valutati al fair value	Utile dell' esercizio	Patrimonio netto	Interessenze di minoranza	Totale
Saldo al 31 dicembre 2006	**1.016.637**	**368.744**	**649**	**90.105**	**1.476.135**	**40.207**	**1.516.342**
azioni proprie in portafoglio	-308	-626			**-934**		**-934**
fair value derivati variazione del periodo		3.652	6.195		**9.847**	375	**10.222**
utilizzo riserve					**0**		**0**
altri movimenti		-2.262			**-2.262**	-412	**-2.674**
Ripartizione dell'utile 2006:					0		**0**
- dividendi distribuiti		-78.148		-3.164	-81.312	-8.218	**-89.530**
- destinazione a riserva utili indivisi		70.895		-70.895	0		**0**
- destinazione ad altre riserve		16.046		-16.046	0		**0**
- utili effetti ias					0		**0**
Utile del periodo				37.375	37.375	6.621	43.996
Saldo al 30 giugno 2007	**1.016.329**	**378.301**	**6.844**	**37.375**	**1.438.849**	**38.573**	**1.477.422**

2.02.05 List of Equity Investments

List of Group companies consolidated according to the line-by-line method

Name	Registered office	Share capital	Percentage held		Total	Overall share
			Direct	Indirect		
Parent company:						
Hera Spa	Bologna	1,016,752,029				
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 Consortium	Bologna	1,125,240	100.00%		100.00%	100.00%
Asa Spa	Castelmaggiore (Bo)	1,820,000	51.00%		51.00%	51.00%
Gruppo Aspes	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	100.00%		100.00%	100.00%
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	Naples	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%
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	100.00%		100.00%	100.00%
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%
Sotris Spa	Ravenna	2,340,000	70.00 %		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%	97.00%

List of Group companies valued using the equity method

Name	Registered office	Share capital	Percentage held		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		26.14%	26.14%	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%
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	3,000,000		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%

Companies valued using the equity method

Companies which entered the scope of consolidation in 2007	Companies which exited the scope of consolidation in 2007	Notes
	Sinegie ambientali Srl	wound up
	Attivabologna Srl in liquidation	at cost

Companies valued according to 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	transferred to Sgr Servizi Spa
	Metaenergy Srl	merged by incorporation within Hera Comm Srl
	Metaservice Srl	merged by incorporation within Uniflotte Srl
	Seas Lavori e Servizi Scrl in liquidation	at cost
	Viviservizi Srl in liquidation	at cost

2.02.05 Interim summary – consolidated cash flow statement

	30-giu-2007		30-giu-2006	
Attività di gestione				
Cash flow				
Utile di gruppo e di terzi	43.996		59.445	
Ammortamento e svalutazione immobilizzazioni materiali	62.840		60.964	
Ammortamento e svalutazione attività immateriali	17.991		15.437	
Totale cash flow	**124.827**		**135.846**	
Variazione imposte anticipate e differite	11.468		9.017	
Trattamento di fine rapporto e altri benefici:				
Accantonamenti / (utilizzi)	(7.565)		1.715	
Fondi per rischi ed oneri:				
Accantonamenti / (utilizzi)	9.235		8.766	
Totale cash flow prima delle variazioni del capitale circolante netto	**137.965**		**155.344**	
Capitale circolante				
Variazione crediti commerciali	29.671		40.690	
Variazioni rimanenze	(5)		(3.379)	
Variazione altre attività correnti	(10.617)		78.937	
Variazione debiti commerciali	(95.590)		(149.849)	
Variazione debiti tributari	31.263		150.748	
Variazione altre passività correnti	26.616		86.293	
Variazione capitale circolante	**(18.662)**		**203.440**	
Disponibilità generate dall'attività di gestione		**119.303**		**358.784** a)
Attività di investimento				
Disinvestimento/(investimento) in immobilizzazioni materiali al netto degli investimenti/disinvestimenti netti	(165.134)		(113.902)	
Disinvestimento/(investimento) in attività immateriali al netto degli investimenti/disinvestimenti netti	(16.047)		(18.424)	
Avviamento	1.367		(18.103)	
Investimenti in partecipazioni al netto dei disinvestimenti	(6.635)		(111.550)	
(Incremento) / decremento di altre attività di investimento	(747)		(11.516)	
Disponibilità generate/(assorbite) dall'attività di investimento		**(187.196)**		**(273.495)** b)
Attività di finanziamento				
Finanziamenti a medio/lungo termine	239.274		495.740	
Variazione delle voci di patrimonio netto	6.613		(4.445)	
Variazione di indebitamento bancario a breve termine	(124.552)		(359.418)	
Dividendi distribuiti	(89.530)		(76.782)	
Variazione dei debiti per locazioni finanziarie	(18.366)		(4.282)	
Variazioni strumenti finanziari - derivati	(19.166)		(17.656)	
Disponibilità generate/(assorbite) dall'attività di finanziamento		**(5.727)**		**33.157** c)
		(73.620) (a+b+c)		**118.446 (a+b+c)**
Variazione della posizione finanziaria netta				
Disponibilità liquide e mezzi equivalenti all'inizio dell'esercizio	213.629		189.107	
Disponibilità liquide e mezzi equivalenti alla fine dell'esercizio	140.009		307.553	
	(73.620)		**118.446**	

2.02.07 Net financial position

	(Euro/millions)	30/06/07	31/12/06
a	**Cash on hand**	**140.0**	**213.6**
b	**Other current loans**	**9.1**	**12.8**
	Current bank indebtedness	-243.0	-312.4
	Current portion of bank indebtedness	-54.7	-109.4
	Other current loans	-21.1	-17.3
	Current financial assets/liabilities from derivative instruments	-0.5	-2.3
	Due to financial leases coming due during the next financial year	-8.7	-9.5
c	**Current financial indebtedness**	**-328.0**	**-450.9**
d=a+b+c	**Current net financial indebtedness**	**-178.9**	**-224.5**
e	**Non-current loans**	**23.7**	**19.2**
f	**Non-current financial assets/liabilities from derivative instruments**	**17.4**	**0.0**
	Non-current bank indebtedness	-544.9	-410.0
	Bonds issued	-597.7	-497.6
	Other non-current loans	-29.5	-29.5
	Due to financial leases coming due after the next financial year	-13.4	-31.0
g	**Non-current financial indebtedness**	**-1,185.5**	**-968.0**
h=e+f+g	**Non-current net financial indebtedness**	**-1,144.4**	**-948.8**
i=d+h	**Net financial indebtedness**	**-1,323.3**	**-1,173.3**

2.02.08 Report by the Board of Statutory Auditors

2.02.09 Report by the Independent Auditing Firm

**REPORT BY THE INDEPENDENT AUDITING FIRM
ON THE LIMITED AUDIT OF THE HALF-YEAR REPORT
DRAWN UP PURSUANT TO ARTICLE 81 OF
CONSOB REGULATION ADOPTED WITH RESOLUTION
NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS
AND INTEGRATIONS**

HERA SPA

HALF-YEAR REPORT AS AT 30 JUNE 2007

PRICEWATERHOUSECOOPERS

REPORT BY THE INDEPENDENT AUDITING FIRM ON THE LIMITED AUDIT OF THE HALF-YEAR REPORT DRAWN UP PURSUANT TO ARTICLE 81 OF CONSOB REGULATION ADOPTED WITH RESOLUTION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS

To the shareholders of
HERA SpA

1. We have carried out the limited audit of the consolidated interim report, comprising balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement (hereinafter, the "financial statements") and the related explanatory notes, included in the half-year report of HERA SpA as at 30 June 2007. Drawing up the half-year report is the responsibility of the Directors of HERA SpA. Our responsibility is to prepare this report based on the limited audit we have carried out. We have also audited the part of the notes containing information on operations with the sole objective of verifying consistency with the remainder of the half-year report.

2. We conducted our audit in accordance with the CONSOB (The Italian Commission for Listed Companies and the Stock Exchange) accounting audit guidelines set forth in Resolution no. 10867 of 31 July 1997. The limited audit consisted primarily of the collection of information relating to the items in the accounting statements and the consistency of application of the accounting policies through discussions with company management and analytical procedures applied to the financial data presented. The limited audit excluded such audit procedures as tests of compliance or controls or verification or validation of assets and liabilities, and the scope of work was significantly less than that of an audit performed in accordance with generally accepted auditing standards. As a result, contrary to our report on the annual consolidated financial statements, we do not express an opinion on the half-year report.

3. With regard to comparative figures relative to the annual consolidated financial statements of the previous year, and the half-year report of the previous year presented in the financial statements, reference should be made to our reports issued, respectively on 10 April 2007 and 11 October 2006.

4. Based on our review, we are not aware of any signification changes or integrations that should be made to the consolidated financial statements and related explanatory notes, identified in paragraph 1 herein, in order to render them compliant with the international accounting standard IAS 34 and the guidelines governing the preparation of half-year reports set out in article 81 of the CONSOB Regulation adopted with Resolution no. 11971 of 14 May 1999 and subsequent amendments and integrations.

Rome, 11 October 2007

PricewaterhouseCoopers SpA

Aurelio Fedele
(Auditor)

HERA S.p.A.
Holding Energia Risorse Ambiente
Headquarters: Viale Carlo Berti Pichat 2/4 – 40127 Bologna
Ph. 051.287.111; Telefax 051.287.525

www.gruppohera.it

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