



***Annual Report
as at 31 December 2006***

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1 – THE HERA GROUP

1.01 Letter to the Shareholders

Dear Shareholders,

We hereby submit the final financial statements of the company for its fourth year of operations since its foundation.

Before illustrating the results achieved and the Group's development, I consider it my duty to remind you that, unfortunately, the year was marked by a tragedy, caused by an explosion in the gas network in the province of Bologna. To the families of the victims, we once again express our sincere condolences from the entire company.

In 2006, the company is continuing in its commitment to realising the objectives of the Industrial Plan, with the primary goal of further developing its services provided in the areas in which it operates.

This translated into positive results as well as commercial growth, an intense search for organisational efficiencies and the further expansion of the scope of operations, which resulted in the results of these financial statements.

In the context of a sector marked by three fundamental features: the continuing process of consolidation, with a constant reduction of the number of operators, the sharper and more complex development of the regulatory framework and the sharp increase in competition, not only on the national level, but also within the different levels of the value chain, Hera has not slowed in its efforts to grow, or in the quality of its results achieved.

Following the considerable work dedicated to the process of organisational integration in the Modena area, extraordinary operations were carried out to strengthen our territorial presence (ASPES Pesaro, SAT Sassuolo and GAS Riccione) and, in terms of plants, the ENEL grid in the province of Modena was acquired (for a total amount of Euro 183 million).

The level of investment (Euro 321 million) also remained high, and in line with the previous years. The greatest share of investments were made in order to improve network infrastructures for the integrated water service as well as waste management plants.

However, this has not affected the solid equity base of the Group, which is facing a year of extraordinary commitments. In agreement with its shareholders, the Group intends to remain at the cutting edge of its field, also through further consolidation in the utilities sector.

I would like to note that the company managed to further consolidate its transparent, continuing relations with investors, not only due to the effects of the appreciation of our shares, which had a highly positive trend also in 2006, and, thus, obtain the confidence and esteem of the market.

As regards services, this year was important due to the coming on stream of new methods for customer relations, which had undergone difficulties linked to the profound change which was necessary in the Group's IT structures following the company mergers. This process will conclude in the middle of the year, with the unification of the management systems also in the Ferrara and Modena areas.

More generally, the Group maintained its constant commitment to the principles of sustainability, which were demonstrated through a significant series of initiatives which are catalogued in the soon-to-be-published Sustainability Report.

I hope to have the support of all of our shareholders in the realisation of the current plans, and, specifically, the complete execution of the plans for plant expansion, which have been defined for some time. I would like to thank the Board of Directors, the Board of Statutory Auditors and all employees who contributed to achieving the results for this year.

The Chairman
of the Board of Directors

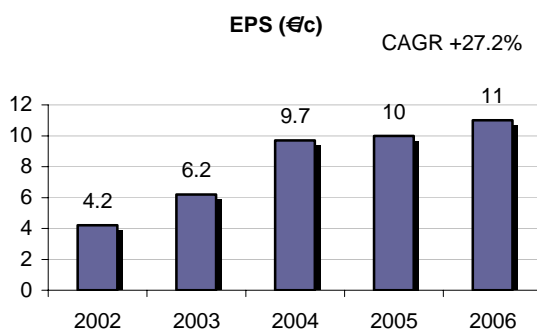
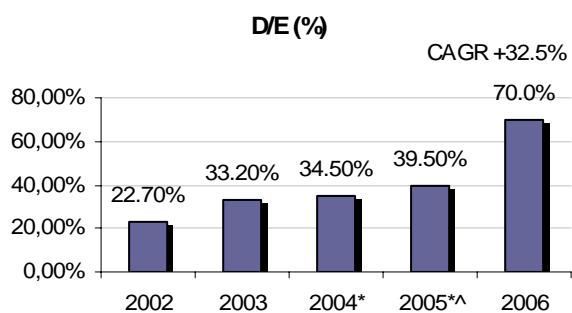
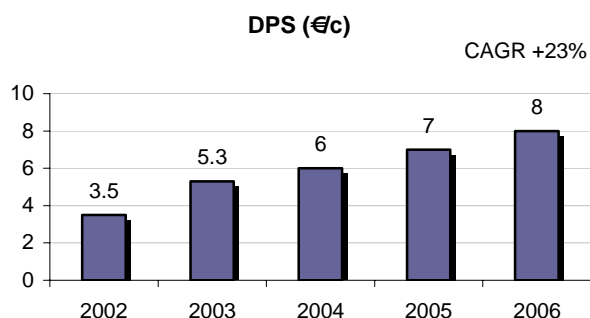
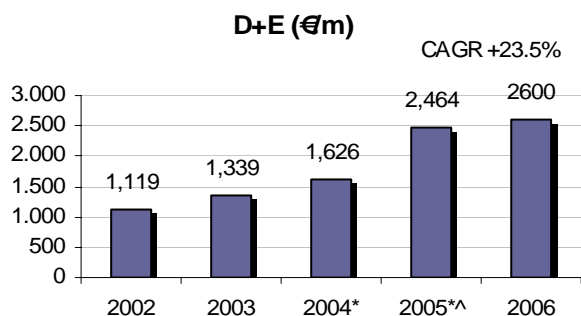
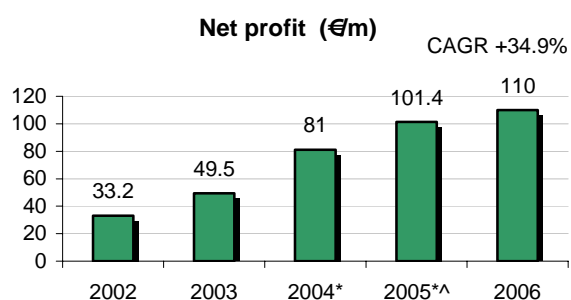
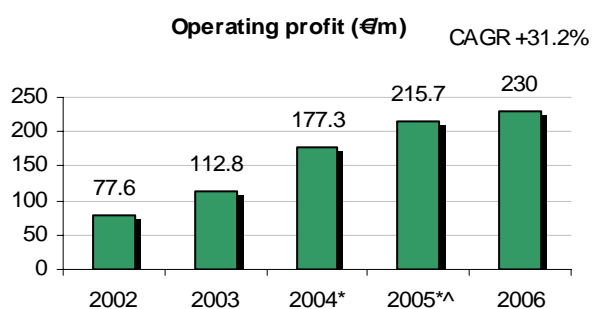
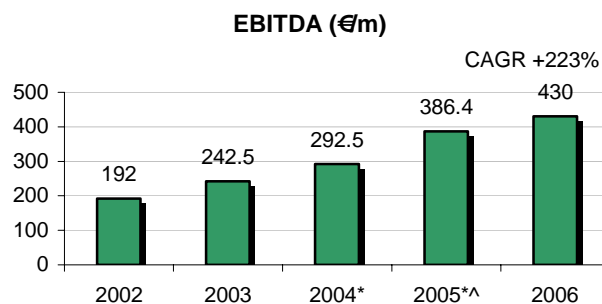
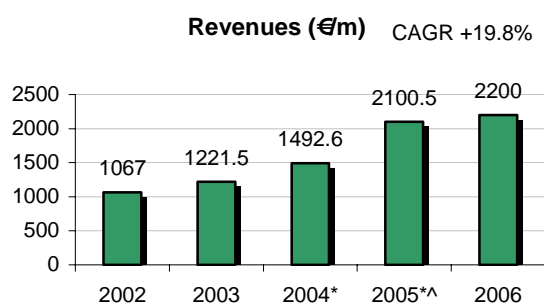
1.02 Hera's Mission

“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”.*

1.03 Summary data



* IAS adjusted, ^ Pro-forma

Economic figures (€/m)	2002	2003	2004*	2005*^	2006	Cagr %
Revenues	1,067	1,222	1,493	2,101	2,200	19.8%
EBITDA	192	243	293	386	430	22.4%
Operating profit	78	113	177	216	230	31.0%
Hera net profit	33	50	81	101	110	0.35

Indices	2002	2003	2004*	2005*^	2006	Cagr %
Earnings per share (€)	4.2	6.2	9.7	10	11	27.0%
Dividend per share (€)	0.04	0.05	0.06	0.07	0.08	23.0%
D/E	29.30%	49.70%	52.80%	65.40%	70.00%	24.0%
ROI	6.90%	8.40%	10.90%	8.60%	10.00%	10.0%
ROE	0.00%	0.00%	0.00%	0.00%	0.00%	0.0%

Operating figures

Volumes	2005 [§]	2006
Gas sold (m3/m)	2,786.0	
Water invoiced (m3/m)	228.4	
Electricity sold (GWh)	3,754.8	
Waste collected (thous. of tons)	1,597.2	
Waste treated (thous. of tons)	3,774.9	
Customers		
Gas (thous. of units)	939.6	
Electricity (thous. of units)	177.5	
Water (thous. of units)	914	

* IAS adjusted

^ Pro-forma

1.04 Company Officers

Board of Directors

Office	Name and Surname
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giorgio Razzoli
Managing Director	Maurizio Chiarini
Director	Mara Bernardini
Director	Filippo Brandolini
Director	Luigi Castagna
Director	Pier Luigi Celli
Director	Piero Collina
Director	Piergiuseppe Dolcini
Director	Giuseppe Fiorani
Director	Lanfranco Maggioli
Director	Vander Maranini
Director	Nicodemo Montanari
Director	Fabio Alberto Roversi Monaco
Director	Roberto Sacchetti
Director	Luciano Sita
Director	Bruno Tani
Director	Stefano Zolea

Board of Statutory Auditors

Office	Name and Surname
Chairman	Antonio Venturini
Standing Auditor	Fernando Lolli
Standing Auditor	Sergio Santi
Alternate Auditor	Roberto Picone
Alternate Auditor	Stefano Ceccacci

Internal Control Committee

Office	Name and Surname
Chairman	Giorgio Razzoli
Member	Stefano Zolea
Member	Vander Maranini
Member	Luigi Castagna

Remuneration Committee

Office	Name and Surname
Chairman	Giorgio Razzoli
Member	Pier Luigi Celli
Member	Piero Collina
Member	Nicodemo Montanari

Executive Committee

Office	Name and Surname
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giorgio Razzoli
Member	Maurizio Chiarini

Independent Auditing Firm

Auditors	PricewaterhouseCoopers
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1.05 Strategy

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

This expansion is the result of an efficient strategy which has pursued internal and external growth lines considered ground-breaking for the reference industry.

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

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

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

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

Consolidated economic data (€m)	2002	2003	2004	2005	2006
Revenues	1,067.0	1,222.0	1,493.0	2,101.0	2,200.0
EBITDA	192	243.0	293.0	386.0	430.0

During 2006, the Group's expansion was pursued via the acquisition of shareholdings in two multi-utility companies operating in neighbouring areas: 23% in Aspes Multiservizi SpA (taking Hera's equity investment to 49.7%) which operates in the north of the Marche region; this operation allowed Hera to become a strategic shareholder for Aspes Multiservizi SpA, which began a project of consolidation with two other multi-utility companies operating in bordering areas.

In 2006, Hera also acquired 46.5% in SAT, a multi-utility operating in the province of Modena (in areas adjoining those of the company Meta, absorbed within the Hera Group at the end of 2005).

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

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 regards to the waste business, mention must be given to the acquisition of the Centro Ecologia Ambiente of Ravenna from the Eni Group, through which a WTE plant dedicated to special waste with Cip 6 authorisation was acquired, as well as the merger of a business unit of Geat Distribuzione Gas (active in the collection and treatment of urban waste in the municipality of Riccione).

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

In 2006, the company Geat Distribuzione Gas, operating in the Riccione area within the territory the Hera Group operates in, was acquired and absorbed.

Acquisitions in the gas sector	Activity	Ownership
Argile Gas (Bologna)	Sales	100.0%
Gasgas (Ferrara)	Sales	100.0%
Tecnometano (Ferrara)	Distribution	100.0%
TS Distribuzione (Bologna)	Distribution	100.0%
TS Energia (Bologna)	Sales	100.0%
SGR Servizi (Rimini)	Sales	20.0%
Geat Gas (Riccione)	Sales & Distribution	100.0%

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

The market success achieved by electricity sales required a further enhancement with regards to electricity generation (by means of acquiring minority interests in Calenia Energia and SET made in 2004) so as to ensure greater coverage of the market demand.

The electricity distribution network in the province of Modena was acquired from Enel in 2006, thereby also enhancing the regulated portion of the business.

Acquisitions in the electricity sector	Activity (Capacity installed)	Ownership
Tirreno Power	Generation (2,600 MW)	5.50%
Calenia Energia	Generation (800 MW)	15.00%
SET	Generation (400 MW)	39.00%
Enel distribution network (prov. of Modena)	Generation (400 MW)	100%

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

The acceleration of the consolidation process was a salient feature in 2006 for Hera and for the utility sector in Europe. This process also involved medium-small sized and medium-large sized listed Italian companies in search of greater dimensions so as to contrast the growing competitive pressure, and the possibility of benefiting from the incentives which the Italian Government has declared it intends to introduce in order to support the sector's consolidation process.

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

1.06 Business Sectors

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

The multi-business nature of the Group's portfolio allows it to achieve a fair balance between services managed under "monopoly regimes" such as the integrated water cycle, the collection and disposal of urban waste, the distribution of methane gas and electricity, the management of public lighting and district heating and services managed under "free competition" conditions such as the sale of methane gas and electricity, the disposal of special and industrial waste.

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.

Urban waste

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

Type	Urb. Waste	Urb/Spec Waste	Spec. Waste	Total plants
Landfills		12	5	17
WTE		6	1	7
Composting		6		6
Chemical-physical treatment			12	12
Selection	7	4		11
Sludge treatment			5	5
Inert treatment			2	2
Other plants	6		6	12
Total	13	28	31	72

The sanitary service is managed in 7 ATOs (corresponding to the Provinces of the Emilia Romagna region in which the Group operates), on the basis of long-term concessions (2012), covering a population of approximately 2.5 million inhabitants and handles the collection and disposal of approximately 1.7 million tonnes of urban waste per year.

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

Plant	Treatment capacity (tonnes)	Installed power (MW)
Forlì waste-to-energy plant	60,000	5.44
IRE Ravenna waste-to-energy plant	56,500	6.20
Rimini waste-to-energy plant	127,600	10.33
Modena waste-to-energy plant	140,000	7.00
Canal Bianco waste-to-energy plant	50,000	3.30
FEA waste-to-energy plant	180,000	22.00
Ecologia-Ambiente waste-to-energy	40,000	4.20

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

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 in Italy with regards to the treatment and disposal of special waste with a treatment capacity equal to 2.3 million tonnes/year thanks to one of the nation's most important plant infrastructures, which includes 31 specifically dedicated plants and 28 mix-usage plants (both special and urban waste).

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

Integrated Water Cycle

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

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

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

Energy

Taking into consideration the Modena merger, the Hera Group is Italy's third operator in the sale and distribution of gas (with approximately 2.4million cubic metres sold per year to approximately 940,000 customers, served through 11,500 km of network), while in the sale and distribution of electricity, mainly thanks 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 almost 260,000 customers.

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

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

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

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

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

Other Businesses

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

The Group effectively provided approximately 425 GWt/h in 2005 and managed over 310,000 light points within the area in which it operates. The development plans expect to see significant expansion of both these activities through investments and processes to heighten efficiency.

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

1.07 Hera's Performance on the Stock Exchange

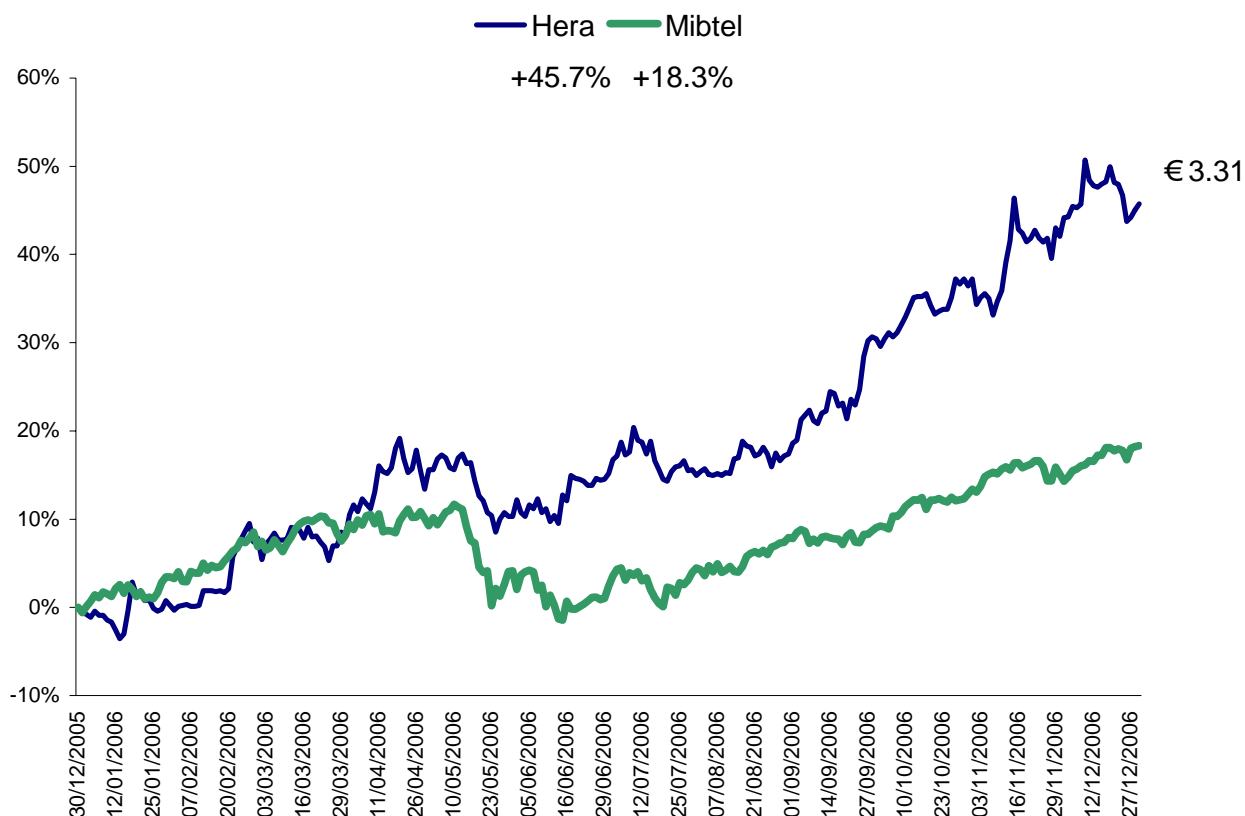
During 2006, Hera stock recorded one of the best performances in the sector of listed former municipal enterprises, closing the year at € 3.31 per share with a rise of + 45.7%, beating the Mibtel (+ 18.3%), the Borsa Italiana Utility index (+ 11.2%) and DJ STOXX 600 Utility index (+ 35.6%) performances.

The trend in Hera listings was particularly favourable at the time of disclosure of the annual results (March-April) and the 2006-2009 Industrial Plan (September-October).

The stock disclosed a positive performance for the third year running, which led the price to nearly triple with respect to the listed price of € 1.25. This trend reflects the rise in the results over the last four years (among the highest in the related sector) and the ability to achieve and surpass the scheduled forecasts of the industrial plans.

During the 30 months prior to the end of 2006, Hera reported a Beta index of 0.54 which is classified among the best with respect to the local utility shares listed on the Italian market, indicating its low risk profile.

Hera Share Performance in 2006

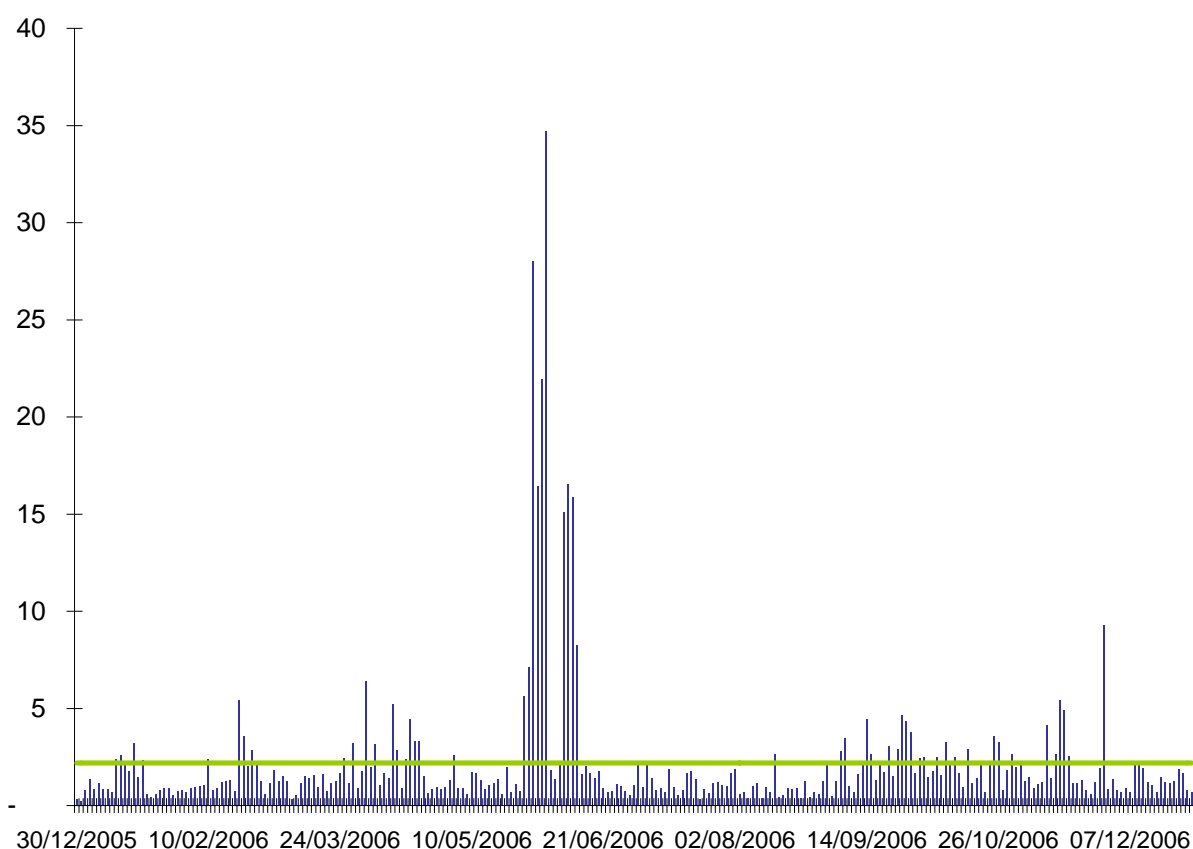


The average level of liquidity recorded in trading of Hera shares rose during 2006 for the third year running; the daily average equivalent value rose from Euro 3.3 million in 2005 to nearly Euro 5.9 million (+ 78.7%).

Particularly intense trading activity was recorded at the time of dividend distribution (€ 0.07 per share, involving growth of + 17% when compared with the previous year) and at the time of the presentation of the new Industrial Plan (in September).

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

Hera share volumes traded in 2006



Share Coverage

The Hera Group stock is one of the most extensively covered in the Italian multi-utility sector, a factor which confirms the international financial market's increasing interest. 15 independent analysts regularly cover Hera stock (half of which are international): Actinvest, Axia (ethical analysis), Caboto, CAI Chevreux, Cazenove, CentroSim, Citigroup, Euromobiliare, Intermonte Securities, Kepler, Mediobanca, Rasbank and Studi investimenti. Since the beginning of 2007, Merrill Lynch has also begun coverage.

Further to the international bond issue worth Euro 500 million listed on the Luxembourg market and placed by Banca IMI, JP Morgan and Citigroup during the early months of 2006, some "credit analysts" have also started coverage (Banca IMI and UBS).

Rating

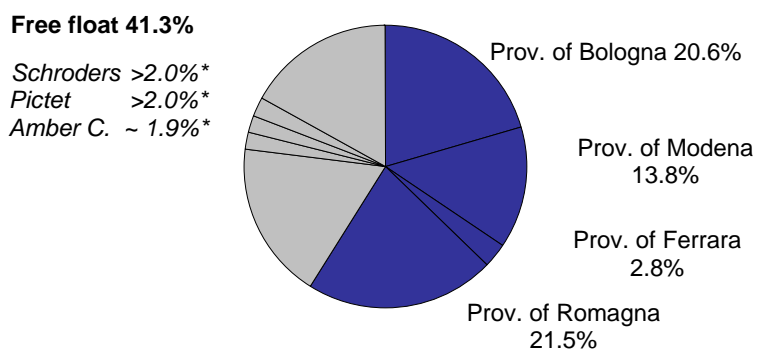
At the time of the bond issue, the Hera Group obtained credit ratings by the most accredited agencies at international level. The ratings assigned to Hera both by Standard & Poor's (A with a stable outlook) and by Moody's (A1 with a stable outlook) revealed the financial solidity and the satisfactory profitability over the short and medium/long-term.

Shareholding Structure

The share capital is represented by 1,016,752,029 ordinary shares with a par value of Euro 1 each; no share capital increase transactions were carried out during the year. As at 31 December 2006, the Hera Group had capitalized around Euro 3.4 billion (having increased over the last three years by around + 340%).

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

Shareholding Structure



*equity investments included in "free float"

During 2006, a number of international institutional investors (Amber Capital, Pictet and Schroders) informed the Stock Exchange authority that they had obtained a "significant" shareholding, more than 2% of the share capital (the significant equity investments remained more or less confirmed at year end as well).

Hera has a programme for the repurchase of own shares which was mainly implemented for the purchase of 5.5 million shares, so as to support the merger with Geat Distribuzione Gas SpA. The purchase of the shares took place in June at an average price of € 2.8 each. At present, the mandate of the shareholders' meeting envisages the possibility of acquiring a further 9.5 million shares for an equivalent value of Euro 31 million. As at 31 December 2006, Hera held around 115,000 own shares in the portfolio.

Relations with the Financial Market

Relations with the market operators were particularly intense (over 350 encounters held during 6 international road shows, visits at the Group premises and conferences organized by international brokers) so as to disclose the annual and interim results, as well as the 2006-2009 Industrial Plan.

The Hera Investor Relations division maintained close contact with the institutional investors also via the website. The Investor Relations section, available on the website (www.gruppohera.it), has been enhanced so as to improve the availability of the information, dedicating specific sections to each of the main investor categories. Following the bond issue, a section for bondholders was created on the website, from which it is possible to consult the analysts' studies, the information prospectus, the daily trends in bond listings and the ratings achieved (A+ from S&P's and A1 from Moody's).

The improvement made contributed towards promoting financial communication via the web among Italian "best practices" (acknowledged by means of promotion to 8th place in the annual Hallvarsson and Halvarsson classifications, compared with 26th place achieved last year).

1.08 Notice of Call of the Shareholders' Meeting

Hera SpA

Registered Office in Bologna Viale C. Berti Pichat, 2/4

Share Capital € 1,016,752,029 fully paid-in

Enrolment number in the Bologna Register of Companies, Tax Code and VAT No. 04245520376

Shareholders are called to Ordinary and Extraordinary Shareholders' Meeting to be held in the Sala Auditorium of the Centro Congressi – CNR - Via Gobetti, 101, Bologna on 25 April 2007 at 10 a.m. on first call and if necessary on 26 April 2007, at the same venue and time on second call in order to discuss and deliberate on the following:

Agenda

Extraordinary Meeting:

- 2 Amendment of paragraph 7.3 of article 7 and paragraphs 17.1(a).1, 17.1(a).3, 17.1(a).4, 17.1(a).5, 17.1(b).1 e 17.1(b).4 of article 17 of the Articles of Association;
- 3 Amendment of paragraphs 17.1(b).1, 17.1(b).2 and 17.1(b).3 of article 17 and articles 18, 26, 27 and 29 of the Articles of Association.

Ordinary Meeting:

- 1 Financial statements at 31 December 2006, Director's Report on Operations, proposal for allocation of profit and Report of the Board of Statutory Auditors: consequent resolutions;
- 2 Distribution of share swap reserve;
- 3 Authorisation to purchase own shares and procedures for arrangement of the same: consequent provisions;
- 4 Acknowledgement of appointment of a member of the Board of Directors pursuant to Article 2449 of the Italian Civil Code;
- 5 Postponement of the expiration of the audit mandate and consequent extension of the same to financial years 2012-2014: consequent resolutions;

The reports on the matters and proposals on the Agenda, including the parent company and consolidated financial statements at 31 December 2006 and the Director's Report on Operations, have been filed at the registered offices of the company and at Borsa Italiana S.p.A., in accordance with law and available to persons who may request a copy.

Pursuant to Article 11 of the Articles of Association, the Shareholders holding the requirements set forth in legislative provisions in force are entitled to attend the Meeting.

Shareholders or their representatives who attend the Meeting may forward, by post or by fax, (to number +39-051-287.244), to Hera SpA corporate secretary's office, copy of the documentation certifying their legitimate right to attend the Meeting, at least three days prior to the date of the Meeting in first call.

Parties other than shareholders who wish to attend the Meeting must forward, in accordance with the same procedures and terms set forth above, special request.

There is reason to believe that the necessary constituent quorum may not be reached for the meeting on first call and, hence, shareholders are informed that the meeting shall be held on second call on 26 April 2007 at 10 a.m., in the Sala Auditorium of the Centro Congressi – CNR - Via Gobetti,101, Bologna.

Bologna, 15 March 2007

The Chairman of the Board of Directors

(Tomaso Tommasi di Vignano)

2 – CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP

2.01 Directors' Report

2.01.01 Corporate events and Group structure

The intense activity of rationalising the Group's equity investments continued during 2006, leading to the disposal or liquidation of 24 investee companies, as well as 3 merger transactions, including the merger by incorporation of Geat Distribuzione Gas SpA within Hera SpA. In 2005, 23 disposals/liquidations of investee companies had already taken place, together with 2 merger/spin-off transactions.

The main M&A transactions which took place during 2006 are described below.

Increase of the equity investment in Hera Luce Srl

On 17 January 2006, Hera SpA acquired the interest held by Gemmo SpA, amounting to 18% of the share capital, thereby achieving an equity investment of 87.3%, and subsequently, on 19 December 2006, Hera SpA subscribed a share capital increase – effective as at 1 January 2007 – freed up by means of the conferral in kind of the business segment pertaining to the public lighting activities in the Municipalities of Modena, Ferrara, Cesena, and other municipalities in Romagna. Following this transaction, the equity investment held by Hera SpA in Hera Luce Srl rose from 87.3% to 89.58%.

Incorporation of Flameenergy Trading Gmbh

On 19 April 2006, Hera Trading Srl (100% owned by Hera SpA) and VNG Erdgascommerz GmbH incorporated FlameEnergy Trading GmbH with equal shareholdings, an Austrian company with registered offices in Vienna, which is involved in the trading, transportation and supply of natural gas on the European markets of Austria, Switzerland, France and Slovenia.

Acquisition of Hera Rete Modena Srl

On the basis of the preliminary agreement entered into on 13 March 2006, Hera SpA and Enel Distribuzione SpA signed a financial contract on 27 June 2006 for the purchase by Hera SpA of the entire equity investment in Hera Rete Modena Srl, a company which is involved in the distribution and sale of electricity throughout the area of 18 Municipalities in the Province of Modena.

This transaction was effective as from 30 June 2006.

Merger of Geat Distribuzione Gas SpA within Hera SpA

The Merger Deed for the incorporation within Hera SpA of Geat Distribuzione Gas SpA was stipulated on 29 June 2006, with statutory effects as from 1 July 2006; the latter company was fully controlled by the Municipality of Riccione and is involved in the distribution of gas to the same area.

Increase in the equity investment in Aspes Multiservizi SpA

On 27 July 2006, Hera SpA acquired a further equity investment in Aspes Multiservizi SpA, a company involved in the performance of energy - environmental services within the provincial area of Pesaro – Urbino; the investment came to 22.92% of the latter's share capital, and this takes the entire equity investment to 49.79%.

Acquisition of an equity investment in Sat SpA

On 18 October 2006, Hera SpA acquired 46.50% of SAT SpA's share capital, a company which is involved in the provision of environmental, gas distribution and integrated water cycle services in the municipal areas of Sassuolo, Formigine, Fiorano Modenese, Maranello and Serramazzoni.

Further transactions

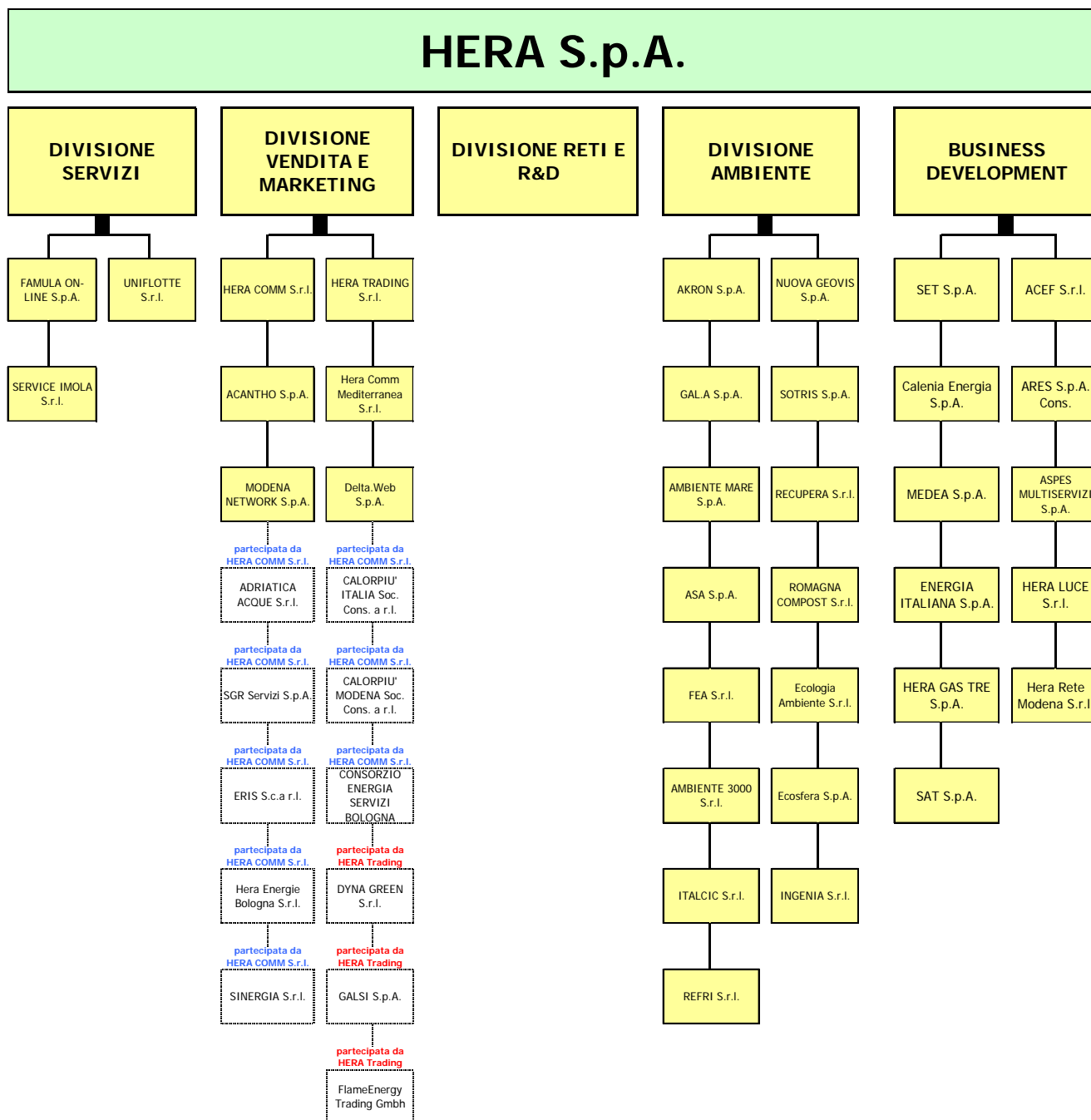
Again during 2006, further transactions were carried out which involved companies already belonging to the Hera Group.

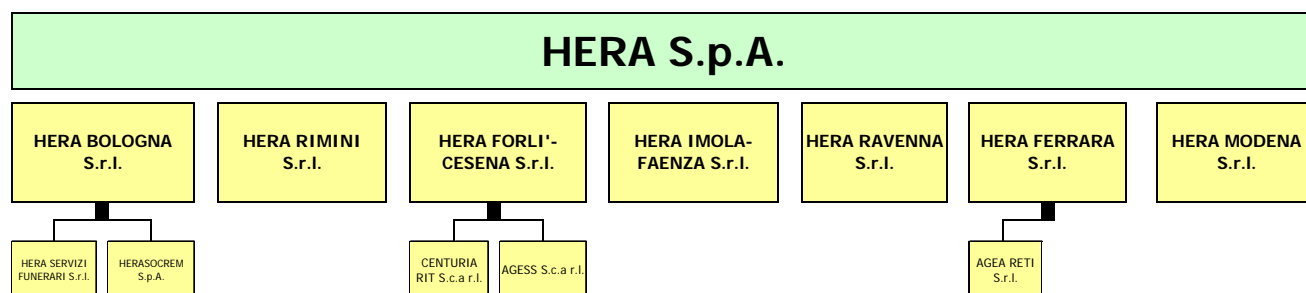
On 14 December 2006, Hera Comm Srl subscribed and resolved on a share capital increase in SGR Servizi SpA of Rimini by means of the conferral of the equity investment held in GAS Riccione SpA; the entire transaction was effective as at 1 January 2007.

Following this transaction, the equity investment held by Hera Comm in SGR Servizi SpA rose from 20% to 29.60522%;

on 19 December 2006, Hera SpA subscribed and freed-up a share capital increase in Romagna Compost Srl by means of the conferral in kind of the composting plant located in the Rio della Busca district of Cesena; the entire transaction was effective as at 1 January 2007.

Following this transaction, the equity investment held in Romagna Compost Srl rose from 60% to 94.51%.





The merger of Meta Service S.r.l. within Uniflotte S.r.l. is envisaged as from 1 April 2007.

Disposal of the following equity investments is also scheduled: Estense Global Service S.c.a r.l., Modena Formazione S.r.l., Viviservizi S.c.a r.l., Democenter -SIPE S.c.a r.l. and ISGAS Energit Multiutilities S.c.a r.l.

2.01.02 Performance of the Hera Group in 2006:

Consolidated summary results of the Hera Group

(millions of €)	31-Dec-05	Incr.%	31-Dec-06	Incr.%	Change %
Net sales	1,730.7		2,311.5		+33.6%
EBITDA	321.0	18.5%	426.7	18.5%	+32.9%
EBIT	178.4	10.3%	231.3	10.0%	+29.7%
Net profit	87.7	5.1%	100.2	4.3%	+14.3%

2.01.02.01 Financial and Economic Results

The Hera Group ended 2006 with solid growth in all the consolidated economic indicators when compared with last year.

It is important to note that, in December 2005 the companies from Modena (Meta Group) were absorbed, and that although this did not have an effect on last year's results, which were prepared according to IAS/IFRS standards; it did, however, have a significant effect on the structure and performance of many of the Group's business segments. In particular, at the beginning of 2006 Modena-area activities were hived off into the new company Hera Modena, which is the seventh locally-operating company in the Group's organisational structure.

It is also noted that in 2006 the companies operating in the Pesaro area belonging to Aspes Multiservizi S.p.A. entered the scope of consolidation; the effect of this consolidation will be indicated, if significant, further on in this report.

The following representation was 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/€)	31-Dec-05	Incr.%	31-Dec.-06	Incr.%	Change.	Change %
Net sales	1,730.7		2,311.5		+580.7	+33.6%
Change in inventories of finished products and work in progress	2.5	0.1%	2.7	0.1%	+0.2	+9.5%
Other operating costs	34.8	2.0%	50.3	2.2%	+15.5	+44.6%
Raw materials and consumable materials	(809.6)	-46.8%	(1,146.7)	-49.6%	-337.1	+41.6%
Service costs	(515.4)	-29.8%	(642.5)	-27.8%	-127.1	+24.7%
Other operating expenses	(32.8)	-1.9%	(46.5)	-2.0%	-13.7	+41.8%
Personnel costs	(227.6)	-13.2%	(296.6)	-12.8%	-69.0	+30.3%
Capitalized costs	138.5	8.0%	194.5	8.4%	+56.1	+40.5%
EBITDA	321.0	18.5%	426.7	18.5%	+105.6	+32.9%
Amm. & Depr.	(142.7)	-8.2%	(195.4)	-8.5%	-52.7	+36.9%
EBIT	178.4	10.3%	231.3	10.0%	+52.9	+29.7%
Adjustments to technical fixed assets	15.5	0.9%	-	0.0%	-15.5	-100.0%
Net financial charges	(40.2)	-2.3%	(52.1)	-2.3%	-11.9	+29.6%
Pre-tax profit	153.7	8.9%	179.2	7.8%	+25.5	+16.6%
Tax	(66.1)	-3.8%	(79.0)	-3.4%	-13.0	+19.6%
Net profit for the year	87.7	5.1%	100.2	4.3%	+12.6	+14.3%

At the end of 2006, revenues amounted to Euro 2,311.5 million compared with Euro 1,730.7 million in 2005, disclosing growth of 33.6%; the EBITDA also rose from Euro 321.0 million to Euro 426.7 million, + 32.9%, as did the EBIT, from Euro 178.4 million to 231.3 million, + 29.7%. Net profit disclosed growth of 14.3% despite the fact that 2005 was influenced by an extraordinary event, for Euro 15.5 million, linked to the value writeback of technical fixed assets.

Taking into account the matters indicated above regarding the merger of the Modena companies which took place in 2005, so as to provide a clearer understanding of the economic indicators, a layout is presented featuring the 2005 pro-forma figures including the results of these companies:

Income statement (mln/€)	31-Dec-05 pro-forma	Incr.%	31-Dec-06	Incr.%	Change	Change %
Net sales	2,100.5		2,311.5		+210.9	+10.0%
Change in inventories of finished products and work in progress	2.2	0.1%	2.7	0.1%	+0.5	+23.2%
Other operating costs	44.9	2.1%	50.3	2.2%	+5.4	+12.0%
Raw materials and consumable materials	(1,014.8)	-48.3%	(1,146.7)	-49.6%	-131.9	+13.0%
Service costs	(571.5)	-27.2%	(642.5)	-27.8%	-71.1	+12.4%
Other operating expenses	(49.1)	-2.3%	(46.5)	-2.0%	+2.7	-5.5%
Personnel costs	(270.1)	-12.9%	(296.6)	-12.8%	-26.5	+9.8%
Capitalized costs	144.3	6.9%	194.5	8.4%	+50.2	+34.8%
EBITDA	386.4	18.4%	426.7	18.5%	+40.3	+10.4%
Amm. & Depr.	(170.7)	-8.1%	(195.4)	-8.5%	-24.7	+14.5%
EBIT	215.7	10.3%	231.3	10.0%	+15.6	+7.2%
Adjustments to technical fixed assets	15.5	0.7%	-	0.0%	-15.5	-100.0%
Net financial charges	(41.9)	-2.0%	(52.1)	-2.3%	-10.1	+24.1%
Pre-tax profit	189.3	9.0%	179.2	7.8%	-10.0	-5.3%
Tax	(80.5)	-3.8%	(79.0)	-3.4%	+1.5	-1.9%
Net profit for the year	108.8	5.2%	100.2	4.3%	-8.5	-7.8%

Stated on a consistent basis with 2005, the increases in **Revenues**, from Euro 2,100.5 million to Euro 2,311.5 million (+ 10.0%), should be placed in relation to the rise in gas raw material costs transferred onto sales prices for about half the increase, while about 30% is attributable to the consolidation of the Aspes Group companies and the envisaged tariff increases in the Waste Management and Water areas; the only sector which presents decreasing revenues is that pertaining to Energy due to lower volumes sold.

The increase in **Costs of raw materials**, equating to Euro 131.9 million (+ 12.0%), is linked to the rise in costs associated with the gas raw material, as well as the afore-mentioned consolidation of the Pesaro companies.

The increase in other operating costs (**Service costs** up by Euro 71.1 million and **Other operating charges** down by Euro 2.7 million) amounted in total to Euro 68.4 million (+ 11.0%), feeling the effect of Euro 28.5 million relating to the consolidation of the Aspes Group. Net of this item, the rise in costs emerged as contained at Euro 39.9 million which, if account is taken of the capitalized costs described below for Euro 50.2 million, discloses a decrease in overall operating costs confirming the efficiency of the rationalisation process and the search for further efficiency implemented by the Group since its incorporation.

The **Personnel costs** rose from Euro 270.1 million to Euro 296.6 million in 2006 (+ 9.8%), in line with the previous year as a percentage of revenues. The increase was more than 60% caused by the effect of the Aspes Group companies, Euro +16.6 million; the remaining portion, equating to 3.7%, is linked to the trend in the average unit costs associated with wage increases and a greater use of personnel for customer service activities.

The increase in **Capitalised costs**, which rose from Euro 144.3 million to Euro 194.5 million, is 40% linked to the inclusion of the Modena activities in the Group's organisational sphere, while the remaining portion concerns the investments underway in the water sector.

The Group's consolidated **EBITDA** as at 31 December 2006, increased by 10.4% passing from Euro 386.4 million to Euro 426.7 million, despite the climate trend in the last quarter being particularly mild and thus significantly reducing gas sales; thanks to the contribution of all the other Group areas of activity, this result was therefore extremely positive. The contribution of the Pesaro companies to this result came to around Euro 12.9 million.

The percentage-based incidence of the EBITDA on Revenues increased slightly from 18.4% in 2005 to 18.5% in 2006, despite the consistent increase in the prices of energy raw materials; net of this cost increase, the percentage-based margin rose to 19.3%.

Amortisation, Depreciation and Provisions increased in absolute value by Euro 24.7 million (+14.5%): this increase is mainly attributable to (i) the consolidation of the Aspes Group for around Euro 8 million, (ii) the important investment plan accomplished in the integrated water cycle sector, involving consequent tariff increases, and (iii) plant investments supporting future economic growth.

The year 2006 closed with **EBIT** of Euro 231.3 million, up by 7.2% when compared with last year presented on a consistent basis with the result of the Modena area. This result, significant in relation to the increases in amortisation/depreciation described above, was made possible by the continuation of the action for rationalising and improving the efficiency which the Group specifically focuses on.

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 41.9 million to Euro 52.1 million, involving an increase of 24.3% when compared with 2005 in line with previous period ends. 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 the Aspes Group within the scope of consolidation as well as (iii) the rise in interest rates even if balanced out by a considerable increase in the recognized spreads.

In light of the above, the period closed with **Pre-tax profit** of Euro 179.2 million, down by 5.3% when compared with the previous year, in relation above all else to the extraordinary effect which 2005 benefited from. Net of this effect, there was an increase of 3.1%.

Taxation for 2006 amounted to Euro 79.0 million, with a ratio to Revenues of 3.4% and to Pre-tax profits of 44.1%, compared with 3.8% and 42.5% respectively in the previous year.

The **Net profit** for 2006 amounted to Euro 100.2 million, compared with Euro 108.8 million in the previous year, disclosing a percentage-based decrease of 7.8%.

Analysis of the Group's balance sheet

The evolution of the Group's net capital employed and the sources of financing for the accounting periods as at 31 December 2006 and as at 31 December 2005 are presented below.

Capital employed and sources of financing (mln/€)	31-Dec-05	%	31-Dec-06	%	Change	Change %
Net fixed assets	2,534.5	103.1%	2,921.9	108.6%	387.4	15.3%
Net working capital	238.4	9.7%	167.9	6.2%	(70.5)	-29.6%
Gross capital employed	2,772.9	112.8%	3,089.8	114.9%	316.9	11.4%
Sundry provisions	(315.4)	-12.8%	(400.2)	-14.9%	(84.8)	26.9%
Net capital employed	2,457.5	100.0%	2,689.6	100.0%	232.1	9.4%
Total shareholders' equity	1,483.5	60.4%	1,516.3	56.4%	32.8	2.2%
Net long-term debt	523.7	21.3%	948.7	35.3%	425.0	81.2%
Net short-term debt	450.3	18.3%	224.5	8.3%	(225.7)	-50.1%
Net financial position	974.0	39.6%	1,173.3	43.6%	199.3	20.5%
Sources of financing	2,457.5	100.0%	2,689.6	100.0%	232.1	9.4%

The figures relating to the previous year have been reclassified with regards to amounts due for guarantee deposits and other assets/liabilities in accordance with the international accounting standards and for the purposes of a clearer representation of the current (operative) and non-current (non-operative) assets and liabilities, in line with the matters illustrated in detail in the explanatory notes.

The net capital employed during 2006 increased, passing from Euro 2,457.5 million to Euro 2,689.6 million. However, this situation is the result of the offsetting between the increase in fixed assets, the decrease in net working capital and the increases in provisions.

The return on investment (ROI) dropped from 8.8% in 2005 to 8.6% in 2006, despite rising acquisitions and the significant investments made.

With regards to net fixed assets, there was an increase in tangible and intangible fixed assets which as at 31 December 2006 amounted to Euro 2,351.7 million, as against Euro 2,127.8 in December 2005, as well as in goodwill which rose from Euro 273.4 million to Euro 398.9 million. The increase in fixed assets is due to the elevated amount of investments made during 2006; reference should be made to the pertinent section for details.

Provisions as at 31 December 2006 amounted to Euro 400.2 million, compared with Euro 315.4 million as at 31 December 2005. 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 plant granted under use to the Group owned by the spun-off companies (asset companies).

The decrease in net working capital, which dropped from Euro 238.4 million as at 31 December 2005 to Euro 167.9 million as at 31 December 2006, was of fundamental importance. This decrease was attributable to the implementation of new SAP invoicing systems which resulted in delays in issuing invoices and caused a build-up of receivables from clients and made it impossible to issue reminders during the overdue invoices recovery phase. 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 1,483.5 million to Euro 1,516.3 million, was affected by the payment of the previous year's dividends.

The statement of reconciliation between the statutory financial statements of the Parent Company and the consolidated financial statements as at 31 December 2006 is presented below:

RECONCILIATION BETWEEN THE STATUTORY FINANCIAL STATEMENTS OF THE PARENT COMPANY AND THE CONSOLIDATED FINANCIAL STATEMENTS		
	Net profit	Shareholders' equity
BALANCES AS PER THE PARENT COMPANY'S FINANCIAL STATEMENTS	68,068	1,424,728
Elimination of the effects of transactions between consolidated companies, net of the tax effects:		
- Reversal of the writedown of equity investments in subsidiary companies	2,227	
Effect of the change and standardisation of the accounting policies within the Group, net of the tax effects:		
- Dividends paid	(50,203)	
- Valuation at equity of companies carried at cost in the statutory financial statements	2,996	1,153
Book value of consolidated equity investments		(374,006)
Shareholders' equity and result for the year of the consolidated companies	73,102	314,168
Allocation of differences to the assets of consolidated companies and the related amortisation/depreciation:		
- Goodwill from consolidation		122,965
- Other adjustments	(6,085)	(12,872)
TOTAL	90,105	1,476,135
Allocation of minority interests	10,133	40,208
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS	100,238	1,516,343

Financial situation of the Hera Group

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

Net financial position (mln/€)	31 Dec. 2005	Incr. %	31 Dec. 2006	Incr.%	Change	Change %
Cash on hand	189.1		213.6			
Other current financial receivables	8.4		12.8			
Current financial indebtedness	(647.8)		(450.9)			
Net current financial indebtedness	(450.3)	46.2%	(224.5)	19.1%	225.8	-50.1%
Non-current financial receivables	53.4		19.2			
Financial assets from derivative instruments	3.4		0.0			
Non-current financial indebtedness	(580.5)		(968.0)			
Net non-current financial indebtedness	(523.7)	53.8%	(948.8)	80.9%	(425.1)	81.2%
Net financial indebtedness	(974.0)	100.0%	(1.173.3)	100.0%	(199.3)	20.5%

The net financial position rose with respect to 31 December 2005, passing from Euro 974.0 million to Euro 1,173.3 million as at 31 December 2006. The increase was mainly the result of the important investment plan which is at an advanced stage of completion.

Nonetheless, the different breakdown of medium to long-term financial indebtedness and short-term indebtedness should be noted. This change is attributable to the placement of a Bond during 2006, for nominal value of Euro 500 million and to other new medium/long term transactions for a total of around Euro 250 million. 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.

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

Reference should be made to the section on financial operations for greater details.

Hera Group investments

The tangible and intangible investments of the Group amounted to Euro 321.1 million, as against Euro 331.3 million in the same period of the previous year which, for the purposes of presenting comparative and consistent figures, is inclusive of the measures relating to the Modena area.

During the same period, investments were also made in financial equity investments and acquisitions for a total of Euro 183.7 million relating to the purchase of Hera Rete Modena Srl in the province of Modena, Euro 34.5 million for the SAT Sassuolo purchase, Euro 16.6 million for the increase in the shareholding in Aspes Multiservizi S.p.A., Euro 14.5 million for the acquisition of Geat Distribuzione Gas and the remaining balance for other minor transactions.

Investments in financial equity investments and acquisitions were aimed at increasing potential in the core business sectors and enhancing the territorial presence in neighbouring areas.

Financial equity investments and acquisitions (mln €)	31 Dec. 2005 pro- forma	31 Dec. 2006
SGR Servizi	5.1	-
Aspes Pesaro	0.9	16.6
Calenia Energia	2.8	3.7
SET Teverola	-	7.1
GDG Riccione	-	14.5
Hera Rete Modena	-	106.6
SAT Sassuolo	-	34.5
Other equity investments	6.8	0.7
Total	10.6	183.7

The table below lists the investments by business segment, in the related period:

Total investments (mln €)	31 Dec. 2005 pro-forma	31 Dec. 2006	Change	Change %
Gas segment	44.3	25.4	-18.9	-42.7%
Electricity segment	8.4	14.8	6.4	75.7%
Integrated water cycle segment	76.2	100.2	24.0	31.5%
Waste management segment	100.2	88.8	-11.4	-11.3%
Other services	24.4	35.4	11.0	45.0%
Central structure	77.8	56.4	-21.4	-27.5%
Total	331.3	321.1	-10.2	-3.1%

Investments relating to the gas service in the area in question are mainly relative to expansion, enhancement and upgrading of networks and plant systems. The investments made by the company Medea concern the completion of the second section of the work for the methane conversion of Sassari.

Gas (mln €)	31 Dec. 2005 pro-forma	31 Dec. 2006	Change	Change %
Territory	24.2	23.5	-0.7	-2.7%
Medea	3.8	1.9	-1.9	-50.6%
Plant acquisitions	16.3		-16.3	-100.0%
Total gas	44.3	25.4	-18.9	-42.7%

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 new Imola facility.

Electricity (mln €)	31 Dec. 2005 pro-forma	31 Dec. 2006	Change	Change %
Territory	7.4	10.8	3.3	44.8%
CCGT	1.0	4.0	3.0	315.7%
Total Electricity	8.4	14.8	6.4	75.9%

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 Environment Agencies), consequently reflected in tariff increases. They mainly regard expansion, enhancement and upgrading of networks and plant systems.

Integrated water cycle (mln €)	31 Dec. 2005 pro-forma	31 Dec. 2006	Change	Change %
Aqueduct system	48.4	57.6	9.1	18.9%
Purification system	13.2	18.4	5.2	39.5%
Sewerage system	14.6	24.2	9.6	65.7%
Total water cycle	76.2	100.2	23.9	31.4%

In the waste management area, measures on plants located throughout the area emerged as up slightly with respect to the previous year, whilst in relation to investments made by investee companies, it is necessary to remember that in 2005 measures on the plant of the Ravenna Ecologic Environmental Centre took place for a total of more than Euro 16 million. Investments with regards to waste-to-energy plants were focused on the Modena, Canal Bianco (Ferrara) and Forlì plants.

Waste management (mln €)	31 Dec. 2005 pro-forma	31 Dec. 2006	Change	Change %
Plant	15.4	16.2	0.8	5.1%
Investee company	33.4	12.4	-21.0	-62.9%
FEA	20.0	1.9	-18.1	-90.5%
WTE Canal Bianco (Ferrara)	13.2	26.9	13.7	104.1%
WTE Modena 4th line	15.6	14.6	-1.0	-6.3%
WTE Forlì	2.3	16.5	14.2	615.7%
Other WTE	0.3	0.3	0.0	-4.5%
Total waste management	100.2	88.8	-11.4	-11.4%

District heating service investments concerned extension work to the service mainly in the areas of Bologna (Euro 5.8 million), Imola (Euro 3.9 million), Ravenna (Euro 1.9 million), Forlì Cesena (Euro 1.8 million) and Ferrara (Euro 4.3 million). Telecommunications investments relate to the completion of the regional telecom plan for fibre-optic connections. 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 were mainly focused on the construction of new micro-cogeneration plant within the companies and measures on heating plants linked to the heat management service.

Other services (mln €)	31 Dec. 2005 pro-forma	31 Dec. 2006	Change	Change %
TLR	10.8	17.9	7.0	64.7%
TLC	4.4	2.2	-2.2	-49.7%
Public lighting	3.4	3.7	0.3	8.7%
Heat Management and Micro-cogeneration	2.3	8.2	5.9	256.5%
Other	3.5	3.4	-0.1	-2.4%
Total other services	24.4	35.4	11.0	45.0%

Investments in the central structure were down overall by over 25%. The investments in information systems mainly concerned the bringing onto stream of the corporate computerised

information system with particular reference to the implementation of the new customer system. In the other investments category, investment in the renewal of the operating vehicle fleet was of particular importance (Euro 11.0 million).

Central structure (mln €)	31 Dec. 2005 pro-forma	31 Dec. 2006	Change	Change %
Buildings	12.8	10.9	-1.9	-14.9%
Information systems	34.8	28.4	-6.4	-18.4%
Vehicle fleets	20.0	11.0	-9.0	-45.1%
Other investments	10.2	6.1	-4.1	-40.0%
Total structure	77.8	56.4	-21.4	-27.5%

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. Electricity and gas markets: evolution of the regulatory framework

The start of the new legislature coincided with a considerable push to legislate on the utilities companies sector. Through government and parliament initiatives, by adopting EU laws and enforcing international commitments, the legislator kick-started a radical reorganisation of the laws governing the activity of electricity and gas markets.

The key features of this legislative overhaul are:

- acceleration of the energy markets liberalisation process with emphasis on the legal separation of integrated entities (especially gas infrastructures) and evolution of the role of the regulator (with greater powers, although in keeping with the dynamics of a free market). Once the related bill (so-called Bersani bill) has been approved, the EU laws regulating the final opening to the demand of national energy markets scheduled for 1 July 2007 will be finally adopted.

In keeping with the above-mentioned policy objectives that were set by the new Government while drawing up of the Long-Term Economic and Financial Planning Document, the liberalisation will be accompanied by the rationalisation of sectors such as natural gas distribution, which are sensitive to overall efficiency increases. The benefits will be reaped by users and by the economic system. Therefore, the legislator plans to introduce incentives (still undefined) for the aggregation of industrial entities as well as measures to counteract the fragmentation and uncertainty that characterised the first phase of the “opening to market competition” of gas distribution.

- the reorganisation of the institutions regulating the markets and the consequent rationalisation and gradual expansion of the independence and transparency in regulation to sectors so far characterised by uncertainty. An example is the proposal to extend the powers of regulating the water sector to the Authority for Electrical Energy and Gas, which apparently was not mentioned in the market reform implemented through the so-called Lanzillotta Law (as mentioned later in this document).
- the proposed reform of the system of incentives for renewable sources (Ronchi Bill) including the adoption of a “direct benefit” model against the current “market system” (i.e. certificates corresponding to implicit contents of renewable sources and energy efficiency, exchanged on specific markets). The purpose of the reform is to correct the distortions caused by contradicting and uncoordinated laws, which have raised the costs of the system considerably without apparently increasing the use of alternative sources. The direct support system (mandatory withdrawal prices, diversification by source) tested by more advanced countries in terms of penetration of renewable sources, is said to have the benefit of transparency, of predictability and capacity to “discriminate” in favour of truly

renewable sources. This system, however, raises a few issues around stability of the industry (which has invested in a totally different framework) and around the respect of acquired rights. It is important to point out that the debate on the total reorganisation of the system of incentives to the use of renewable sources seems to have been made sterile, if not completely outpaced, by some occasional interventions that anticipated some aspects of that reform. We are talking about the Finance Bill for 2007, which established direct economic support for raising awareness of renewable sources through dedicated funds but excluded from the “incentives and public funds” support those sources that are not explicitly mentioned in article 2 of the Directive no. 77/2001/CE. The regulation, which influences especially the production of electricity from assimilated sources, for example CIP6 and waste, had no effect on the plants “authorised and effectively under construction”, thus safeguarding the acquired rights.

- the improved definition of policies concerning energy efficiency and the technologies that said efficiency promotes. More specifically, the legislative decree adopting the EU regulation on promoting quality cogeneration was finally approved, whereas the adoption of the framework regulation on energy efficiency targets is currently under discussion. One of the noteworthy elements of this regulation is that it overcomes the limitations of a target allocation policy that applies only to electricity and gas distributors, typical feature of the current national laws. It is worth mentioning also the repeal of a previous regulation developed in a totally different context (the previous law concerning the reorganisation of the energy markets, so-called Marzano law). According to this law, local distributors were not allowed to promote energy efficiency projects and plans in the post-meter phase, which was clearly in contrast with the fundamental EU principles of competition, and did not enable to comply with the obligations set by the related Ministerial Decrees approved in July 2004.

1.1 Electricity: Regulations and the Tariff Framework

In the course of 2006, oil price dynamics and the influence of “systemic” components led the Authority for Electricity and Gas to implement a 5.8% average increase of the **non-eligible electricity tariff**. During the year, the average increase of the tariff was 16.3% gross of taxes, the equivalent of an increase of Euro cents 2.19 per kWh on annual basis. As a result of these adjustments, the average annual expenditure for a typical family (2700 kWh a year) went up by about Euro 59.

The upwards trend that was registered during the entire year and that culminated in the period April-October was partially due to the worsening provisioning conditions encountered by the central purchaser for the electrical power market, which continues to report prices substantially higher than the European average in spite of the gradual introduction of efficient plants (gas-fired combined cycle units).

The Authority, partly in response to the apparent “disconnection” of price-forming mechanisms on the day-to-day market from industry fundamentals, decided to resume analysis of the **behaviour of producers** (“Update of the preliminary investigation on the state of liberalisation of the wholesale electrical power market”, resolution 197/06), after it had concluded during an

earlier investigation that it was plausible that exercise of market power was among the determining factors that had led to structurally high wholesale prices.

At the same time, the Authority completed its reform of the **time slots** on which the public utility price structure is based; the new system, which will go into effect on 1 January 2007, combines the current four slots into three (peak, intermediate, and off-peak) in order to better respond to actual market price forming conditions.

The Authority has also initiated the procedure to comply with the sentence handed down by the Council of State, which provided its definitive judgment of the dispute regarding the value to assign to **distribution assets formerly belonging to Enel** for tariff purposes; these assets were purchased by municipal enterprises as part of the Bersani law, and the court determined their value should be determined based on their sale price, if set by arbitration, or by "financial techniques" when arbitration was not involved.

Through resolution 249/06 the Authority completed the reform of the "avoided fuel cost" component for **compensation of energy provided by CIP6 plants**. This reform became necessary as the adjustment conditions of the avoided fuel cost component, based on gas supply contract conditions dating back to 1998 were no longer aligned to the current gas market structure nor to the provisions issued by the Authority itself concerning bulk gas transport and supply tariffs.

Lastly, of the provisions relevant to the HERA Group's activity, we would like to draw the reader's attention to resolution 188 of 6 August 2006, which established directives for the Compensation Fund on the correct valuation of the contribution of fossil fuels to the functioning of **biomass and waste-fired plants**, and increased the generic limit to 5%. This limit is the "absolute minimum" quantity a plant must use to be considered a "renewable energy plant", and in particular cases (incinerators that recoup energy from dangerous waste) permits managers to submit well-motivated petitions for recognition of a higher admissible threshold on an individual basis.

Among the provisions adopted or currently being finalised with a view to the forthcoming total opening of the electrical power market to competitions, two initiatives deserve to be mentioned: the resolution no. 292/06, which made the installation of **new electronic electricity meters** mandatory in all family homes and in small-size companies and the start of the consultations regarding the **revision of distribution tariffs** for home users and the creation of tools enabling final customers to compare energy sales prices.

In view of the start of the 3rd regulatory period for electricity supply and conditions and rules (October 2008 – September 2011), the Authority started a discussion with the operators around tariffs and the regulation of the service quality. The future regulation is expected to result in a revision of the incentives system: given the improvement (in terms of organisation and technology) registered in connection with service continuity and quality, it seems reasonable to expect the introduction of stricter criteria, also in terms of type of customers interested in the indemnities, applicable to the granting of "quality bonuses". On the other hand, it is likely that tariff incentivisation principles, which are already in place in other sections of the regulation, will be adopted and used to support investments in quality through

differential remuneration. There is currently a debate, albeit in its early stages, whether the standard nature of the electricity tariff should be abandoned. The Authority, however, stresses its willingness (expressed also by operators) to simplify the current complex standardisation system.

1.2 Natural Gas: Regulations and the Tariff Framework

Particularly complex are the events that affected the **economic conditions for the supply of natural gas to non eligible final customers**.

In March 2006 the Council of State accepted an appeal filed by the Authority against one of the trial ruling issued by the Lombardy Regional Administrative Court (TAR) through which resolution 248/04 was annulled. Through this resolution, the regulator had radically changed the reform mechanism of the economic conditions for the supply of natural gas to “protected” final customers, also with the aim of neutralising the effect of the ongoing increases in international oil prices.

Without waiting for the Council of State’s decision on the large number of rulings still pending on this matter, and in compliance with the principles illustrated in resolution 248/04, the Authority adjusted the “raw material” component through a series of provisions, subsequently contested by the operators, the purpose of which was to regulate the supply conditions for 2006.

Contextually to the usual adjustments for the second quarter of 2006 (resolution 63/04, as a result of which the economic conditions increased by 2.1% on average, despite the “repressive” effect of the final prices exercised by the updating mechanism introduced with resolution 248/04 and subsequently reconfirmed by resolution 298/05) the Authority:

- introduced a “discount” of Euro cent 0.25 per cubic metre on the tariff as partial compensation for any sums owed by sellers to end customers due to failure to apply previous resolution 195/02 in the stead of 248/04 in 2005
- asked retailers to document contacts and negotiations with wholesalers in order to check for compliance with the provisions set out by article 2 of resolution 248/04, which introduced a generic “shifting principles” according to which wholesalers were obliged to offer economic conditions to sellers that were consistent with the regulations on final prices
- launched a review of the entire issue, motivated also by the serious created by the opposition that natural gas operators put up against the above-mentioned provisions. The revision terminated with the adoption of resolution 28 June 2006, no. 134.

Resolution 134/06:

- establishes an increase in the economic conditions of supply of Euro cents 15 until July 2008 in order to cover greater fixed sales costs;

- allows for a nearly total recovery of greater provisioning costs if systematic increases raise the price of oil over \$ 60 a barrel;
- introduces a “renegotiation incentive” in the form of retrocession to the seller of 50% of the difference between the economic conditions (more favourable to the retailer) triggered by the application in 2005 of resolution 195/2002 and the new conditions set out by resolution 248/04 for sellers that prove they have negotiated with their wholesalers to obtain provisioning conditions in line with new adjustment criteria for the “resource” component.

However, resolution 134/06, also contested in front of the administrative justice, does not mention the criteria that can be used to cover higher costs borne by sellers in the first half of 2006 as a result of the application of the new adjustment mechanism introduced by resolution 248/04. In addition, said resolution does not clarify the application mechanism through which it would be effectively possible for sellers to shift to wholesalers the increased expense deriving from the revision of the final prices.

With regards to the concrete effects of the provisions on tariff adjustments, it is to be noted that resolution 134/06 increases conditions of supply to non-eligible customers by an average of 4.2% (Euro cents +1.78 per cubic metre) for the quarter July-September 2006, whereas the subsequent tariff adjustments (until the first quarter of 2007) left the conditions of supply essentially unchanged, as the change rate of the “basket of reference prices” remained within the invariance range in terms of effect on final prices.

In the meantime, hearings were held in November 2006 following the appeal by the consumers’ association against some of the other rulings by the Lombardy Regional Administrative Court, which annulled resolution 248/04. These appeals had been proposed by the consumers associations in order to “bypass” the fact that the appeals, previously presented by the Authority against the above-mentioned rulings, had already been rejected by the Council of State, albeit purely for reasons of form.

In rejecting the appeal, the Council of State annulled the effect of resolution 248/04 given that the ruling by the Regional Administrative Court in favour of the companies had become final.

Bearing in mind that resolution 248/04 is a general and indissoluble administrative deed, it is highly unlikely that the Authority will not take note of the fact that the voiding is set to be applied not only to operators who were involved in the ruling, but also to all the (other) retailers.

In the light of this, it seems reasonable not to rule out the possibility that the Authority might shortly implement new regulatory measure (the quarter April-June 2007 is approaching fast and during that period the Authority is expected to adjust the economic conditions).

Finally, as things stand right now, the overall effectiveness of the regulation of gas supply to non-eligible final customers cannot be defined as certain. The economic effect of the economic conditions for the supply is difficult to estimate, and so is the measurement of its potential effect on sellers.

With regards to the tariff criteria related to the **distribution** activity, following the outcome of the proceeding that started in July 2006, the Authority integrated resolution 170/04 with

resolution dated 4 October 2006, no. 218/06 in the section regarding the application of productivity recovery.

On this point, it is worth reminding that the Authority was obliged to comply with the judgments of the Administrative Judges, who had previously annulled resolution 170/04 whereby it left the productivity recovery rate essentially unchanged for the whole of the 2nd regulatory period.

According to resolution 218/06:

- the productivity recovery rate (5% for the thermal year 2004-2005) will be reduced in the subsequent thermal years, namely set at 4.8%, 4.6% and 4.4% in the thermal years 2005-2006, 2006-2007 and 2007-2008 respectively;
- mechanism will be put in place to ensure that the companies undergoing mergers that will result in a reduction in the overall number of distributors and in the productivity recovery rate, will be rewarded starting from the year 2005-2006. The higher the level of aggregation and the more recent the mergers, the higher will be the reward. In order for the incentive to be granted at one's word, it is necessary to present a specific request within the deadlines and according to the conditions set out in the provision.

The **Network Type Code** was also approved and published for distribution using local gas pipelines. Retailers may adopt it without further formality, or, if they so desire, they may introduce their own code, which then needs to be approved by the Authority beforehand.

Through resolution 294/06, the Authority implemented **national communication standards among natural gas operators**, aimed at rationalising the information flow between the 390 natural gas sellers and the 430 or so local distributors.

More specifically, these standards will be applied to the benefit of all the final customers connected to the gas distribution network in order to improve sales quality performance and to replace the seller in the gas supply. These standards will include:

- a compulsory, basic option, characterised by the use of a certified e-mail system;
- the opportunity for the distributor to adopt more advanced communication methods as an alternative to certified e-mails, such as “application-to-application” and/or web-based applications.

Finally, the provision concerning the adjustment and reform of **accounting separation** rules was published in January 2007. In line with the EU regulations, this provision introduces the use of new **functional separation** rules.

Whilst the reform of the accounting separation rules (extensively shared with the operators) brings about more clarity in the item allocation criteria, and therefore a higher level of certainty in drawing up the financial statements, on the other hand the new rules on functional separation entail more difficulties in evaluating the organisation and management of companies. Guidelines on accounting separation rules and further clarifications on the functional separation principles are due to be issued in spring 2006. Only once the regulatory framework has been completed will it be possible to correctly and accurately assess the effects of the new legislation.

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

Through the bill no. 772 (so-called Lanzillotta bill, as mentioned in the introduction) the Government proposed a **complete overhaul of local public services** with a view to introduce more competition.

Despite the need to introduce organic and consistent “market rules” in public local services (specifically, waste and water service) expressed by the industry and experts, also motivated by the serious uncertainties caused by the coming into effect within a short space of time of competition regulations that sometimes contradict each other, the reform does not appear to tackle some key issues. First of all, it excludes the integrated water service and, secondly, does not take sufficiently into account the issue of a homogeneous, transparent and stable regulation of services regardless of the proprietary and institutional infrastructure in which the provision of the services takes place. The Bill is currently being discussed by Parliament. An evaluation of the effect of the new law will only be possible at a later stage. Below are some considerations on the text currently being scrutinised by the Parliament and on some amendment proposals under discussion.

It is expected that the reform of economically important local public services, which must be coordinated with other structural provisions, will act in support of the spread of an industrially-oriented management model and the stabilisation of the regulatory framework.

The bill delegates the rule on allocating the services to public procedures but excludes the integrated water service.

The reform ensures the regulation of the “transition” with a view towards the definitive opening to the market, in order to protect the rights acquired by entities that have based their investment plans and industrial strategies on certain credit line durations.

On the basis of the recommendations that independent Market Supervision Authorities (AEEG and AGCM) put forward to the Government at the end of December 2006, the amendments aimed at restricting the use of the in-house model were presented on 9 February.

Legitimacy would be recognised only to direct credit lines in favour of fully public companies or of companies, in which local entities have a stake, that carry out an activity predominantly in favour of the owners and according to the parameters of EU legislation, only if they adopt specific economic, social and environmental conditions.

At the same time, the proposed amendments would tend to attribute to regulation, antitrust or specific sector authorities the powers to pre-emptively control the reasons that the entities to which the services are assigned may adopt in order to avoid public procedures.

The **environmental issue**, as defined by the legislative decree no. 152/06 (which, it is reminded, redefined the legislation on waste, water, air quality, compensation principles for environmental matters on environmental evaluation procedures and the subsequent

authorisations), published in the Official Gazette on 19 April 2006 and by subsequent implementation decrees, is currently being completely revised.

In July 2006 all the implementation decrees were declared ineffective and the complete revision of the text was proposed, also within the framework of the current review of the general legislation on local public services, the correct regulation of the tariff method, the reorganisation of environmental “planning” and the true concept of “waste”. The reform of the “consolidated environmental act” (as legislative decree no. 152/06 is sometimes erroneously called) is currently under scrutiny by an ad-hoc Commission of Experts appointed by the Ministry for the Environment.

While we wait for future developments, it is possible to say that the laws that, when the legislative decree was issued, promised to have unsettling effects on the organisation of some local services (particularly affected was going to be the waste management service, which would be subject to an in-depth revision of the concept of “waste” as well as to the introduction of an integrated management model whose only assignment method was the public procedure) seem to have been essentially “neutralised”. The sections of the law modifying the authorisation procedures are set to come into effect in 2007, in absence of intervention not yet planned to date.

Besides, through a specific urgent decree, the “embryonic regulator” set up by the legislative decree was removed while the powers and the structure of the previous supervisory bodies (COVIRI) were reinstated. As a result, the expected introduction of a regulation – nationwide framework for tariff and quality – is unequivocally connected with the development of the aforesaid total reform of public utilities services, particularly with the bill on sector authorities.

2.01.02.03 Tariffs

1. Gas Distribution tariff framework

By issuing resolution no. 218/06, AEEG completed the revision of the legislation on gas for the current regulatory period, providing sellers with a stable legal framework around the tariff-setting mechanisms for the above-mentioned period. Following the administrative appeal filed by some distributors, the resolution of reference for gas distribution (170/04) had been suspended in its original form by the ruling of the Lombardy Regional Administrative Court of February 2005. On the basis of this ruling, in August 2005 AEEG issued resolution no. 122/05, which adopted only some of the motions included in the appeal, in particular introducing the algorithm for the reversal of real investments made by the companies into the tariffs. However, what was left unfinished was the revision of the values of the scheduled productivity recovery rate on recognised management costs and on technical amortisation of capital. Said revision was defined, in its calculation values and mechanism, in October 2006 through resolution no. 218/06 illustrated above.

Thanks to the important merger operations concluded by Hera over the last few years, the incentive mechanism included in resolution no. 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.

The recent resolution no. 53/07 issued by AEEG in March 2007 formally approved the distribution tariffs for the thermal years 2005/06 and 2006/07 on the basis of the new elements introduced by resolution no. 218/06. Hence the Financial Statements for 2006 of Hera Spa, with regards to gas transport revenues, reflect the above-mentioned approvals and is therefore based on stable tariff parameters.

Against this backdrop, like-for-like gas transport revenues for 2006 amounted to Euro 119 million, with distribution volumes of about 2.2 billion of cubic metres, with a corresponding average unit tariff of Euro cents 5.34 per cubic metre.

HERA COMM MEDITERRANEA S.r.l. (formerly CALES S.r.l.) Share Capital €50,000 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: Zona Industriale ASI Nord - 81032 Carinara (CE)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 50.010%
ECOLOGIA AMBIENTE S.r.l. Share Capital €20,000,000 fully paid-up. Investee company of HERA S.p.A. since 10/2004		
OFFICE: Via Baiona 182 - 48100 RAVENNA	Shareholder	Equity investment in €
HERA S.p.A.		Interest 100.00%
ECOSFERA S.p.A. Share Capital €1,000,000 fully paid-up. Investee company of HERA S.p.A. since 31/12/2004		
OFFICE: Via Stefano Trenti 52 - 44100 FERRARA	Shareholder	Equity investment in €
HERA S.p.A.		Interest 51.000%
ENERGIA ITALIANA S.p.A. Share Capital €26,050,000 fully paid-up. Investee company of HERA S.p.A. since 2001		
OFFICE: Via Giovanni Battista Pirelli 20 - 20124 MILAN	Shareholder	Equity investment in €
HERA S.p.A.		Interest 11.00%
ESTENSE GLOBAL SERVICE S.c.a.r.l. Share Capital €10,000 fully paid-up. Investee company of HERA S.p.A. since 31/12/2004		
OFFICE: Via M.N. Platis 5/c - 44100 Ferrara	Shareholder	Equity investment in €
HERA S.p.A.		Interest 23.000%
FAMULA ON-LINE S.p.A. Share Capital €4,364,030 fully paid-up. Investee company of HERA S.p.A. since 2001		
OFFICE: Viale Carlo Bert Pichat 2/4 - 40127 Bologna (BO)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 60.00%
FRULLO ENERGIA AMBIENTE S.r.l. Share Capital €17,135,100 fully paid-up. Investee company of HERA S.p.A. since 2000		
OFFICE: Viale Carlo Bert Pichat 2/4 - 40127 Bologna (BO)	Shareholder	Partecipazione in €
HERA S.p.A.		Partecipazione 51.000%
GALVA S.p.A. Share Capital €300,000 fully paid-up. Investee company of HERA S.p.A. since 1997		
OFFICE: Viale Carlo Bert Pichat 2/4 - 40127 Bologna (BO)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 60.00%
HERA IMOLA-FAENZA S.r.l. Share Capital €750,000 fully paid-up. Investee company of HERA S.p.A. since 21/10/2002		
OFFICE: Via Casalegno 1 - 40026 IMOLA	Shareholder	Partecipazione in €
HERA S.p.A.		Partecipazione 100.000%
HERA BOLOGNA S.r.l. Share Capital €1,250,000 fully paid-up. Investee company of HERA S.p.A. since 21/10/2002		
OFFICE: Viale Carlo Bert Pichat 2/4 - 40127 Bologna (BO)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 100.00%

For the purpose of a comparison with 2005, the revenues for 2006 exclude those by former Geat Distribuzione Gas Riccione, which amounted to Euro 118 million with volumes of about 2.2 million of cubic metres of gas distributed.

Therefore, given the 8% reduction in distribution volumes due to unfavourable climate, revenues in 2006 decreased by 7%. The lower revenues seem to have been slightly mitigated, in comparison with the decrease in volumes, thanks to an average increase of the tariff by about 1%, mainly attributable to the tariff revisions introduced by the AEEG resolution 218/06.

The consolidation perimeter for 2006 includes also the Aspes Group. Reported below are the consolidated revenues from gas transport, distributed volumes and average unit tariff for the Hera Group. Compared to what we said above regarding the legal framework, it is noted that Aspes Multiservizi S.p.A. did not benefit from incentives recognised by AEEG to Hera S.p.A. in relation to the scheduled productivity recovery rate.

ACANTHO S.p.A. Share Capital €15,675,781 fully paid-up. Investee company of HERA S.p.A. since 2000		
OFFICE: Via Molino Rosso 8 - 40026 IMOLA (BO)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 47.457%
AGEA RENT S.p.A. Share Capital €15,000,000 fully paid-up. Investee company of HERA S.p.A. since 31/12/2004		
OFFICE: Piazza Municipale - FERRARA	Shareholder	Equity investment in €
HERA S.p.A.		Interest 39.725%
AGRESS S.p.A. Share Capital €79,750 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: P.zza Falcone e Borsellino 23 - 47100 FORLÌ	Shareholder	Equity investment in €
HERA S.p.A.		Interest 21.412%
AKRON S.p.A. Share Capital €1,152,940 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: Via Molino Rosso 8 - 40026 IMOLA (BO)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 57.50%
AMBIENTE 3000 S.r.l. Share Capital €100,000 fully paid-up. Investee company of HERA S.p.A. since 01/05/2003		
OFFICE: Viale Carlo Bert Pichat 2/4 - 40127 Bologna (BO)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 51.000%
AMBIENTE MARE S.p.A. Share Capital €2,000,000 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: Via del Marchesato 35 - 48053 MARINA DI RAVENNA (RA)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 15.00%
ARER S.p.A. Consortile Share Capital €1,125,240 fully paid-up. Investee company of HERA S.p.A. since 1995		
OFFICE: Viale Carlo Bert Pichat 2/4 - 40127 Bologna (BO)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 100.000%
A.S.A. S.p.A. Share Capital €1,520,000 fully paid-up. Investee company of HERA S.p.A. since 1994		
OFFICE: Via Saliceto 43/2 - 40018 CASTEL MARCHESATO (BO)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 51.00%
ASPES MULTISERVIZI S.p.A. Share Capital €10,963,627 fully paid-up. Investee company of HERA S.p.A. since 2002		
OFFICE: Via dei Canali 134 - 61100 PESARO	Shareholder	Equity investment in €
HERA S.p.A.		Interest 49.791%
CALANIA ENERGIA S.p.A. Share Capital €100,000 fully paid-up. Investee company of HERA S.p.A. since 23/09/2004		
OFFICE: Via Appia - Area Industriale ex Pozzi, Sparanise (CE)	Shareholder	Equity investment in €
HERA S.p.A.		Interest 15.00%

2. Electricity Distribution: tariff framework

For the tariff system governing electricity distribution, 2006 was the third year of the current regulatory period and hence represented a year of considerable tariff stability, which saw consolidation and full application of the principles ratified by AEEG resolution 5/04, namely:

- the removal from the distribution tariff for customers with uses other than domestic of the components relating to the services of transmission, metering and marketing, transferred to the sales tariff and applied on the customers of the restricted market (with considerable perimeter variation of the tariff in 2004);
- the launch of the general standardisation of revenues, obtained by the application of the D2 and D3 tariffs to domestic customers, using, as reference the D1 tariff;
- the transfer to the sales portion of the component covering the costs of dispatchment, activity which, with the launch of the electricity exchange, is performed by Acquirente Unico;
- a scheduled productivity recovery level (X-factor) equal to 3.5% pa. for distribution and 2.5% p.a. for transmission.

Against this tariff backdrop the revenues from electricity distribution in 2006 were equal to approximately Euro 44 million with distributed volumes equal to approximately 1,900 Gwh with an average unitary tariff of Euro cents 2.32 per kwh.

List of Group Companies valued with the Equity Method

Name	Registered office	Share capital	Percentage held		Total	Overall share
			Direct	Indirect		
Acantho S.p.A.	Imola (BO)	15,875,781	47.46%		47.46%	47.46%
Adriatica Acque S.r.l.	Rimini (RN)	89,033		26.21%	26.21%	26.21%
Agea Reti S.r.l.	Ferrara	19,000,000	39.72%		39.72%	39.72%
Agess s.c.ar.l.	Forlì (FC)	79,750	21.44%		21.44%	21.44%
Attivabologna S.r.l. Cons. in liquid.	Bologna	2,558,600		96.40%	96.40%	96.40%
DYNA Green Srl	Milano	30,000		33.33%	33.33%	33.33%
Estense global service	Ferrara	10,000	23.00%		23.00%	23.00%
FlamEnergy Trading GmbH	Vienna	400,000		50.00%	50.00%	50.00%
Modena Network S.p.A.	Modena	2,000,000	30.00%		30.00%	30.00%
Oikoten S.c.r.l.	Siracusa	1,101,730		46.10%	46.10%	46.10%
Refri S.r.l.	Reggio Emilia	2,800,000	20.00%		20.00%	20.00%
SAT S.p.A.	Sassuolo (MO)	27,752,560	46.50%		46.50%	46.50%
SGR Servizi SpA.	Rimini	5,264,000		20.00%	20.00%	20.00%
Service Imola S.r.l.	Borgo Tossignano (BO)	10,000	40.00%		40.00%	40.00%
SET S.p.A.	Milano	120,000	39.00%		39.00%	39.00%
Sinergie Ambientali S.r.l.	Bologna	100,000	50.00%		50.00%	50.00%

Note: the figures for 2005 were normalised in order to provide a like-for-like comparison with 2006.

For the purpose of a comparison with 2005 (excluding the former Hera Rete Modena Srl grids) and on the basis of a normalised accounting method, like-for-like revenues were about Euro 35 million (+4.5%) with volumes of about 1,600 GWh (+2.9%) of gas distributed and an average unitary tariff of Euro cents 2.29 per kWh (+1.6%). This increase is mainly due to the effect of resolution 202/05 concerning the adjustment of tariff parameters applicable to distribution tariff options for 2006.

3. integrated water service: tariff framework

In 2006, the tariffs for the Integrated Water Service resolved by AATO were applied in accordance with the agreements signed at the end of 2004. The tariff convergence process, which began in 2005, continued also in 2006 and will lead to full application of the normalised method in the next few years.

Overall, revenues from tariffs related to the management of the water cycle of Hera SpA amounted to Euro 315.3 million, with 233.1 million cubic metres of water sold, with an average tariff of Euro cents 135.3 per cubic metre.

In comparison with the previous year, the average unitary tariff went up by 4.9% and this increase is entirely due to the application of the tariffs resolved by AATO.

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Thanks to the consolidation of the Aspes Group, the revenues from the integrated water service recorded by the Hera Group for 2006 amounted to Euro 330.5 million, with 243.7 million cubic metres sold.

Euro	receivables	payables	revenues	costs
Municipality of Bologna	17,623,042	4,960,446	67,406,112	7,464,634
CON. AMI	7,034,649	4,402,558	4,302,307	4,412,270
Romagna Acque SpA	36,749	7,246,777	130,773	23,226,788
Unica reti assets	880,302	4,755,255	143,716	10,481,325
AMF assets	29,286	33,938	18,368	51,267
AMIR assets	507,223	1,875,937	407,369	2,681,966
AREA assets	671,213	1,643,430	798,146	6,211,466
TEAM assets	484,566	701,884	6,625	1,929,270
SIS SpA	1,788,340	790,545	68,629	2,370,805
Municipality of Modena	5,447,493	14,404,560	11,801,676	5,040,854

4. Urban Hygiene: tariff framework

In 2006 the Urban Hygiene service (excluding the ASPES Group) was supplied to 133 municipalities.

Of these, 47% (62 municipalities) adopted the tariff system in accordance with Presidential Decree 158/99 covering 62% of the population in the areas served. Following the consolidation of the Aspes Group, which serves an area covering 10 municipalities, 9 of which have already adopted the tariff system in accordance with Presidential Decree 158/99, a total of 143 municipalities were served by the Hera Group in 2006.

The application of the normalised method continues to be quite inhomogeneous, with a clear gap between expected and actual revenues and a cost coverage equal to about 93% of the entire area.

Urban Hygiene (excluding ASPES)	2005 (final)	2006 (final)	Increase (%)
Revenues (million Euro)	280.7	295	5%
Population served (million cubic metres)	2,294	2,305	4.70%
Average unitary revenue (Euro per inhabitant)	122.4	127.8	4.40%

Urban Hygiene including consolidated ASPES)	2005 (final)	2006 (final)	Increases (%)
Revenues (million Euro)		318	n/a
Population served (million cubic metres)		2,439	n/a
Average unitary revenue (Euro per inhabitant)		130.4	n/a

Net of the consolidation of the Aspes Group, the revenue for 2006 of the Urban Hygiene service franchised to Municipalities increased by 5% compared to 2005, mainly due to the following factors: a growth in the population served by 1%, an increase in tariffs by about 2%, the recovery of revenues lost for tax avoidance by about 1% and changes in services for the remaining part

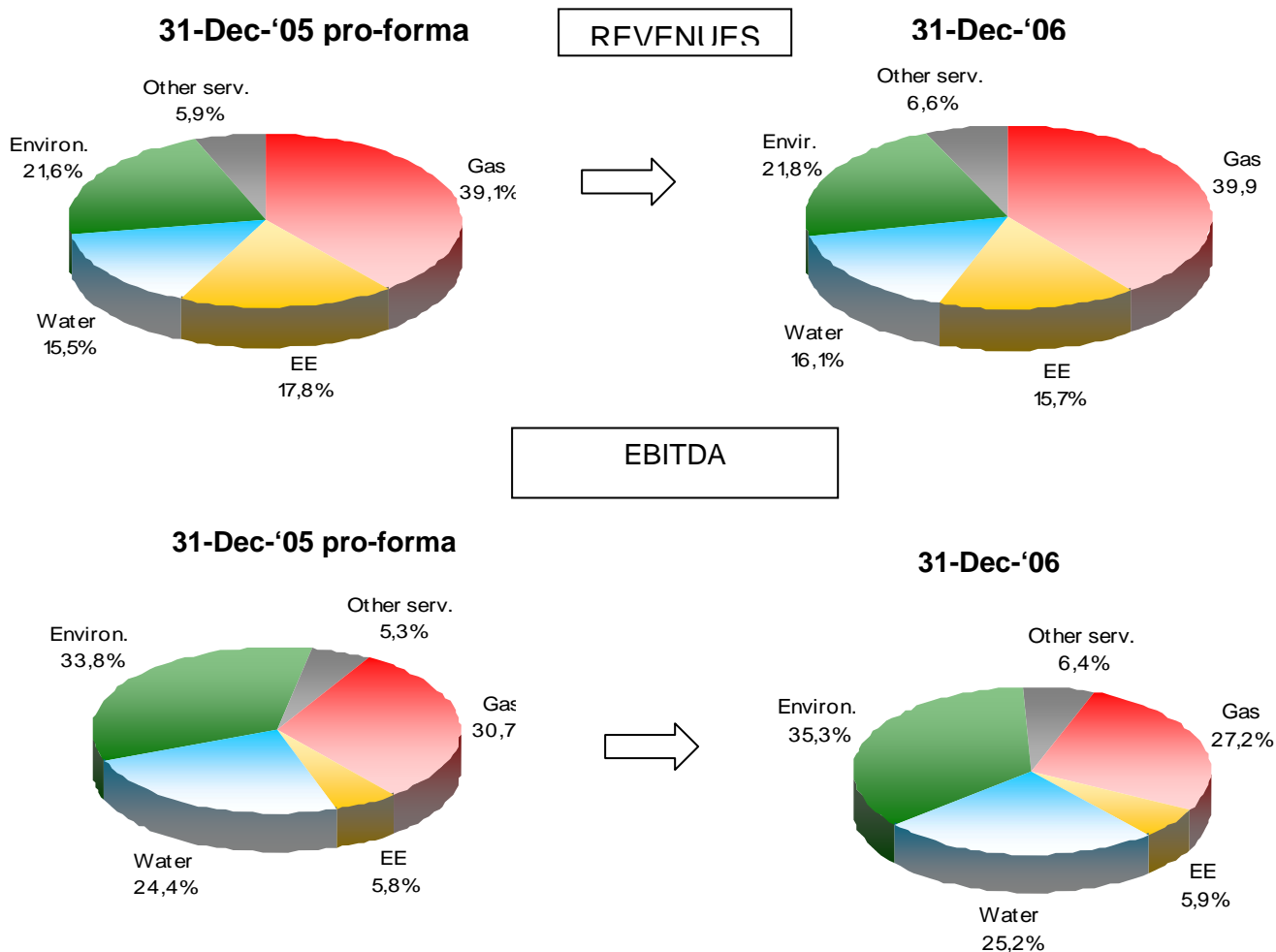
2.01.02.04 Analysis by Business Segment

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 (Aqueducts, Purification and Sewerage), (iv) Waste Management Sector (Waste Collection and Treatment) and (v) other activities (District Heating, Public Lighting, Heat Management and other minor services).

The business areas did not undergo any substantial change in 2007: the importance of the Waste Management area increased and that of the gas area decreased with regards to the contribution towards EBITDA. With regards to revenues, the percentage-related importance of the Energy segment dropped especially in relation to the consolidation of the Pesaro company which does not perform activities in this business area.

In order to provide the necessary details on performance in 2006, an analysis is shown of the various business segments in which the Group operates, presented on a comparative basis with the 2005 figures inclusive of the former Meta areas. The breakdown and evolution for the corresponding periods of 2005 and 2006 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 segment include structural costs, including inter-divisional economic transactions valued at current market prices and, for 2005, as envisaged, have been made consistent including the figures relating to the integrated Modena area.

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.

Analysis of the Gas Segment

During 2006 the importance of the Gas segment, which includes sales and distribution activities, decreased when compared with the same period last year by more than three percentage points in terms of margin contribution, in favour of the Group's other business segments.

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

(mln/€)	31-Dec-05 pro-forma	31-Dec-06	Change	Change %
Area Ebitda	118.4	116.1	-2.3	-2.0%
Group Ebitda	386.4	426.7	+40.3	+10.4%
Percentage	30.7%	27.2%	-3.4 p.p.	

The results of the Gas segment were down with respect to the previous year due to the exceptionally mild climate during the last two months of 2006, which caused a sharp decrease in volumes distributed and sold; said results were also affected by the intervention of the Electricity and Gas Authority (AEEG) relating to the reduction of the sales tariffs (resolution No. 134/06) as from July 2006. During 2006, as already mentioned previously, the rise in the cost of the raw material due to the elevated level reached by oil prices should also be taken into account, along with the commercial aggressiveness of the competition on business customers.

The results are summarised below:

Income statement (mln/€)	31-Dec-05 pro-forma	Incr.%	31-Dec-06	Incr.%	Change	Change %
Revenues	871.2		987.6		+116.4	+13.4%
Operating costs	(733.5)	-84.2%	(856.9)	-86.8%	-123.4	+16.8%
Personnel costs	(43.5)	-5.0%	(44.1)	-4.5%	-0.6	+1.4%
Capitalized costs	24.3	2.8%	29.5	3.0%	+5.3	+21.7%
Ebitda	118.4	13.6%	116.1	11.8%	-2.3	-2.0%

Revenues in the Gas segment rose by 13.4%, passing from Euro 871.2 million in 2005 to Euro 987.6 million in 2006, due to the consolidation of the Pesaro companies for a total of Euro 21.0 million and the rise in the raw material cost, transferred onto the sales price, partially offset by lower volumes distributed and sold.

The change in the distribution tariff also affected the Revenues item, passing from 5.3 to 5.4 €/cents on average per cubic metre.

The following table shows the trend in the main quantitative factors which contributed towards determining the distribution and sales activity results; readers are informed that besides being affected by a milder spring than in the previous year, the climatic trend in 2006 saw the last quarter of the year featuring exceptionally high temperatures. Trading activities decreased due to the drop in interest shown by international suppliers for the Italian market and the lower transportation capacity acquired by the Group.

Quantitative data	31-Dec-05 pro-forma	31-Dec-06	Change	Change %
Number of customers (thousand units)	939.6	958.4	+18.8	+2.0%
Distributed volumes (millions of cm)	2,399.1	2,229.7	-169.4	-7.1%
Volumes sold (millions of cm)	2,786.3	2,409.0	-377.3	-13.5%
- of which Trading	447.6	267.4	-180.3	-40.3%

With regards to the climatic trend described above, distributed volumes dropped from 2,399.1 million cubic metres in 2005 to 2,312.3 million in 2006, despite the 82.5 million cubic metres deriving from the consolidation of the Aspes Group of Pesaro. Volumes sold decreased to a greater extent mainly as a result of the lower volumes handled for trading activities.

With respect to the previous year, the Group registered a decrease in EBITDA in the Gas segment, in relation to the afore-mentioned effects, of Euro 2.3 million, passing from Euro 118.4 million to Euro 116.1 million. Net of the contribution from the Pesaro area companies, the decrease would have come to Euro 5.2 million, or 4.4%.

As a result of the afore-mentioned increase in the raw material cost transferred onto sales prices and the aforesaid loss in profitability, the percentage margin fell from 13.6% in 2005 to 11.8% in 2006.

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 Energy segment acquired a percentage-related dimension which, on the same basis as 2005, would have come to 6.5%, but with the consolidation of the Pesaro area which is not active in this business area, the increase was contained at 5.9%. It is noted that, before the acquisition of the Modena area, the percentage-based importance did not exceed 2.8%.

(mln/€)	31-Dec-05 pro-forma	31-Dec-06	Change	Change %
Area EBITDA	22.5	25.2	+2.7	+12.2%
Group EBITDA	386.4	426.7	+40.3	+10.4%
Percentage	5.8%	5.9%	+0.1 p.p.	

An increase in the raw material cost, having already been noted in the Gas area, was also seen in the Energy segment, but in relation to the limited availability of electricity it was considered appropriate to shift towards customers with a higher EBITDA margin as indicated previously.

An analysis of the results in the energy segment is presented as follows:

Income statement (mln/€)	31-Dec-05 Pro-forma	Incr.%	31-Dec-06	Incr.%	Change	Change %
Revenues	396.7		389.4		-7.3	-1.8%
Operating costs	(369.6)	-93.2%	(362.1)	-93.0%	+7.5	-2.0%
Personnel costs	(9.2)	-2.3%	(16.0)	-4.1%	-6.8	+73.8%
Capitalized costs	4.6	1.2%	14.0	3.6%	+9.4	+205.6%
Ebitda	22.5	5.7%	25.2	6.5%	+2.7	+12.2%

Sales revenues decreased by 1.8%, passing from Euro 396.7 million in 2005 to Euro 389.4 in 2006; three main factors, which followed differing trends, affected this result: the aforementioned increase in the cost of the raw material transferred onto the sales price, an increase in volumes sold to non-eligible customers essentially linked to the acquisition of the former Enel network and to a substantial drop in volumes sold to eligible customers due to the commercial repositioning, as well as increased competitive pressure.

(mln/€)	31-Dec-05 pro-forma	Incr.%	31-Dec-06	Incr.%	Change	Change %
Sales revenues	280.1	50.0%	271.4	50.0%	-8.7	-3.1%
- of which non-eligible customers	55.9	10.0%	73.0	13.4%	+17.1	+30.5%
- of which eligible customers	224.2	40.0%	198.4	36.6%	-25.8	-11.5%
Distribution revenues	40.0	7.1%	43.4	8.0%	+3.4	+8.6%
Other	76.6	13.7%	74.6	13.7%	-2.0	-2.7%
Total revenues	560.2	100.0%	542.7	100.0%	-17.5	-3.1%

Operating costs decreased as a result of lower volumes sold and despite the additional work capitalised.

Personnel costs rose considerably both as a result of the acquisition of the former Enel network in the province of Modena and the additional work capitalised.

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

Quantitative data	31-Dec-05 pro-forma	31-Dec-06	Change	Change %
Number of customers (thousand units)	177.5	263.7	+86.2	+48.6%
of which non-eligible / only distribution	165.8	246.2	+80.4	+48.4%
of which eligible	11.6	17.5	+5.9	+50.5%
Volumes sold (Gw/h)	3,754.8	3,133.1	-621.7	-16.6%
Non-eligible customers	720.1	828.4	+108.3	+15.0%
Eligible customers	3,034.7	2,304.7	-730.0	-24.1%

The EBITDA rose in 2005, passing from Euro 22,5 million to Euro 25.2 million, +12.2%, despite the lower volumes sold, thanks to the contribution from the former Enel network, the synergies permitted by the incorporation of the Modena area and confirming the efficacy of the sales action adopted.

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 2.5 million inhabitants, with a more or less complete coverage of the area in question.

Hera operates in 7 ATOs coinciding with the Provinces of Ravenna, Ferrara, Forlì-Cesena, Rimini, Modena, Bologna and Pesaro.

Agreements were set up with all 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.

Also in relation to that set forth above, the Integrated Water Cycle Segment demonstrated improved results above the Group average, and improves its percentage weight, as shown in the table below:

(mln/€)	31-Dec-05 pro-forma	31-Dec-06	Change	Change %
Area EBITDA	94.3	107.5	+13.2	+14.0%
Group EBITDA	386.4	426.7	+40.3	+10.4%
Percentage	24.4%	25.2%	+0.8 p.p.	

The results at the end of 2006 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 the volumes lower than in the past.

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

Income statement (mln/€)	31-Dec-05 pro-forma	Incr.%	31-Dec-06	Incr.%	Change	Change %
Revenues	346.2		398.4		+52.2	+15.1%
Operating costs	(263.2)	-76.0%	(319.2)	-80.1%	-56.0	+21.3%
Personnel costs	(75.4)	-21.8%	(85.3)	-21.4%	-9.9	+13.2%
Capitalized costs	86.7	25.0%	113.6	28.5%	+26.9	+31.1%
Ebitda	94.3	27.2%	107.5	27.0%	+13.2	+14.0%

During 2006, revenues were generated for a total of Euro 398.4 million, up by 15.1% when compared with 2005, in relation to: the consolidation of the Aspes Group of Pesaro for Euro 18.8 million, equating to an increase of 5.4%; the tariff increases linked to the agreements with the ATOs amounting to around Euro 14.4 million; the increase in volumes for approximately Euro 6.0 million; while the remaining balance concerns the rise in complementary services managed.

The average tariff of the Integrated Water Cycle increased by 4.9%, rising from Euro 1.29 per cubic metre in 2005 to Euro 1.35 per cubic metre in 2006.

The increase in costs derives from both the afore-mentioned consolidation of the Pesaro companies for around Euro 9.3 million and the additional services provided, the greater internal capitalisation relating to the investments of the Area Plan and the additional electricity costs caused by the rise in prices already indicated in the previous paragraphs.

The main quantitative figures of the business area, illustrated below, do not reveal any significant changes between the two periods under review.

Quantitative data	31-Dec-05 pro-forma	31-Dec-06	Change	Change %
Number of customers (thousand units)	914.0	982.4	+68.4	+7.5%
Volumes sold (millions of cm)				
Aqueduct	228.4	243.6	+15.2	+6.7%
Sewerage	199.7	208.6	+8.9	+4.4%
Purification	205.8	216.0	+10.2	+5.0%

Taking into account the Pesaro area as well, customers in the Water Cycle exceeded 980 thousand units,

Volumes rose, net of the contribution from the Pesaro area, by 2.0%; also considering the new municipalities served, this figure emerged as lower than forecasts by around 1%, essentially as a result of the water saving awareness-raising initiatives developed during 2006.

The EBITDA at the end of 2006 increased by Euro 13.1 million, rising to Euro 107.4 million when compared with the figure of Euro 94.3 million in the previous year, involving an improvement of 13.9%.

Analysis of the Waste Management Segment

The Waste Management segment – confirming the previous results for 2006 – was the area which presented the highest growth rates both in terms of margin and percentage-related importance.

(mln/€)	31-Dec-05 pro-forma	31-Dec-06	Change	Change %
Area EBITDA	130.6	150.4	+19.9	+15.2%
Group EBITDA	386.4	426.7	+40.3	+10.4%
Percentage	33.8%	35.3%	+1.5 p.p.	

With a percentage of 35.3%, the Waste Management segment confirmed itself as the business which provides the greatest contribution to the Group result.

For some time now, the Hera Group has been the most important integrated operator in the sector at European level due to its range of treatment and disposal plants for urban 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/€)	31-Dec-05 pro-forma	Incr.%	31-Dec-06	Incr.%	Change	Change %
Revenues	481.7		539.7		+58.0	+12.0%
Operating costs	(241.2)	-50.1%	(275.5)	-51.1%	-34.4	+14.2%
Personnel costs	(116.1)	-24.1%	(126.7)	-23.5%	-10.6	+9.1%
Capitalized costs	6.1	1.3%	13.0	2.4%	+6.9	+112.2%
Ebitda	130.6	27.1%	150.4	27.9%	+19.9	+15.2%

Revenues at the end of 2006 disclosed an increase of 12.0%, rising from Euro 481.7 million in 2005 to Euro 539.7 in 2006. The increase in sales is linked to the integration of the Pesaro area for Euro 23.5 million, while the remaining balance concerns the additional revenues for the sale of electricity by the Group plants and the additional volumes of waste disposed of.

The year 2006 benefited from the full-on-stream running of a number of plants, in particular the waste-to-energy plant in Bologna and the plants of the Ravenna Ecological Centre, which during the previous year had not yet been brought fully onto stream. Readers are reminded that these plants benefit from concessions (CIP6) on the price of the electricity generated.

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 came to 33.5% compared with 30.9% in 2005. The substantial increase confirms the Group's commitment towards increasing the fraction recoverable from waste and reducing the environmental impact.

As can be seen in the following table, the quantity of waste disposed of increased by more than 5%. The classification of the volumes relating to the 2005 accounting period, has been aligned to the criteria for the current year which envisages the elimination of the by-products of the plants within the Group.

Quantitative data (thousand tons)	31-Dec-05 pro-forma	Incr.%	31-Dec-06	Incr.%	Change	Change %
Urban waste	1,597.2	42.4%	1,677.4	42.2%	+80.2	+5.0%
Waste from market	1,401.8	37.2%	1,453.7	36.6%	+51.9	+3.7%
Special waste from plant by-products	519.9	13.8%	474.3	11.9%	-45.6	-8.8%
Direct customers – subsidiary companies	250.4	6.6%	369.6	9.3%	+119.2	+47.6%
Waste treated by type	3,769.3	100.0%	3,975.1	100.0%	+205.8	+5.5%
Landfills	1,343.2	35.6%	1,572.2	39.6%	+229.0	+17.0%
Waste-to-energy plants	614.0	16.3%	597.6	15.0%	-16.4	-2.7%
Selection plants	293.8	7.8%	344.4	8.7%	+50.6	+17.2%
Compost plants	300.5	8.0%	335.2	8.4%	+34.7	+11.6%
Inert and chemical plants	742.3	19.7%	705.0	17.7%	-37.3	-5.0%
Other	475.4	12.6%	420.7	10.6%	-54.7	-11.5%
Waste treated by plant	3,769.3	100.0%	3,975.1	100.0%	+205.8	+5.5%

The quantitative data presented above reveals the minor use of third party plants, while the lower volume of waste disposed of in the waste-to-energy plants reflects the shut-down of the Ferrara plant during the last quarter of the year due to the construction of the new line, which did not make it possible to confirm the previous results.

The greater overall use of the Group's plants aided an increase in the EBITDA which rose from Euro 130.6 million in 2005 to Euro 150.4 million in 2006, involving a rise of 15.2%. Mention should also be made of the rise in the percentage margin by almost one percentage point, from 27.1% to 27.9%.

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 margin of the Group for around 6.4%, compared with 5.3% in the previous year, in relation to the excellent results for 2006.

(mln/€)	31-Dec-05 pro-forma	31-Dec-06	Change	Change %
Area EBITDA	20.6	27.4	+6.8	+33.2%
Group EBITDA	386.4	426.7	+40.3	+10.4%
Percentage	5.3%	6.4%	+1.1 p.p.	

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

Income statement (mln/€)	31-Dec-05 pro-forma	Incr.%	31-Dec-06	Incr.%	Change	Change %
Revenues	130.8		163.1		+32.3	+24.7%
Operating costs	(107.0)	-81.8%	(135.6)	-83.1%	-28.7	+26.8%
Personnel costs	(25.8)	-19.8%	(24.5)	-15.0%	+1.4	-5.4%
Capitalised costs	22.6	17.3%	24.4	15.0%	+1.8	+7.8%
Ebitda	20.6	15.7%	27.4	16.8%	+6.8	+33.2%

Activities for the rationalisation and re-organisation of the area also continued during 2006, leading to the progressive discontinuation of many services not linked to the Group's core business activities. Despite this fact, revenues increased, passing from Euro 130.8 million to Euro 163.1 million, especially in relation to the rise in revenues from district heating, associated, as is known, with the energy raw material trend and the growth in turnover of the Public Lighting activities.

Activities for the re-organisation and focusing of the segment made it possible to achieve high levels of efficiency as can be noted from the reduction in the cost of labour which as a percentage of revenues dropped from 19.8% in 2005 to 15.0% in 2006.

The afore-mentioned improvement in efficiency and rationalisations, in addition to certain extraordinary items, permitted EBITA growth of Euro 6.8 million, rising from Euro 20.6 million in 2005 to Euro 27.4 million in 2006, a 33.2% increase.

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

Quantitative data	31-Dec-05 pro-forma	31-Dec-06	Change	Change %
District heating				
Heat volumes distributed (Gwht)	469.9	425.9	-44.0	-9.4%
Public lighting				
Light units (thousand)	293.2	309.1	+15.9	+5.4%
Municipalities served	58	57	-1	-1.7%

2.01.03 Commercial Policy and Customer Care

The Hera Group set the following commercial objectives for 2006:

- standardising customer approach systems, on a consistent basis throughout the territory
- integrating the Modena customers in the commercial strategy
- commercially exploiting the renewal of the IT systems
- improving the bill
- continuing to improve the system for proposing and selling products and services to business customers
- organising a solid and reliable control system
- organising commercial planning in compliance with market targets

In particular, during the first half of the year, two customer satisfaction surveys were carried out for the second year running, one on the residential market and one on the business market, in order to identify the quality components and processes that have greatest impact on satisfaction and subsequently highlighting the operating priorities of Hera. The perceived quality was gauged on four fundamental services provided by the Group, environmental hygiene, water, gas and electricity, and on the customer contact and management channels.

With regards to the survey on the residential market, the satisfaction assessed was good, standing at the levels of the previous year. Despite the overall satisfaction level being good, some differences were still noted between services, in particular: gas, electricity and water confirmed a good level of satisfaction, where reliability and safety remained points of excellence. The survey provided indications that the frequency and the layout of the bill needed to be improved: billing is now monthly and bi-monthly and a number of new features have been introduced with the aim of improving the predictability of the costs payable by customers. With regards to the bill layout, Hera launched a process for overall improvement to be accomplished by the end of 2007, with the two-fold aim of improving legibility and reducing billing costs.

The business customer satisfaction survey also confirmed an essentially stable level compared with 2005, with the exception of a number of shortfalls due to the changeover of the billing system which between the end of 2005 and the start of 2006 affected these customers. The full coming on stream of the business customer management system which took place towards the end of 2006, led to levels of service in line with forecast objectives.

2006 saw the complete start up of the billing and customer handling information system within the initial perimeter of Hera: Bologna, Ravenna, Forlì-Cesena and Imola areas. By contrast, in relation to Modena and Ferrara full integration was seen in terms of Group sales policies, front end procedures and customer communications. The changeover to the Group information system is currently underway in the Modena area and is envisaged for Ferrara as well over the next few months.

The commercial pressure of the other operators on the residential gas market was less marked than in 2005: a total of 6,144 contracts were in fact lost, compared with 17,878 in 2005. Initiatives are underway for developing clientele using customer-loyalty programmes in the residential sector: so far, 47,800 have joined the scheme.

The number of customers lost on the business market dropped during the first half of 2006, only to once again rise during the last four months of the year, thereby disclosing a total of 793 contracts lost compared with 573 in 2005.

5.8.1 Average waiting time at contact center (secs.)	2004	2005	2006
Bologna complex	273.7	85.9	41.5
Polo Ferrara		29.6	18.7
Imola complex - (January --> March)	60.0	45.3	24.1
Modena complex			31.2
Rimini complex	70.7	55.3	33.5
Ravenna complex	22.5	75.9	n.a.
Average	102.9	70.2	34.5
5.8.2 Percentage of calls handled satisfactorily (%)	2004	2005	2006
Bologna complex	81.0%	87.2%	94.4%
Polo Ferrara		88.4%	96.7%
Imola complex - (January --> March)	88.1%	91.4%	93.7%
Modena complex			91.2%
Rimini complex	88.8%	93.1%	94.3%
Ravenna complex	91.3%	79.1%	n.a.
Average	0.9	0.9	0.9
5.8.3 Branch transaction waiting times (mins.)	2004	2005	2006
Hera Bologna	38.1	52.0	33.9
Hera Ferrara		32.5	21.2
Hera Forlì-Cesena	35.2	37.4	42.6
Hera Imola-Faenza	30.3	27.2	36.4
Hera Modena			31.5
Hera Ravenna	30.7	32.9	37.5
Hera Rimini	34.3	42.6	35.6
Average	33.8	39.5	35.8

The branch improvement project was launched during 2006, with the aim of achieving greater uniformity of the structures. The transaction (whose conclusion is envisaged in 2007) includes the extension of the opening hours, the consolidation of the operating processes, and the unification of the monitoring systems. The prototype of a new branch layout has also been created, availing of the consultancy of a firm of architects specialized in the sector.

The work for the rationalization of the branches throughout the territory also continued.

2.01.04 Trading and Procurement Policy

Economic context in which the Group operates

The international economy continued to grow during 2006, even if a slowdown in the rate of expansion was seen during the last few months of the year, having emerged as particularly elevated during the first six months. Numerous factors affected growth, such as geopolitical factors, the trend in oil prices, the weakening of the dollar and the continuing disparity in the balance of payments.

The drop in the global GDP growth rate during the second half of the year was in particular steered by the US, whose economic growth dropped slightly over the last two quarters mainly as a result of the decrease in investments in the residential property sector and the deficit of the trade balance, accompanied by slowdowns in Europe and China as well during the third quarter of 2006.

Even Italy, after a lengthy period of difficulty in 2006, finally restarted to grow, (+ 2% tendential rate), albeit at more reduced rates than those of its main European partners. An important role was played by internal demand with regards to said growth.

In relation to interest rates, a new and progressive strengthening of the Euro against the Dollar was witnessed during 2006, essentially attributable to the afore-mentioned slowdown of the U.S. economy and the US trade imbalance. In detail, until April the exchange rate fluctuated within the interval ranging between 1.18 and 1.24 US\$ per Euro; from the month of May it was always above the quota of 1.25 US\$ per Euro and as from the end of November it remained constantly above the quota of 1.31 US\$ per Euro, disclosing an annual average of 1.26 US\$ per Euro.

On the inflation front, the strengthening of the Euro and the reduction in energy prices during the latter part of the year had positive repercussions on the performance of the consumer price index which slowed down the economic cycle growth rate, standing at 2.1% for 2006 (tendential) as far as the Euro area was concerned.

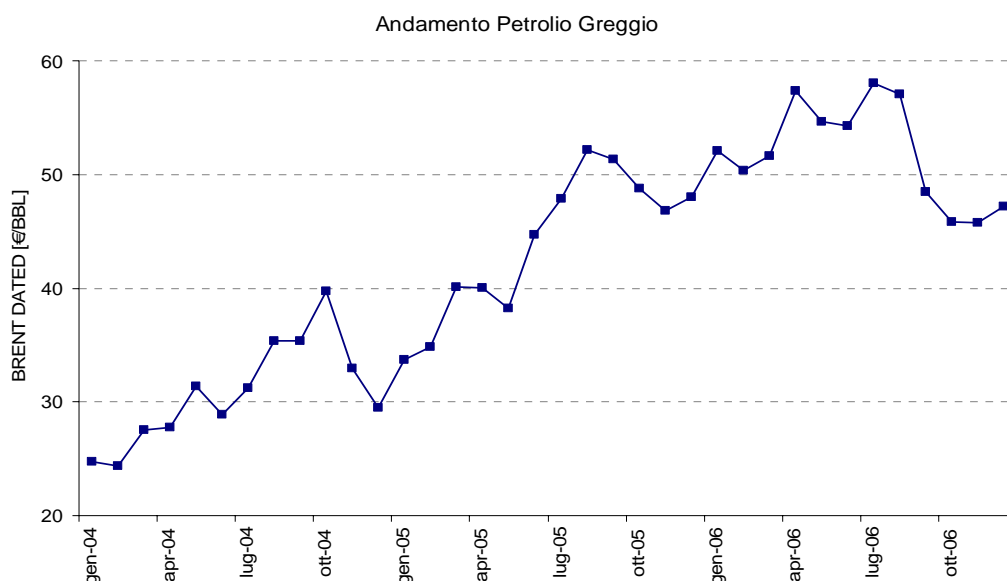
	2006	2005	% change
\$/bbl oil price	65.1	54.4	19.70%
Euro/\$ exchange rate	1.26	1.24	1.60%
Euro/bbl oil price	51.9	43.9	18.30%

As far as the oil market was concerned, 2006 was a year which featured heavy fluctuations: the average Brent price was approximately 65\$/barrel, disclosing an increase of + 19.8% compared with the already high average in 2005 (around 54\$/barrel). During 2006, crude touched new record highs, reaching a monthly average in July and August of over 73\$/barrel and achieving a new record high of 78.7\$/barrel at the start of August, after which Brent prices then gradually

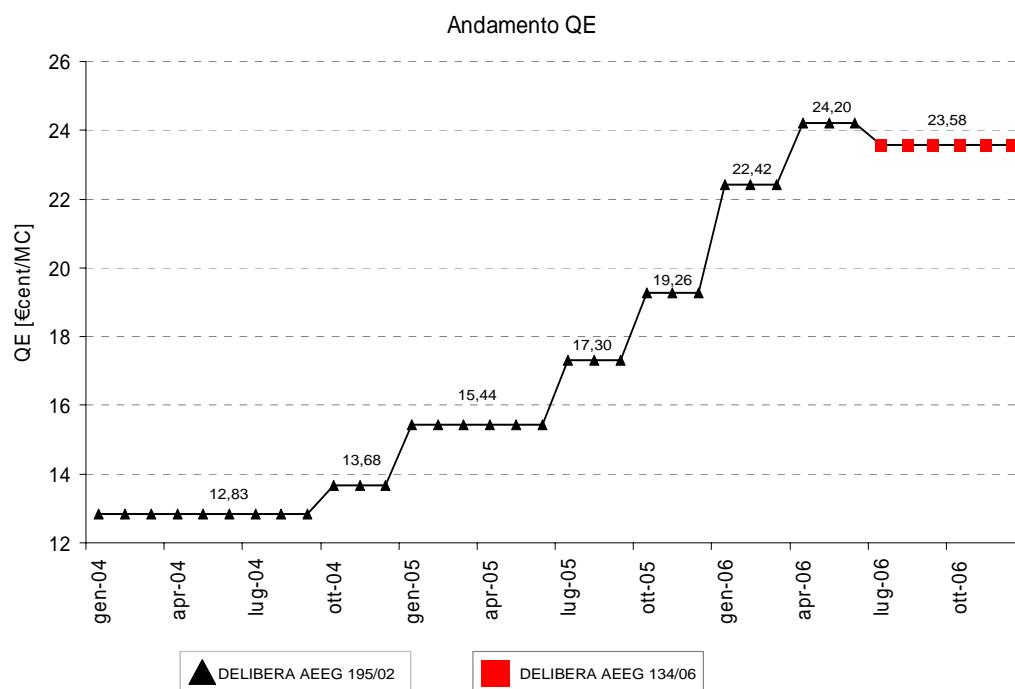
dropped to 55\$/barrel at the end of October, only to then return to a price of 65\$/barrel at the start of December, and then once again start to drop.

The high, in addition to extremely volatile, prices, felt the effect of a series of factors identifiable, according to the experts, in the inadequacy of global refining capacity, geopolitical tension and associated speculative activities on future crude markets.

Over the last three years, a long sequence of exceptional events also manifested, which each time temporarily reduced the extraction of crude in specific areas, the last of which taking place in Alaska at the beginning of August.

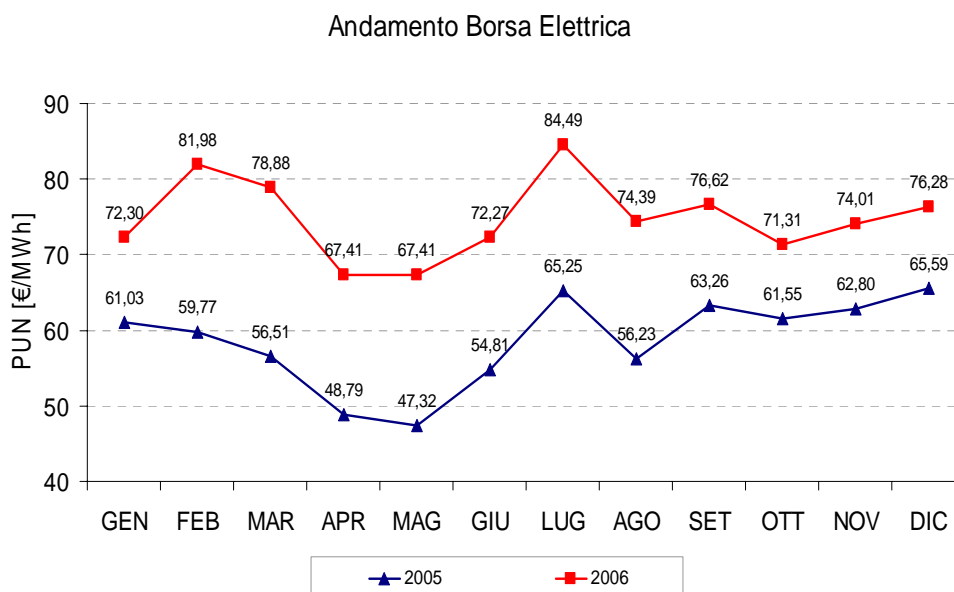


Against this backdrop, as far as gas was concerned, the average value of the QE in 2006, calculated on the basis of the Electricity and Gas Authority (AEEG) resolution No. 195/02 for the entire first half of the year and the Electricity and Gas Authority (AEEG) resolution No. 134/06 subsequently, came to 23.45, compared with an average value of 16.86 in 2005 and an expected value of 21.26 for 2007. As can be seen from these figures, the drop in the price of oil recorded during the last few months of 2006, has not yet worked its way through to gas prices and is destined to have repercussions mainly during 2007. This is naturally due to the effect of the delays associated with the formulas for updating gas prices.



As far as electricity was concerned, the average exchange sales price (PUN) in 2006 came to 74.75 €/MWh, involving an increase of 28% when compared with the 58.59 €/MWh in the previous year.

During July, the highest average price since the launch of the electricity exchange in April 2004 was recorded (average monthly PUN of 84.49 €/MWh).



GAS DIVISION

Legislative/Regulatory Framework

Resolutions of the Electricity and Gas Authority (AEEG) No. 248/04 and No. 134/06

The dispute between gas operators and the AEEG relating to resolution No. 248/04 continued throughout 2006, concerning the methods for updating the raw material component of the natural gas economic supply conditions and the review of the variable fee relating to wholesale sales. This resolution, due to the complex development of the dispute, has not been applied by the operators in most cases.

In November 2006 during a plenary session, the Council of State definitively sanctioned the cancellation, despite confirming that the AEEG was legitimated in adopting measures of this kind.

In June 2006, the AEEG intervened once again on the subject by means of Resolution No. 134/06, relating to amendments and additions to the criteria for updating the economic gas supply conditions. Appeals made by the operators are still currently pending against this resolution; what is more, in contrast to what occurred in relation to Resolution No. 248/04, Resolution No. 134/06 has been applied by almost all the operators (wholesalers and sales companies), even though the outcome of the dispute currently under way is still pending.

In August, the company TTPC (ENI Group), in agreement with the Italian Anti-Trust Authority (AGCM), launched a procedure for the non-discriminatory allocation of the capacity relating to the second lot of the upgrading of the TTPC methane pipeline (approximately 3.3 BN m³/year), capacity which will be available as from 1 October 2008

As already occurred for the first lot, even if for different reasons, participation in this procedure by all the operators, HERA TRADING included, essentially proved futile, given that SONATRACH, the only possible supplier of the gas, made a unilateral decision to finalize gas supply contracts - indispensable for acquiring the necessary permits for transit in Tunisia and export to Italy - solely with its Italian branch (approximately 2 BN m³/year) and with ENEL TRADE (approximately 1 BN m³/year).

In August 2006, the MSE adopted specific measures which envisage the operator's obligation to maximize imports and for STOGIT to maximize stock volumes, with the intention of implementing action in advance so as to reduce the risk of a possible gas emergency in the following winter months. Incentives regarding the interruptible nature of industrial utilities and spot gas imports during the winter months have also been foreseen.

Following the tariff measures adopted by the AEEG (Resolution No. 134/06) and a tendentially short European market situation envisaged for the following winter, conditions were created during the Summer of 2006 so that the elevated prices applied on the European wholesale market emerged as incompatible with the sale prices set by the AEEG for the Italian domestic market.

The majority of the smaller wholesalers, who essentially base their activities on short/medium-term contracts, did not therefore find it convenient to import gas in Italy or, if they did so, they allocated it to the industrial and thermo-electric sectors not regulated by the AEEG, and which are therefore willing/obliged to pay the market price.

Even Hera Trading was compelled to allocate the majority of its imports to the wholesale market and to the thermo-electric sector.

Against such a backdrop, at the end of September 2006 a number of sales companies failed to find a Wholesale Supplier, for quantities which at national level came to around 800 million m³ on an annual basis.

Also taking into account Last Resort Wholesale Suppliers, originally identified via tender by the AEEG, who were not able to take over since they lacked the necessary quantities of gas, the MSE adopted a specific measure for the establishment of the Last Resort Wholesale Supplier, which has the task of guaranteeing the gas supply under conditions regulated by the sales companies which lack supplies, without prejudice to the right to see the additional charges for the purchase of the necessary gas on the European market at market prices covered by the system.

Significant events

The first few months of 2006 saw an emergency gas situation which was particularly serious as a result of the concurrence of several factors:

- a particularly cold spell in Italy during the winter months;
- improper use of stored gas for the production of electricity, necessary to compensate fewer imports and to be allocated to exports;
- lower gas supplies from Russia as a result of an exceptionally cold spell in that country.

This situation, which did not affect Hera Trading operations, saw the gas system resort to strategic storage of important quantities for the second winter running.

In relation to the afore-mentioned aspects, the AEEG subsequently launched formal investigations into the use of the stock for the 2004/2005 gas year and the 2005/2006 gas year in relation to ten companies including Hera Trading (Resolution No. 37/06). On conclusion of the investigations, fines of Euro 135 million were imposed on five companies while the evidence acquired disclosed the inexistence of offences for the remaining five companies, including Hera Trading.

During January 2006, negotiations were concluded for a gas option covering a quantity of 500 million m³ per annum, for a period of five years, so as to avail of the gas to be imported via the

capacity being acquired under the non-discriminatory allocation procedure launched in November 2005 by TAG (ENI Group) under agreement with the AGCM (anti-trust authority).

Some months after the completion of the TAG procedure, the option was exercised, albeit for a value lower than the possible maximum, after having acquired further capacity with respect to that acquired under allocation on the secondary market.

This new five-year supply is of great strategic importance for Hera Trading since it will become operative as from October 2008, at exactly the same time the outstanding gas release contracts will expire.

During April 2006, besides the renewal of the contract with STOGIT for the modulation storage service for the 2006-07 gas year, so as to reduce the risk of resorting to the strategic stock in the event of a cold spell, steps were taken to enter into an additional, albeit minor, contract with EDISON STOCCAGGI SpA.

Again during April 2006, a supply contract was concluded on an annual basis for approximately 40 million m³, featuring a delivery point at the virtual point of exchange.

Despite the particularly difficult market situation due to the tariff measures of the Electricity and Gas Authority-AEEG (Resolution No. 134/06), in July 2006 capacity was acquired on the Transitgas via auction; part of the capacity has an annual duration and part a three-year duration, effective as from October 2007.

Subsequently, the related gas supply contracts were also finalized, with a delivery point at the German/Swiss border.

During September 2006, it was possible to finalize the first contracts, for around 50 million m³ on an annual basis, directly with FLAME ENERGY which thus become operative for all purposes.

After staggered and complex negotiations, the industrial partners finalized the Memorandum of Agreement for the sale and purchase of gas via GALSI's methane pipeline with SONATRACH in November 2006. In Hera Trading's case, this involves a contract worth 1 billion m³/year, for 15 years.

This agreement created the conditions for giving a boost to the negotiations underway for the transformation of GALSI SpA into an investment company, and for the resolution of the related share capital increase, an objective achieved in the following December.

ELECTRICITY

Legislative/Regulatory Framework

During 2006, the legislative/regulatory framework relating to the electricity business did not have a significant impact on Hera Trading's operations.

The changes to the electricity supply methods for dispatching by TERNA and the determination of the loss-of-balance fees (MSD) which occurred as a result of AEEG Resolution No. 165/06 will in fact only affect 2007, at the time of the commercial launch of the Teverola and Sparanise power stations.

Significant events

A trading desk was started up at experimental level in 2006, with the aim of assessing the real potential on the Italian market, notoriously lacking liquidity, but also and above all else, with the aim of increasing HERA TRADING's visibility with regards to OTC electricity prices.

Likewise, it was also necessary to develop the skills required for correctly representing the assets in the financial statements by means of application of the main IAS/IFRS.

In the name of and on behalf of Hera Comm, in July 2006 the renegotiation of the ATEL contract was completed, relating to the three-year period 2007-2009. The renegotiation concerned both the economic aspects and the nature of the contract.

So as to render it more compatible with the use in the sales portfolio, the decision was made to transform it from a contract for differences to a physical contract for sales to end customers.

In March 2006, a contract was finalized with EGL AG for the supply of electricity generated by the Sparanise power station owned by Hera Trading (15%). Subsequently, in December a contract was concluded between Hera Trading and SCR SpA for the supply to the latter of the electricity it is due (5%).

During the second half of 2006, the methods for regulating the production of the Teverola power station during the start-up phase were established with the partner RATIA ENERGIE AG and steps were taken to finalize the related contract with SET SpA. At the same time, the principles were also defined for regulating the production once the power station is fully on-stream, so as to achieve the finalization of the PPA contract during the first few months of 2007.

In December 2006, Hera Trading took steps to qualify itself as the operator responsible for balance (Balance Responsible Entity) vis-à-vis the RTE, so as to independently handle the physical supply of the French market, by means of the interconnection capacities on the Italy/France border acquired at the time of auction from TERNA and said RTE.

2.01.05 Financial Policy and Rating

The financial structure of the Hera Group changed significantly during 2006. Accordingly, various transactions were carried out in order to guarantee an increasingly sound financial structure and a cost of money at more convenient levels. The targets which the Company set itself at the start of the year were as follows:

- 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/IFSR international accounting standards.
- Consolidation of the short-term debt in favour of the long-term portion.
- 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.
- Further reduction of the cost of money.

The above having been stated, the situation was as follows at the end of 2006:

- All the interest rate hedging contracts outstanding not consistent with the new financial policy were terminated, whilst at the same time an equal number of mirroring and new swap hedging contracts - plain vanilla – perfectly compliant with the underlying debt (therefore in accordance with the IAS standards) were entered into with an important international bank.
- Various transactions were finalized which, in their entirety, made it possible to take the portion of long-term debt to around 80% of total borrowing. These include a direct unsecured loan, stipulated on 27 December 2006 with the EIB, European Investment Bank, for a total of Euro 180 million, 8-year bullet, regulated at the Euribor rate plus a spread of 2 hundredths.
- The entire portion of long-term debt is currently regulated at a fixed rate.
- The liquidity as at 31 December 2006 on the Group's books amounted to over Euro 213.6 million; three committed 3-year stand-by contracts were also entered into for a total of Euro 250 million, unutilized as of 31 December 2006.
- Total use of the bank credit facilities granted to the Group amounted to approximately 37% of the total. In greater detail, short-term credit lines were 14.8% used, while 71% of the long-term lines were used.
- The Hera Group's total cost of debt stands at present at around 4.2%.

During 2006, operating management of commodity and/or currency risk, was implemented in a "hedging" capacity, aimed at establishing the margins provided by the budget of the commercial transactions effected in both the Gas and Energy Divisions.

From the organisational point of view, during the year, hedging activities of the Gas Division and those of the Energy Division were centralised into a single department (Risk Management in the Gas Division).

This approach, based on the creation of a Concentrated Risk Portfolio, enables the unitary management of homogeneous risks and, based on macrohedging instead of using specific hedging formulas, offers various advantages, such as:

- Achievement of greater levels of hedging with a consequent reduction in volatility of economic results;
- Increased flexibility due to detaching the index-linking formulas for selling from those for buying;
- Elimination of constraints on the minimum volumes which can be hedged;
- Optimisation of costs for lesser recourse to the market, by netting the positions of single contracts and the positions generated by the Gas and Energy Divisions;
- Increased flexibility in structuring the products and services, with the possibility of proposing/quoting index-linking formulas different to those present in the acquisition portfolios;
- Increased visibility of the OTC commodities prices.

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 SpA 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 SpA has received 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

The Group's research activities once again chiefly concerned the optimisation of the network management, the environmental monitoring systems, the recovery of energy and materials from waste, and technological development in renewable sources.

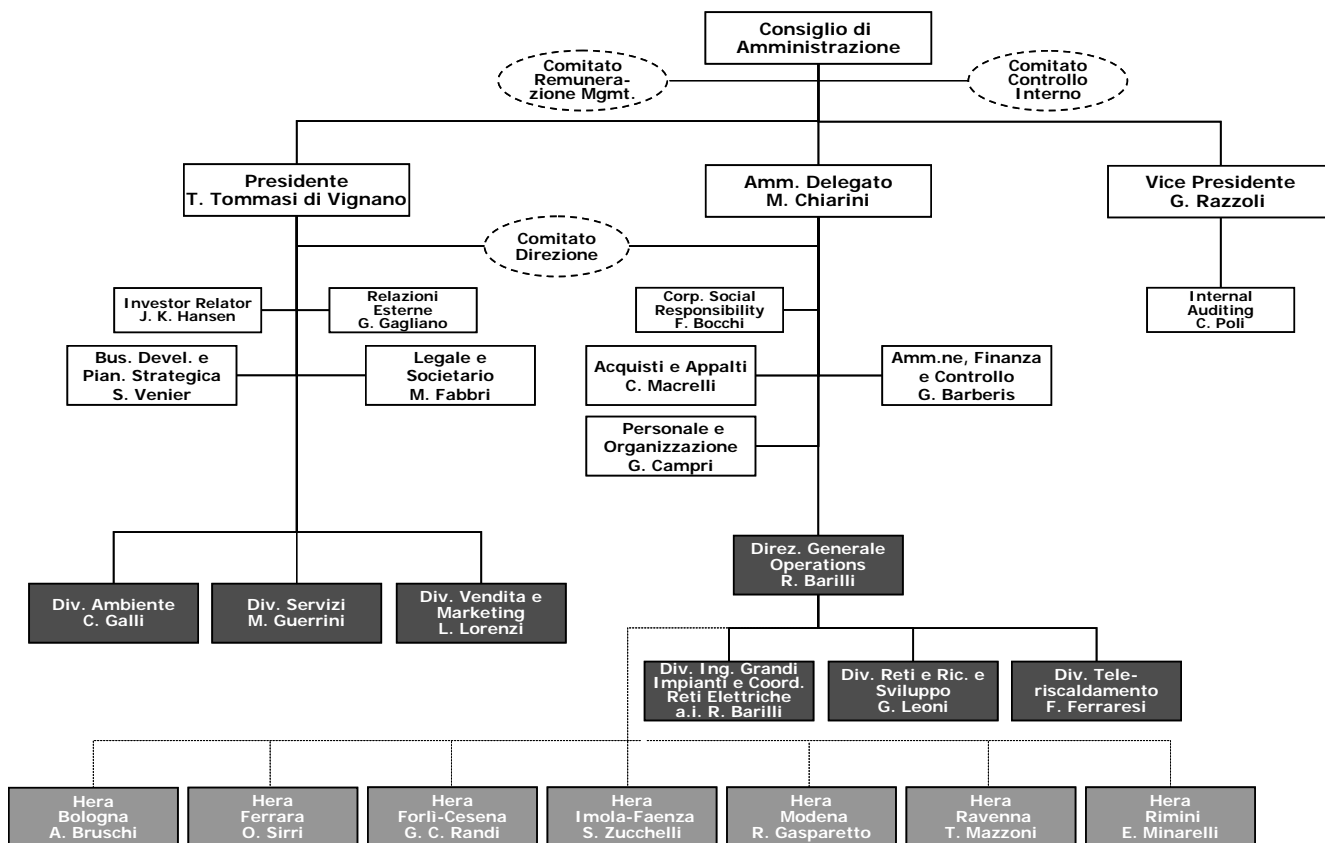
Leading research projects during 2006 concerned:

- The CO₂ project. Launched in 2005, the project aims to reduce sewage sludge and greenhouse gas emissions. It involves experimentation of an innovative technology for capturing CO₂ issuing from exhaust gas produced by any combustion process and its use in the process of anaerobic digestion of sewage sludge. The positive completion of the first stage was achieved in 2006, and the conclusive tests demonstrated a CO₂ capturing capacity of up to 70% of the emissions treated. Activities continued with the second stage, relating to the use of the captured CO₂ in order to reduce the sludge contained in the digesters (- 20%) and produce a greater quantity of methane gas (+ 30%).
- Emerging Pollutants Project. The presence of pharmaceutical compounds in the water is considered to be one of the most important environmental problems in the last decade. These are pharmaceuticals and their metabolites belonging to various treatment categories, used in medicine and veterinary practice. The problem is perceived both in Europe and in the United States. Pharmaceutical products, intact or metabolized, are excreted and end up in the sewage system, passing via the treatment plants where they can escape decomposition, and end up in the water in our environment. Accordingly, Hera has put together a research project whose activities will commence in 2007, which will set up accurate, sensitive and rapid analytical methods for determining which compounds, and to what extent, are present in the waste waters and in those intended for human consumption.
- Environmental Catalysis Project. This project, set up in 2006 and whose activities will commence in 2007, envisages checking the use of traditional catalytic converters, used to reduce NO_x from gas emissions, also for the reduction of dioxins.
- Polluting Defence Project. Development and application of new instruments for remote monitoring of the quality of drinking and waste waters and gas emissions. The objective is to monitor in real time several important water and air quality parameters, reducing pollution risks and laboratory analysis costs. After the positive experience in on-line monitoring at the water treatment plant in Val di Setta (Bologna), and Ravenna, in 2006 installation of a similar instrument began at the Ferrara plant (Pontelagoscuro), for the purpose of monitoring the efficiency of the water treatment processes.

- Electro-osmotic reclamation of sewage sludge. The aim of the project is to apply the electrokinetic techniques used for reclaiming polluted land, so as to improve the features of sewage sludge. The first tests carried on a micro-prototype disclosed
- interesting results as far as the removal of the pollutant content matter was concerned. Experimentation will continue during 2007 on a large-scale prototype.
- Ferrara Waters Project. Action aimed at providing support to the management of the hydraulic network of Ferrara by means of cutting-edge technological solutions, such as mathematical simulation models and forecast models for the overhaul of water pipelines. During 2006, the mathematical model of the network was developed and the first measures for division into districts implemented. Effective leakage detection campaigns have also been carried out, availing of acoustic instrumentation.
- X-water Project. Experimentation of remote reading of waters applied to a pilot section of the distribution network. The project aims to provide indications on the applicability of remote reading to the recording of physical network leakage. By controlling the water balance of the district daily, it emerged as possible to precisely record the volumes of incoming and outgoing water, thereby permitting prompt intervention in the event of breakage and thus leakage.
- Automatic Leakage Detection Project. The project has come about as a natural development of the X-Water project and involves the study of innovative systems for the automatic detection of water losses to be used together with the remote reading system.
- 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 was created fuelled by reformed methane.

2.01.07 Human Resources and Organisation

The Group's organisational macrostructure, inclusive of all the organizational reviews approved as at 31 December 2006, is illustrated in the following chart:



Human Resources

As at 31 December 2006, Hera Group employees totalled 6,227 divided up by category as follows: Senior Management (106), Middle Management (268), White-collar workers (2,629), Blue-collar workers (3,224). This structure was the result of the following changes: new recruits 126, acquisition of staff from extended consolidated area 415, leavers 218. It is noted that the new recruits essentially related to the change in the mix with the inclusion of qualified personnel; in conclusion, it is noted that the total number of university graduates increased by 75 people (from 546, equal to 9.55% of total employees engaged on a permanent basis, to 621, equating to 9.97%).

Organisation

During 2006, the integration of Meta within Hera was completed. The project involved both the start-up of the Hera Modena Territorial company, the centralisation of the policy and co-ordination activities within the Holding Company and the transfer of the direct management of activities and plants to the Environmental, Services and Sales & Marketing Divisions. At the same time, partly in consideration of the expertise acquired from Modena, Hera decided to focus the electricity business by means of the formation of a new dedicated division, as well as the design and construction of the plants, also on the co-ordination of the Group's electricity networks.

Furthermore, 2006 saw the completion of the process for the integration of the electricity networks of the Modena province acquired from Enel, which will begin operations as from 1 July 2006.

Extension of the implementation of the Sap-Isu IT system was also launched during the year, together with the consequent integration of the customer processes, management of the work and the billing in the last two remaining areas, Modena and Ferrara. This process will be fully completed during the first few months of 2007.

In addition, so as to improve the efficiency and effectiveness of certain key processes of the Group, important projects were launched for centralising activities which, due to their technical, technological and operational complexity, envisage a long-term implementation phase. Specifically:

- rationalization of laboratory analysis: this involves the centralisation of the analysis activities, presently decentralized throughout the area, 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 Hera's fluid networks (water cycle, gas, and district heating), and centralising the remote control of electricity grids in the Modena centre.

With the aim of guaranteeing the supervision and integrated formulation of the Quality, Safety and Environment System, on a consistent basis with the organizational development of the Hera Group, at the end of 2006 the integration of the Quality, Safety and Environment Division within the Head Office Personnel and Organisation Division was approved

In conclusion, during 2006 steps were taken to consolidate the Aspes Group within the Hera Group, with effect for accounting purposes as from 1 January 2006. As at 31 December 2006, the Aspes Group counted 343 employees.

Industrial Relations

Trade union activities were initially characterised by the processes consequent to the merger of Meta SpA also by means of the correct allocation – according to the Group's organization – of the activities within the sphere of the subsidiary companies Hera Comm, Famula on-line, Hera Luce, Uniflotte; such activities continued with the allocation of the business segment pertaining to the management and distribution of electricity acquired from Enel, within the sphere of Hera Modena S.r.l.

The most important and significant result was however the signing of the Hera Group's Supplementary Collective Labour Agreement, on 2 March 2006. This Agreement standardised important matters relating to the industrial relations system, training, safety, the use of atypical and temporary employment contracts, and also established the harmonization rules for the consolidated Group results bonus, the indemnities and in order to standardise the application of the national collective labour agreements (CCNL).

Subsequently, the matters envisaged in the supplementary agreements were applied in practice, in terms of negotiation, defining a system of results bonus targets for 2006 on a consistent basis for all the corporate entities of the Group and achieving the surmounting of 17 indemnities and the related remunerative items.

In conclusion, negotiations were launched, still currently underway, on the project for the rationalization of the Group's analysis laboratories for the water and environmental services; the main objective of the rationalisation is the reorganisation of the current 12 laboratories in rational terms by means of a structure divided up by analytical standards.

Training

In addition to accompanying the integration processes underway and meeting the Group's needs, the primary aim of the training activities carried out during 2006 was to develop the professional experience present at various levels and enhance the know-how and distinctive skills, partly by means of the operational launch of the School of Trades.

During 2006, a total of 122,530 man/hours of training were provided, involving an overall increase of 8.3% when compared with the final figure for 2005; this bears witness to the growing commitment both of an economic nature and with regards to resources which the Company dedicates to the achievement of training activities.

More than 15,200 participations were registered and 5,505 employees were involved in training activities (more than 90% of the company workforce).

In addition to intense training activities addressing the professional Sales, Marketing and Customer handling unit, during 2006 the first pilot projects of the School of Trades were accomplished (projects aimed at exploiting the specific technical-operating skills of the Hera Group) which concerned:

- the driving of mono-operator vehicles for the collection of solid urban waste
- the running and remote control of plants (aqueduct, gas distribution treatment, heat production and distribution)
- the running and remote control of waste-to-energy plants with grid furnace
- network maintenance (water/gas)
- waste sampling

These activities were flanked by work for planning training courses taken from the analysis of the requirements carried out at the end of 2005, which concerned the following schools of intervention:

- up-dating and development of technical-specialist skills;
- development of operational and managerial skills;
- institutional training to support the introduction of resources engaged under the Graduates Project;
- widespread measures on matters regarding quality, environmental management systems and workplace safety;
- up-dating and development of skills for using the IT systems

A number of initiatives were also achieved during 2006, identified in order to provide a response to the matters which emerged from the results of the Climate Survey, performed half way through 2005. Besides the activities envisaged by the School of Trades, these also include encounters with Senior Management, the Improvement Group and role training for co-ordinators.

The overall investment (net of personnel costs and those for missed production) amounted to Euro 1,083,800 in 2006.

The table below quantifies, in terms of man/hours provided, the training scheduled in the 2006 Training Programme:

Training	Man Hours
Professional training and specialised courses	75,349
Quality, Safety and Environment	16,691
Managerial training	10,483
Information technology	20,007
Total	122,530

2.01.08 Information systems

During 2006, the Hera Group confirmed its decision to concentrate the operations and development of Information Technology within the subsidiary Famula On-line.

The performance of the IT services occurred in line with the Group's growth plans, guaranteeing on-going support for the business activities.

In this area, the main benchmarks are:

- over twelve million bills issued;
- around half a million contacts handled via the physical branches and one and a half million handled by means of the Call Centre.

With regards to the development of projects aimed at satisfying new business requirements, relating to legislation or internal efficiency, the following are mentioned in terms of importance:

- implementation and accomplishment of the bi-monthly billing method for all the services provided by the Group, both for the single-service bills and for the multi-service and multi-company bills.
- creation of an automatic interface between the CRM system and the billing system involving a consequent reduction in the data loading timescales, the data input errors and the operating costs.
- creation of a new system for handling business customers, loading all the outstanding contracts and streamlining the billing plan.
- acquisition of around 140 thousand new Environmental Hygiene Tariff customers, following the choice of twenty Municipalities to make the changeover from TARSU to TIA.

In detail, with regards to the Modena area recently acquired, besides carrying out the rollout of the Group systems, migrating the information from the previous ones, two extraordinary projects were implemented, namely: the acquisition of 80 thousand electricity customers from the Enel network and the launch of the Environmental Hygiene Tariff service for a further 120 thousand users in the Municipal area.

A number of technological projects are highlighted with regards importance and comprehensive information, having been put together in order to ensure the Group processing and memorization power and reliability necessary, namely:

- creation of the Group's single centralized technological infrastructure for authentication, file serving, e-mail and Internet services, consequently leading to the start of the rollout throughout all the areas so as to replace the previous technologies.
- creation of high fidelity for all the main systems with a view to guaranteeing business continuity and further decreasing the incidence of machine down-time.

2.01.09 Quality and Environment

During 2006, Hera continued with the consolidation and development of the Quality, Safety and Environment management system, created in previous years; the activities carried out led to the realization of the aims contained in the 2006-2008 Strategic Plan.

First and foremost, the objective of environmental certification. In December 2006, and after an extremely demanding series of internal analysis, training awareness-raising and assessment activities by a third party, Hera obtained ISO 14001 standard certification.

This project extended to the entire Group has led to the need to harmonize the environmental analysis criteria so as to be able to evaluate systems which are standard, as well as to share common problems which may lead to a solution in keeping with Hera's organization.

For such purposes, under DQSA co-ordination, meetings were organized between the various bodies present within Hera leading to the definition of an environmental analysis and management procedure model in accordance with regulations defined in shared documents.

The planning of the controls linked to the process, extended to many environment aspects now represents one of the activity governance instruments aimed at guaranteeing observance of the legislation, the quality of the products and services provided without ignoring pollution prevention and the environmental impact in a broad sense.

The Group's commitment in the environmental field has achieved additional, important results involving consolidation of the EMAS registration for the activities already registered and the extension to 4 new waste disposal plants, on a consistent basis with the commitment undertaken in 2005 via the EMAS Committee.

Alongside the environmental route, that associated with quality was further developed and in 2006 saw the surmounting of the third party assessments for maintenance of the certification already acquired in accordance with the ISO 9001 standard. New projects were launched in collaboration with the QSE service, with the common aim of integrating the QSE Management System with the corporate organizational instruments on a more meaningful basis. Further to the corporate climate and customer satisfaction surveys, projects were launched for reviewing the system of the KPIs, the introduction of improvement and feedback groups, and other initiatives, with the mutual objective of on-going improvement peculiar to the management system introduced. The various improvement projects identified within the sphere of Quality System implementation came together clearly in the BSC projects. Accordingly, again during 2006 an assessment of the DQSA was performed aimed at looking in-depth at and recovering the climate of the structure within a feedback context. Handled in collaboration with an outside body, this involved the entire DQSA from September to December in an assessment of the QSE system, probing the internal climate, the complexities of the same and the suggested corrective action. The results of the assessment were at the basis of an organizational re-planning of the QSE system aimed at enhancing the role and incisiveness in the development

of the processes and in the procedures. The reorganisation will be implemented during the first few months of 2007 at the same time as the start up of the ISO 14001 standard certification procedure.

With regards to certification, Hera confirmed its commitment to go ahead with dealing with the health and safety system, according to the OHSAS 18001 standard. The assessment activities performed by an outside body will commence as early as the first few months of 2007, and conclude by the end of Summer 2008, given the complexity and delicacy of the related subjects.

2.01.10 Annual Report on Corporate Governance

Introduction

In order to increase clarity and practicability with regards to figures and roles, specifically in relation to the independent directors and the committees within the Board of Directors, Borsa Italiana SpA's Corporate Governance Committee has drawn up the new Code of Conduct (hereinafter the "Code") published in March 2006, which replaces that drawn up in 1999 as revised in 2002, and which contains a structured series of recommendations relating to the procedures and regulations for the management and control of listed companies.

The aim of the new Code is to ensure the adoption of evolved models of corporate governance and the improvement of the quality standards of the Italian Stock Market.

The adoption of the principles contained in the Code has the final objective of reassuring the investors on the existence, in listed companies, of a clear and well-defined organisational model, with adequate division of responsibility and powers and a correct balance between management and control, being an efficient instrument for turning to account and protecting the investment of its shareholders.

Although the adoption of the principles contained in the Code are not a legal obligation, Hera S.p.A. (hereinafter the "Company") has considered it appropriate to adhere to the principles of the new Code, acknowledging the provisions by means of resolution adopted by the Board of Directors, with unanimous vote, on 10 October 2006.

This report illustrates the methods and procedures by means of which the Company has acknowledged the provisions of the new Code.

Role and composition of the Board of Directors

The Board of Directors is the collective body tasked with the management of the Company. In compliance with the recommendations of the Code, according to which the Board of Directors must meet on a regular basis, the Company Articles of Association envisage that the Board meets periodically, at least on a quarterly basis, and whenever the Chairman considers it necessary or when a request is made by at least one third of its members or by the Board of Statutory Auditors. In addition, in compliance with the recommendations of the Code which provide that the Board must function and operate in such a way as to guarantee the effective and efficient performance of its duties, the Company Articles of Association provide that the Board of

Directors is vested with the widest powers for the ordinary and extraordinary management of the Company without limitations, with faculty to implement all acts considered necessary or appropriate for the pursuit of the corporate purpose, excluding only those that, by law or the Articles of Association, are strictly reserved for the Shareholders' Meeting.

In particular, in accordance with the Articles of Association, resolutions on the following matters are the Board's exclusive competence:

- (i) appointment and/or revocation of the Chairman and Vice Chairman;
- (ii) appointment and/or revocation of the Managing Director and/or of the General Manager;
- (iii) formation and composition of the executive committee, appointment and/or revocation of the members of the Executive Committee;
- (iv) determination of the powers delegated to the Managing Director and/or General Manager and/or the Executive Committee and amendments thereto;
- (v) approval of and amendments to long-term plans and business plans;
- (vi) approval of and amendments to group regulations if adopted;
- (vii) engagement and/or appointment, upon the proposal of the Managing Director, of the managers responsible for each departmental area.
- (viii) proposal to place on the agenda of the Shareholders' Meeting the amendment to article 7 (public majority shareholding), 8 (limits to shareholding), 14 (quorum for constitution and for resolutions of the Shareholders' Meeting and rights of veto) and 17 (procedures for the appointment of members of the Board of Directors) of the Articles of Association;
- (ix) the undertaking and disposal of equity investments worth more than Euro 500,000 (five hundred thousand);
- (x) purchase and/or sale of properties worth more than Euro 500,000 (five hundred thousand);
- (xi) the provision of sureties, liens and/or other collateral worth more than Euro 500,000 (five hundred thousand);
- (xii) purchase and/or sale of companies and/or business segments;
- (xiii) the appointment of board directors of subsidiary and/or investee companies;
- (xiv) participation in tenders and/or public procedures that involve contractual obligations exceeding Euro 25,000,000.

The Company's Articles of Association envisage that the Board of Directors comprises 18 members. The current Board of Directors will remain in office until the approval of the financial statements relating to 2007.

With reference to the provisions of Article 1.C.1, letter g) of the new Code, the Board of Directors did not carry out the assessment on the size, composition and functioning of said Board and its committees during 2006, since the Company only complied with the new Code as from 10 October 2006.

Name and Surname	Office	Position
Tomaso Tommasi di Vignano	Chairman	Executive Director
Maurizio Chiarini	Managing Director	Executive Director
Giorgio Razzoli	Vice Chairman	Non-executive Independent Director
Mara Bernardini	Director	Non-executive Independent Director
Filippo Brandolini	Director	Non-executive Independent Director
Luigi Castagna	Director	Non-executive Independent Director
Pier Luigi Celli	Director	Non-executive Independent Director
Piero Collina	Director	Non-executive Independent Director
Pier Giuseppe Dolcini	Director	Non-executive Independent Director
Giuseppe Fiorani	Director	Non-executive Independent Director
Vander Maranini	Director	Non-executive Independent Director
Nicodemo Montanari	Director	Non-executive Independent Director
Fabio Roversi Monaco	Director	Non-executive Independent Director
Roberto Sacchetti	Director	Non-executive Independent Director
Luciano Sita	Director	Non-executive Independent Director
Lanfranco Maggioli (1)	Director	Non-executive Independent Director
Stefano Zolea	Director	Non-executive Independent Director
Bruno Tani (2)	Director	Non-executive Independent Director

⁽¹⁾ Member appointed directly by the Municipality of Rimini pursuant to Article 2449 of the Italian Civil Code on 11 July 2006, in replacement of the out-going director Ermanno Vichi.

⁽²⁾ Member appointed directly by the Shareholders' Meeting on 26 April 2006 on the basis of the list presented by minority shareholders in compliance with the provisions of Italian Law No. 474/94 .

Currently, there are 16 directors qualifying as non-executive independent members of the Board, in that:

- a) they do not control, directly or indirectly, even via subsidiary or trust companies or third parties, the company; they do not exercise significant influence over the company; they are not parties to a shareholders' agreement via which one or more parties may exercise control or significant influence over the company;
- b) they are not currently nor have they been in the last three accounting periods, important representatives of the company, one of its subsidiaries with strategic importance or one of the companies subject to joint control together with the company, or of a company or body which, also together with others as a result of shareholders' agreements, controls the company or is able to exercise significant influence over the same;
- c) they do not have nor have they had in the previous year, either directly or indirectly, significant commercial, financial or professional dealings:
 - with the company, one of its subsidiaries, or with some of the related important representatives of the same;
 - with a party who, also together with others as a result of shareholders' agreements, controls the company, or – if concerning companies or bodies – with the related important representatives, and who have not been employees of one of the aforementioned parties in the last three accounting periods;
- d) they have not received in the last three accounting periods, from the company or from a subsidiary or parent company, significant remuneration in addition to the "fixed" emolument of the company's non-executive directors, including therein participation in incentive schemes linked to the company's performance, even share-based;
- e) they have not been directors of the company for more than nine years in the last twelve months;
- f) they have not covered the office of executive director in another company in which an executive director of the company covers the office of director;
- g) they are not shareholders or directors of a company or a body belonging to the network of the firm appointed to audit the company's accounts;
- h) they are not close family members of a party found in one of the positions contrasting with those described in the previous points.

The following circumstances do not invalidate the requisites for independence of a director: the appointment of the director by the shareholders or group of shareholders that control the Company, holding the office of director of a subsidiary of the Company and relative remuneration, holding the office of members of one of the advisory Committees described hereunder.

In pursuance of the provisions contained in Article 3 of the Code, the Board of Statutory Auditors has checked the correct application of the criteria and the assessment

procedures adopted by the Board of Directors for ascertaining the independence of its members.

The Board of Directors, in the meeting held in 28 April 2005, passed a resolution to grant the following powers to the Chairman:

1. to chair and direct the Shareholders' Meetings;
2. to establish the agenda of the meetings of the Board of Directors taking into account the proposals of the Managing Director;
3. to supervise the execution of the resolutions passed by the corporate boards of the Company, also based on the periodic reports provided by the internal auditing department and on which he shall be obliged to report jointly with the Chairman;
4. to represent the Company before third parties and in court with the power to appoint attorneys and lawyers;
5. in association with the Managing Director, to propose to the Board of Directors the designation of Company representatives on the administrative and auditing boards of the investee companies;
6. to represent the Company in dealings with the shareholding public authorities;
7. to propose to the Board the candidates standing for member of the Committees which the Board may decide to establish in compliance with the Stock Exchange regulations which the Company is obliged to observe, or which it intends to establish;
8. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
9. to supervise the Company's performance for the purposes of achieving corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
10. to be responsible for the organisation of the services and offices under his authority and also for the subordinate employees;
11. to make, in association with the Managing Director, any urgent decision reserved for the Board of Directors, which the Board shall be notified of in the first meeting thereafter;
12. to supervise operations of the Company and of the subsidiaries, providing the Board of Directors with a monthly report;
13. to draw up the Long-term Plans and Business Plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of directives established by the Board, and to exercise the powers delegated thereto, and in particular those listed hereunder, in compliance with said strategies and directives;
14. to propose to the Board all the initiatives that he may deem useful for the interests of the Company, and the Group, and to draw up proposals on matters reserved for said Board;
15. to represent the Company in the shareholders' meetings of companies, associations, entities and bodies which do not represent joint stock companies, of which said Company is a member, with faculty to issue special proxies;

16. to make payments into bank and post office current accounts of the Company, and to endorse cheques and drafts for crediting on said accounts;
17. to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, Stock Exchanges, the National Commission for Listed Companies and the Stock Exchange (CONSOB), the Ministry for Foreign Trade, and the Italian Exchange Office as well as any other Public Administration or Authority; by way of example:
 - a. to sign notices, including those to the General Register of Shares and to the CONSOB, and to fulfil the corporate obligations envisaged by law and regulations;
 - b. to submit reports, motions and appeals, to apply for licences and authorisations;
18. to represent the Company in all active and passive lawsuits, in all stages of civil and administrative proceedings, before arbitration boards, with the widest powers to:
 - a. to bring conservative, restraining and executive action, request summary judgements and seizure of property and oppose the same, enter civil proceedings, file motions and appeals;
 - b. to request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators and perform all else that proves necessary to the positive outcome of the lawsuits at issue;
19. to confer and revoke powers of attorney within the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
20. to stipulate and sign contracts and memorandums of association of companies, associations and consortiums worth no more than Euro 500,000.00 (Euro five hundred thousand) for each transaction;
21. to establish, in the Company's interests, consultancy activities with external experts and professional consultants, specifying terms and conditions of payment, all within the limits of Euro 100,000.00 (Euro one hundred thousand) for each transaction;
22. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
23. to participate, as far as his authority permits, in the capacity of representative of the Company, as lead company or as principal company, in the formation of joint ventures, T.A.C. (Temporary Associations of Companies), E.G.E.I. (European Group of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
24. to take part, as far as his authority permits, in the Company's name, also in T.A.C. (Temporary Associations of Companies), E.G.E.I.. (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international level, even admitted to State grants or aid, for the awarding or works, supplies of plant, including "turnkey", and/or of goods

and/or of studies and/or of research and/or of services in general for any national, EU or international public or private entity; submit applications for participation as from the prequalification stage; submit bids and, in the case of awarding, sign the relative documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;

25. to take part, as far as his authority permits, in any type of public or private auction or invitation to bid in Italy and abroad;
26. to stipulate, amend and terminate contracts for insurance policies with expense limits relating to the annual premium;
27. to rent or let out under lease or sublease and stipulate, amend and terminate the relative contracts;
28. to resolve the cancellation, reduction, and restriction of mortgages or liens registered in favour of the Company, as well as subrogation in favour of third parties, where the aforesaid cancellations and waivers are requested further or subordinate to the full discharge of the credit;
29. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements in any case pertaining to the corporate purpose – including those referring to know-how, trademarks and patents – even in association with other companies;
30. to establish, register and renew mortgages and liens for third parties' account and to the benefit of the Company; permit mortgage cancellations and limitations for third parties' account and to the benefit of the Company for the return and reduction of obligations; waive mortgages and mortgage subrogation, including those of a legal nature, and effect any other mortgage transaction, always for third parties' account and to the benefit of the Company, and therefore receivable, exonerating the competent land registrars from any responsibility;
31. to appoint lawyers and attorneys in any disputes and for any stage of proceedings; conclude settlements, sign arbitration agreements and arbitration clauses, also taking steps to nominate and appoint arbitrators;
32. to appoint attorneys for individual acts, within the sphere of the powers assigned;
33. to decide the Company's subscription to bodies, associations, and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of said entity and participation in the same does not involve an outlay of more than Euro 100,000.00 (Euro one hundred thousand).

In relation to the powers listed above, and in observance of Article 2 of the Code, readers are hereby informed that the Board of Directors has granted management authority to the Chairman as a result of the organisational complexity of the Hera Group and for the purposes of a more efficient achievement of the company's business and strategies, as well as in compliance with the agreements reached between the majority shareholders.

During the same meeting, the Board of Directors passed a resolution to grant the Managing Director the following powers:

1. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
2. to make, in association with the Managing Director, any urgent decision reserved for the Board of Directors, which the Board shall be notified of in the first meeting thereafter;
3. to implement corporate and Group strategies, within the context of directives established by the Board, and to exercise the powers delegated thereto, and in particular those listed hereunder, in compliance with said strategies and directives;
4. to propose to the Board all the initiatives that he may deem useful to the interests of the Company, and the Group, and to draw up proposals on matters reserved for said Board;
5. to draw up the annual budget to be submitted before the Board of Directors;
6. to be responsible for the organisation of the services and offices under his authority and also for the subordinate employees;
7. to define the functional structures of the Company and its subsidiaries, within the framework of the general organisation guidelines established by the Board, specify the criteria for personnel recruitment and management in compliance with the annual budget; propose the engagement of directors to the Board of Directors; engage, appoint and dismiss personnel up to and excluding the rank of General Manager, in compliance with the provisions contained in the annual budgets; adopt and implement the disciplinary sanctions, dismissal and any other measure in respect of blue-collar workers, office workers, assistants and auxiliary staff;
8. to stipulate, amend and terminate contracts for the opening of credit, loans of any type and duration; request the drawdown of tranches of loans, up to the amount of Euro 3,000,000.00 (Euro three million) for each contract;
9. to open and close current accounts with banks and credit institutions, withdraw sums from the accounts held in the Company's name, issuing for this purpose the relative cheques or equivalent credit documents, and order transfers utilising effective availability or credit lines in the current account;
10. make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting on said accounts;
11. to draw bills on customers, endorse also for discount promissory notes, bills and drafts

as well as cheques of any kind and effect any consequential transaction;

12. to actively and passively represent the Company before the Tax Authorities and Commissions of any nature and rank as well as before the Bank for Deposits and Loans, the Bank of Italy, Customs Offices, Post and Telegraphic Offices; by way of example:
 - a. to sign tax and VAT returns and to fulfil any tax-related obligation;
 - b. to submit reports, motions and appeals, to apply for licences and authorisations;
 - c. to issue receipts, in particular for payment orders in relation to credits subject to factoring transactions;
 - d. to perform any transaction at the Bank for Deposits and Loans, the Bank of Italy, Customs Offices, Post and Telegraphic Offices for shipment, deposit, clearance and collection of goods, credit instruments, parcels and packages, registered and insured letters, issuing receipt in discharge;
13. represent the Company in all lawsuits pertaining to labour law including the power to:
 - a. settle individual labour disputes concerning the categories of officers, white-collar workers, assistants and auxiliary staff,
 - b. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators and perform all else that proves necessary for the positive outcome of the lawsuits at issue;
14. to represent the Company before the offices of the Social Security and Welfare Institutions for the settlement of issues relating to employees of the Company, and also before the Trade Unions in negotiations for contracts, agreements and labour disputes, with the power to sign the relative documents;
15. to issue guarantees and grant loans up to the value of Euro 500,000.00 (Euro five hundred thousand) for each transaction; said limit shall not apply to transactions related to participation in tenders; issue, accept and endorse credit instruments;
16. to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
17. to participate, as far as his authority permits, in the capacity of representative of the Company, as lead company or as principal company, in the formation of joint ventures, T.A.C. (Temporary Associations of Companies), E.G.E.I. (European Group of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
18. to take part, as far as his authority permits, in the Company's name, also in T.A.C. (Temporary Associations of Companies), E.G.E.I.. (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international level, even admitted to State grants or aid, for the awarding or works, supplies of plant, including "turnkey", and/or of goods and/or of studies and/or of research and/or of services in general for any national, EU or

international public or private entity; submit applications for participation as from the prequalification stage; submit bids and, in the case of awarding, sign the relative documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;

19. to take part, as far as his authority permits, in any type of public or private auction or invitation to bid in Italy and abroad;
20. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
21. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements in any case pertaining to the corporate purpose – including those referring to know-how, trademarks and patents – even in association with other companies;
22. to establish, in the Company's interests, consultancy activities with external experts and professional consultants, specifying terms and conditions of payment, all within the limits of Euro 100,000.00 (Euro one hundred thousand) for each transaction;
23. to conclude settlements, sign arbitration agreements and arbitration clauses, also proceeding to nominate and appoint arbitrators;
24. to arrange for sureties to be provided by third parties in favour or in the interests of the Company, both in its position as creditor and as debtor, not exceeding the amount of Euro 100,000.00 (Euro one hundred thousand) for each transaction;
25. to provide for the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:
 - a. works and supplies necessary for the transformation and maintenance of properties and plant;
 - b. purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, as well as finance leases and rentals of said assets, with the cost limit referring to the annual rental;
 - c. purchases, also under usage licence with the cost limit referring to the annual premium, and job orders relating to EDP programmes;
 - d. commercial information;
26. to appoint attorneys for single acts, within the powers assigned;
27. the Managing Director is also assigned the powers and responsibilities set forth in Italian Legislative Decree No. 626 dated 19 September 1994 and subsequent amendments and integrations on the matter of workers' health and safety at work, all of which with faculty to delegate;
28. in particular, the Managing Director is assigned the role of "Employer" pursuant to and for the purposes of Italian Legislative Decree No. 626 dated 19 September 1994 and subsequent amendments and integrations, with the duties provided for therein with faculty to delegate, as far as is permitted by said decree, the performance of every activity useful and/or necessary for ensuring compliance with the provisions of the law;

29. lastly, the Managing Director is assigned the powers and responsibilities set forth in Italian Legislative Decree No. 196 dated 30 June 2003 concerning the protection of individuals and other parties in observance of the handling of personal details. Therefore, both the Chairman and the Managing Director are executive directors.

In compliance with the recommendations of the Code, the delegated bodies report to the Board of Directors and to the Board of Statutory Auditors, at least on a quarterly basis, on the activities performed when exercising the powers assigned thereto.

The Board of Directors, in compliance with the provisions of Article 23 of the Articles of Association and Article 150 of Italian Legislative Decree No. 58/95, regularly reports to the Board of Statutory Auditors, at least on a quarterly basis, normally during the meetings of the Board of Directors or even directly via written report sent to the Chairman of the Board of Statutory Auditors, on the activities performed and on the most important economic, financial and equity transactions carried out by the Company and by its subsidiaries, as well as on the operations in which the directors have an interest, on their own account or on behalf of third parties or which have been influenced by the party that exercises the management and co-ordination activities. The director, pursuant to Article 2391 of the Italian Civil Code, informs the other directors and the Board of Statutory Auditors of any interest that, on his own account or on behalf of third parties, he has in a given transaction of the Company, indicating the nature, terms, origin and extent; if the Managing Director is involved, he must refrain from undertaking the transaction entrusting it to the Board.

The Board of Directors met 14 times during 2006. All the directors and all the standing auditors participated in 4 meetings, while in the other 10 meetings almost all the directors and the entire Board of Statutory Auditors participated, with the exception of 1 meeting in which one statutory auditor was absent and another meeting during which two auditors were absent.

The General Manager of the company is invited to attend the meetings of the Board of Directors and during 2006 attended all 14 meetings.

In relation to the current year, as at 26 March 2007, 4 meetings of the Board of Directors have been held; nearly all the directors attended 2 meetings, while all the directors attended two of the meetings and the entire Board of Statutory Auditors attended all the meetings. At present, another 8 meetings of the Board of Directors have been scheduled for the rest of the year.

The Chairman ensures that each Director and Statutory Auditor has all the information and documentation necessary for discussing the business on the agenda of the Board meetings at least 3 days before the meeting, except in cases of necessity and urgency. Lastly, the Chairman and the Managing Director ensure that the Board of Directors is also informed on the most important changes in legislation and regulations relating to the Company and corporate offices.

Role and composition of the Executive Committee

As envisaged by Article 23.3 of the Articles of Association, during the meeting held on 16 January 2006 the Board of Directors set up the Executive Committee, appointing the following members:

Tomaso Tommasi di Vignano	Chairman
Giorgio Razzoli	Vice Chairman
Maurizio Chiarini	Member

With regards to the annual definition of the Group Industrial Plan and to the proposals for appointment of 1st level Senior Executives, the Committee has the task of expressing an opinion prior to presentation to the Board of Directors and also resolving:

1. as to the contracts and conventions in any way pertaining to the corporate purpose worth more than Euro 2 million per single contract;
2. in the interests of the Company, consultancy arrangements with external experts and professional consultants, specifying terms and conditions of payment, worth more than Euro 100,000 and up to Euro 500,000 and more generally on the overall criteria for use;
3. as to the Company's subscription to bodies, associations, and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of said entity and participation in the same involves an outlay of more than Euro 100,000 and up to Euro 500,000;
4. to settle disputes and/or waive credits of an amount exceeding Euro 1,000,000;
5. as to the activation, amendment and termination of contracts for the opening of credit, loans of any type and duration which involve a commitment of more than Euro 1,000,000 and up to Euro 5,000,000; request the drawdown of tranches of loans, for an amount of more than Euro 3,000,000 and up to Euro 5,000,000 per single contract;
6. as to the stipulation, amendment and termination of contracts for investments relating to:
 - works and supplies necessary for the transformation and maintenance of properties and plant worth more than Euro 15,000,000;

- purchase and disposal of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers worth more than Euro 8,000,000.

The Executive Committee met 3 times during 2006, and all the members attended all the meetings.

With regards to the current year, as of 26 March 2007, the Executive Committee had met once and all the members were present at the meeting.

Appointment and Remuneration of the Directors

Article 17 of the Articles of Association assigns the local authorities holding shares the faculty to appoint 14 members of the Board of Directors, in accordance with Articles 2449 and 2450 of the Italian Civil Code.

In practice this means that: the Municipality of Bologna has the right to appoint 4 directors; the Province of Bologna, including on behalf of 47 Municipalities, has the right to appoint 1 director; the Municipality of Cesena, including on behalf of another 25 Municipalities, has the right to appoint 1 director; Con.Ami has the right to appoint 1 director; the Municipality of Forlì has the right to appoint 1 director; the Municipality of Ravenna, including on behalf of another 11 Municipalities, has the right to appoint 1 director; the Municipality of Rimini, including on behalf of another 26 Municipalities, has the right to appoint 1 director; the Municipality of Ferrara, including on behalf of another 9 Municipalities, has the right to appoint 1 director; the Municipality of Modena, including on behalf of another 30 Municipalities, has the right to appoint 3 directors.

The other 4 members of the Board of Directors not nominated by local authorities, will be appointed by the Shareholders' Meeting on the basis of the list voting system envisaged by Article 17 of the Articles of Association which specifies that the list must be presented by shareholders representing at least 1% of shares with voting rights and must be filed, at the Company's registered offices at least 20 days prior to the date set for the Shareholders' Meeting, together with the curriculum vitae of the candidates, their irrevocable acceptance of the appointment and a certificate verifying that there are no grounds for ineligibility and/or forfeiture.

These lists will be made public by means of notice published in three national newspapers of which two financial, at least 10 days prior to the Shareholders' Meeting. The local authorities entitled to make direct appointments pursuant to Articles. 2449 and 2450 of the Italian Civil Code, must refrain from presenting lists and abstain from voting.

The local authorities holding shares have entered into a Voting Trust and Share Transfer Rules Agreement which provides clauses on the composition of the Board of Directors.

There are also two consultation pacts that provide for clauses on the composition of the Board of Directors and in particular:

- 1) pact of consultation signed on 27 October 2006 by 5 minority shareholders of HERA S.p.A.
- 2) pact of consultation signed on 11 July 2006 by 41 minority shareholders of HERA S.p.A.

The Shareholders' Meeting held on 28 April 2005 assigned the directors a fixed annual fee.

The Board of Directors, during the meetings held on 30 May 2005 and 6 February 2006, resolved to assign the Chairman and the Managing Director remuneration comprising a fixed amount, inclusive of the indemnity due thereto, as well as an additional variable annual sum linked to the Company's operating results or to the achievement of specific targets set by the Remuneration Committee (in this case the remuneration committee linked the variable annual sum to the Company's achievement of set indexes for EBITDA, net profit and NFP of the Hera Group).

In the meetings held on 11 May 2005, 16 January 2006 and 24 July 2006, the Board of Directors also assigned a further fixed annual amount only to the directors holding specific offices, over and above the fee due thereto as directors, for serving on other Board of Directors of Group companies and/or other boards associated with the Company's Board of Directors. During the meeting held on 16 January 2006, the Board of Directors passed a resolution to assign the Vice Chairman a fixed annual sum inclusive of the fee due thereto as director and of any other amount for offices held within Group companies.

Committees

The Committees set up are representative of an internal structure of the Board of Directors and fulfil an advisory and consulting role.

a) Remuneration Committee

During the meeting held on 4 November 2002, the Board of Directors, in compliance with the provisions of the Code, set up the Remuneration Committee with the role of formulating proposals to the Board of Directors for the remuneration of the Managing Director, the Chairman and the directors covering specific roles, as well as on the basis of indications provided by the Managing Director, for the adoption of general criteria for the remuneration of management, without prejudice to the Managing Director's duty to define policies and levels of management remuneration.

This Committee comprises Giorgio Razzoli (appointed on 16 January 2006) as Chairman, Perluigi Celli (appointed on 11 May 2005), Piero Collina (appointed on 11 May 2005) and Nicodemo Montanari (appointed on 11 May 2005). The Chairman of the Board of Directors and the Managing Director may attend the Committee meetings upon the express invitation of the Chairman of the Committee.

During 2006, the Remuneration Committee held 3 meetings; all the members attended one meeting, while the majority of the members attended 2 meetings.

The afore-mentioned meetings dealt with the subjects relating to the Approval of the Balanced Scorecard System for 2006 and the 2006 Remuneration Policy for the fixed variable portion for Directors, Directors of subsidiary companies and Hera Group executives for 2006.

b) Internal Control System and Internal Control Committee In order to guarantee an adequate internal control system, the Internal Auditing division has been set up; the individual in charge reports directly to the Vice Chairman.

The individual responsible for Internal Auditing provides a report on his activities, on a quarterly basis or whenever he considers it necessary, to the Managing Director, the Chairman of the Board of Directors, the Internal Control Committee and to the Board of Statutory Auditors.

In terms of hierarchy, he is not subordinate to the heads of the operating divisions.

In compliance with the provisions of the Code, the Board of Directors of the Company, during the meeting held on 4 November 2002, passed a resolution to set up an Internal

Control Committee with advisory and proposal-related functions. This committee comprises Giorgio Razzoli (appointed on 16 January 2006), as Chairman, Luigi Castagna (appointed on 24 July 2006), Stefano Zolea (appointed on 11 May 2005) and Vander Maranini (appointed on 11 May 2005). The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the Chairman and, upon the express invitation of the Chairman of the Committee, the Managing Director and the Chairman of the Board of Directors, may attend the Committee's meetings. The Committee has been assigned the functions indicated under paragraph 8.C.3 of the Code, with the exception of the tasks pursuant to letters c), d) and e) of the aforementioned paragraph, which are performed by the Board of Statutory Auditors.

The Internal Control Committee met 6 times in 2006; 2 meetings were attended by all the members, 3 meetings by the majority of the members and one meeting by half the members.

During the above-mentioned meetings, the Audit Plan was assessed and the Audit activities carried out along with the Group Risk Assessment activities.

c) Committee for the proposal of appointments

A Committee for appointment proposals relating to the office of Director has not been set up, since in accordance with the Articles of Association, the appointment of 14 directors is the responsibility of the local authorities as per Articles 2449 and 2450 of the Italian Civil Code and that of the other 4 directors is the responsibility of the remaining shareholders using the list voting system.

Handling of corporate information

As from 1° April 2006, date when the new legislation concerning INTERNAL DEALING came into force, disciplined by Article 114 of the FCA and by Articles 152-*sexies*, 152-*septies* and 152-*octies* of the Issuers' Regulation No. 11971 dated 14 May 1999, introduced by means of CONSOB Resolution No. 15232 dated 29 November 2005, the "Internal Dealing" Code of Conduct adopted by Hera S.p.A., during the Board Meeting held on 10 March 2003, ceased to be effective.

Consequently, in pursuance of the new procedure adopted by Hera S.p.A. in 27 March 2006, and in accordance with Article 152-*sexies* of the Issuers' Regulations, the following individuals have been identified as significant parties, obliged to inform the CONSOB of the transactions they have carried out on Hera S.p.A.'s financial instruments: the members of the Board of Directors, the standing auditors and the

shareholders who hold an equity investment equating to or greater than 10% of the share capital, as well as individuals closely linked to the same.

In compliance with the provisions of the Issuers' Regulations, the timescales and communication formalities for the transactions carried out by the significant parties have been identified by the procedure adopted by Hera S.p.A.. Hera S.p.A. has identified the Corporate Department of the Legal and Corporate Affairs as the party tasked with receiving, handling and disclosing the information to the market.

The appointed party will avail of the External Affairs Department for the disclosure of the information to the market by means of the NIS screen-based system (Network Information System).

Furthermore, in accordance with the provisions of Article 115-*bis* of the FCA and Article 152-*bis* of the Issuers' Regulation No. 11971 dated 14 May 1999, introduced by means of CONSOB Resolution No. 15232 dated 29 November 2005, as from 1 April 2006 Hera S.p.A. set up the "Register of Individuals who, as a result of the working or professional activities, or in relation to the functions performed, have access on a regular or occasional basis to privileged information", this being understood to be the information (i) of a precise nature; (ii) directly or indirectly concerning the issuer or its financial instruments; (iii) which has not been made public and (iv) which if made public, could considerably influence the prices of these financial instruments (price sensitive information).

Transactions with related parties

For the purpose of reviewing and updating the guidelines and principles of conduct for the implementation of Articles 5 and 11 of the Code of Conduct in its previous 1999 version as amended in 2002, already approved during the meeting held on 27 May 2003, and in consideration of CONSOB Resolution No. 14990 dated 14 April 2005 which amended the same notion of related party, during the meeting held on 10 October 2006, Hera S.p.A.'s Board of Directors approved - in accordance with Articles 1 and 9 of the new Code of Conduct – the new Guidelines on significant transactions, on transactions with related parties and on transactions where the directors is the bearer of an interest, so as to guarantee that they are carried out transparently and in observance of the criteria of substantial and procedural correctness.

In short, the guidelines are as follows:

1. The Board of Directors has identified the following as significant transactions, even if entered into within the sphere of the Group:
 - a) *transactions which oblige the Company to make a disclosure document available to the general public, drawn up in accordance with the provisions established by the CONSOB;*
 - b) *the undertaking and disposal of equity investments for a value greater than Euro 500,000 (five hundred thousand);*
 - c) *the purchase and/or sale of real estate property for a value greater than Euro 500,000 (five hundred thousand);*
 - d) *the issue of sureties, liens and/or other collateral for a value greater than Euro 500,000 (five hundred thousand);*
 - e) *the purchase and/or sale of companies and/or business segments;*
 - f) *participation in tenders and/or public procedures that involve the undertaking of contractual obligations exceeding Euro 25,000,000 (twenty-five million);*
 - g) *the issue of financial instruments;*
 - h) *the raising of loans, credit facilities or other lending transactions, in total for amounts greater than Euro 5,000,000 (five million) per individual transaction.*

At the time of the examination and approval of all the significant transactions, the Board of Directors received adequate information from the delegated bodies concerning Hera S.p.A.'s interest in performing the transaction, the economic feasibility of the same, and the coherence with the Company's strategic plans.

The Board of Directors examines and preliminarily assesses the existence of the aforementioned requisites, also in the event that they are referable to transactions by Hera S.p.A.'s subsidiary companies

2. The Board of Directors identifies the parties indicated by the international accounting principles concerning financial statement disclosure on transactions with related parties (IAS No. 24), adopted according to the procedure pursuant to Article 6 of EC Regulation No. 1606/2002, as "related parties" and therefore, in the case of HERA SpA, these are as follows:
 - a. the parties subject, directly or indirectly, to the sole or joint control of HERA SpA, and the companies associated with HERA SpA;
 - b. the executive and non-executive directors, standing auditors and, if appointed, general managers of HERA SpA and its subsidiaries and their close family members;
 - c. the companies in which the executive and non-executive directors or the standing auditors or, if appointed the general managers of HERA SpA or its subsidiaries or the related close family members exercise considerable influence. This case also includes the companies which have just a sole director, an auditor or a general manager in common with HERA SpA or with its subsidiaries .
3. The significant transactions, along with any transaction which exceeds the threshold of Euro 5,000,000, if concluded by Hera SpA or by its subsidiaries with related parties, are subject to the decision-making responsibilities of the respective administrative bodies.

Infragroup transactions concluded under standardized conditions and which are not considered to be atypical or unusual, are excluded from the afore-mentioned decision-making responsibilities. Atypical or unusual transactions, infragroup or otherwise, concluded with related parties which exceed the threshold of Euro 500,000, are subject to the afore-mentioned decision-making responsibilities.

Transactions which, due to their purpose or nature, fall within the normal course of the Company's business and those which do not contain particularly critical elements in relation to their features or the risks inherent to the nature of the counterpart, originally carried out, are considered to be typical or usual transactions. Those concluded under equal conditions with any other party are standardized condition transactions.

4. Transactions with related parties entered into by HERA SpA or its subsidiaries, are reserved for the decision-making responsibility of the respective Boards of Directors.

In this case, the Boards of Directors will be adequately informed by the delegated bodies on the following elements:

- a. degree of correlation between the counterparts;
- b. indication of the main features and conditions, both contractual and financial, of the transaction
- c. HERA SpA's interest or that of its subsidiaries in carrying out the transactions;
- d. substantial correctness of the transaction.

So as to avoid that the transaction is stipulated under conditions other than those which would have likewise been negotiated between unrelated parties, Hera SpA's Board and – in relation to the transactions not subject to the prior approval of the Board – the delegated bodies will see that the transaction is concluded, subject to the opinion of the Internal Control Committee and/or with the assistance of independent experts of proven professionalism and competence for the purpose of evaluating the assets and the financial, legal or technical consultancy.

5. Any Director who has an interest in the transaction, potential, indirect or otherwise, on its own account or on behalf of third parties, after having promptly and fully informed the other directors of the existence of the interest and of other significant circumstances, shall withdraw from the board meeting at the time of resolution.

By means of indirect interest, we mean an interest which concerns:

- a. the close family members of the Director, potentially capable of influencing the Director;
- b. or a company directly or indirectly controlled by the Director.

Statutory auditors

The Board of Statutory Auditors comprises three standing members. Two alternative members have also been appointed. The Board of Statutory Auditors will remain in office until approval of the financial statements for the year ended 2007.

In pursuance of the provisions contained in Article 10 of the Code, the Board of Statutory Auditors has appraised the correct application of the criteria and the assessment procedures adopted for assessing the independence of its members.

Composition of the Board of Statutory Auditors

Name and Surname	Office
Antonio Venturini	Chairman
Fernando Lolli	Standing Auditor
Sergio Santi (*)	Standing Auditor
Stefano Ceccacci (*)	Alternate Auditor
Roberto Picone	Alternate Auditor

() appointed by the Shareholders' Meeting on 28 April 2005 on the basis of the only list presented by the minority shareholders in compliance with the provisions of legislation in force.*

The Articles of Association envisage that the Statutory Auditors must possess the requirements of integrity and professionalism established by legislation in force.

For the purposes of the provisions of legislation in force concerning the requirements of professionalism of the members of the Board of Statutory Auditors of listed companies, subject matter and sectors of activity strictly relating to the activities carried out by the Company are intended to mean the subject matters and sectors associated with or relating to the activity exercised by the Company and set forth in Article 4 of the Articles of Association.

The office of statutory auditor is not compatible with that of councillor or alderman of local public authorities, or with that of statutory auditor in more than 3 listed companies with the exclusion of the subsidiaries of the Company pursuant to Article 2359 of the

Italian Civil Code and Article 93 of Italian Legislative Decree No. 58/98. In this latter case, the statutory auditor who subsequently exceeds said limit automatically falls from office as statutory auditor of the Company.

The statutory auditors are appointed by the Shareholders' Meeting on the basis of the list voting system envisaged by Article 26 of the Articles of Association which specifies that (i) the Municipalities, Provinces and Consortiums established in accordance with Article 31 of Italian Legislative Decree No. 267/2000 and the associates or the joint-stock companies controlled by the same may present a single list and (ii) the shareholders other than those indicated in point (i) may present lists provided that they represent at least 3% of the shares with voting rights. The lists must be filled at the registered offices at least 20 days prior to the date of the Shareholders' Meeting, together with the declaration of the individual candidates certifying the inexistence of grounds for ineligibility or incompatibility provided by law, as well as the existence of the requirements of integrity and professionalism required by law for the members of the Board of Statutory Auditors.

These lists will be made public via publication in three national newspapers, of which two financial newspapers, at least 10 days prior to the Shareholders' Meeting.

The Board of Statutory Auditors held 15 meetings which were attended by all the members.

The local authorities holding shares in the Company have entered into a Voting Trust and Share Transfer Rules Agreement which envisages clauses on the composition of the Board of Statutory Auditors.

There are also three consultation pacts that envisage clauses on the composition of the Board of Statutory Auditors and in detail:

- 1) pact of consultation signed on 27 October 2006 by 5 minority shareholders of HERA SpA
- 2) pact of consultation signed on 11 July 2006 by 41 minority shareholders of HERA SpA
- 3) pact of consultation signed on 11 July 2006 by 42 minority shareholders of HERA SpA

Relations with shareholders

In order to encourage a more in-depth awareness of the Company by the shareholders, the Company has set up a special structure dedicated to investors relations. On 11 March 2003, Mr. Jens Klint Hansen was appointed as head of investor relations (Investor Relations can be contacted via the telephone number +39 051 287737 or the e-mail address ir@gruppohera.it).

The Shareholders' Meeting held on 20 April 2003 approved the text of the Shareholders' Meeting Regulations. These regulations indicate the procedures to be followed in order to permit the orderly and proper functioning of meetings, without prejudice to the right of each shareholder to express his opinion on the matters under discussion.

The Shareholders' Meeting Regulations are published on the Company's website www.gruppohera.it

Administrative Responsibility of the Company

Italian Legislative Decree No. 231/2001 introduced the administrative responsibility (*rectius penale*) of corporate bodies, companies and associations, into the Italian legal system. In particular, the law introduced the criminal responsibility of entities for certain offences committed in the interest or to the advantage of the same by individuals fulfilling roles of representation, administration or management of the entity or one of its organisational units with financial and operating independence, as well as individuals who exercise, even de facto, management and control thereof and, lastly, individuals subject to the direction or supervision of one of the afore-mentioned parties. Significant offences are offences committed against the public authorities and corporate offences committed in the interests of the companies.

However, Articles 6 and 7 of Italian Legislative Decree No. 231/2001 envisage a form of exoneration from responsibility if (i) the entity proves that it adopted and efficiently implemented, prior to commission of the act, organisational, management and control models appropriate for preventing the perpetration of the offences considered by said decree; and (ii) the task of overseeing the effectiveness of and compliance with the models, as well as providing for their review, is entrusted to a board of the entity vested with autonomous powers of initiative and control.

For this purpose, on 16 February 2004, HERA SpA's Board of Directors approved – and subsequently on 26 October 2005 up-dated – the organisational, management and control model pursuant to Italian Legislative Decree No. 231/2001 with the aim of creating a structured and organic system of procedures and control activities directed at preventing the offences referred to in the aforesaid decree, through identification of activities exposed to the risk of offence and the consequent implementation of procedures therein.

Hence the Board of Directors set up the supervisory board comprising HERA S.p.A.'s Head of Internal Auditing as the Chairman, HERA S.p.A.'s Head of Legal and Corporate Affairs and an external member to which it entrusted the aforesaid duties including the

periodic reporting to the corporate boards of HERA S.p.A. on the implementation of said model

The Supervisory Board met 7 times in 2006; 6 meetings were attended by all the members, while one meeting was attended by the majority of the members.

The Supervisory Board took steps to review the organisational model which was extended to the other Group companies. The Supervisory Board also applied and analysed the information flows that permit the Board to supervise the effectiveness of and compliance with the models.

In order to carry out the checks and controls, the Supervisory Board drew up a schedule of measures for checking compliance with the protocols adopted.

The Company also adopted an Ethical Code which was approved by the Board of Directors during the meeting held on 16 February 2004 and widely circulated to both employees and stakeholders.

Table 1: Structure of the BoD and of the Committees for 2006

Consiglio di Amministrazione										
Carica	Componenti	esecutivi	non-esecutivi	indipendenti	****	Numero di altri incarichi **	Comitato Controllo Interno •	Comitato Remunerazione ♦	Eventuale Comitato Nomine ◇	Eventuale Comitato Esecutivo dal 16.01.2006
Presidente	Tomaso Tommasi di Vignano	X			100%	-				X 100%
Amministratore Delegato	Maurizio Chiarini	X			100%	-				X 100%
Vice Presidente	Giorgio Razzoli		X	X	100%	-	X 100%	X 100%		X 100%
Amministratore	Mara Bernardini		X	X	100%	-				
Amministratore	Filippo Brandolini		X	X	100%	-				
Amministratore	Luigi Castagna		X	X	100%	-	X 100%			
Amministratore	Pier Luigi Celli		X	X	79%	1		X 33%		
Amministratore	Piero Collina *		X	X	71%	2		X 100%		
Amministratore	Pier Giuseppe Dolcini *		X	X	93%	-				
Amministratore	Giuseppe Fiorani		X	X	100%	-				
Amministratore	Lanfranco Maggioni (dall'11 luglio 2006)		X	X	100%	-				
Amministratore	Vander Maranini		X	X	86%	-	X 67%			
Amministratore	Nicodemo Montanari		X	X	93%	-		X 100%		
Amministratore	Fabio Roversi Monaco *		X	X	71%	2				
Amministratore	Roberto Sacchetti		X	X	93%	-				
Amministratore	Luciano Sita		X	X	79%	-				
Amministratore	Bruno Tani (dal 26 aprile 2006)		X	X	87%	-				
Amministratore	Ermanno Vichi (fino al 26 aprile 2006)		X	X	80%	/	X 100%			
Amministratore	Stefano Zolea		X	X	93%	-	X 83%			
● Sintesi delle motivazioni dell'eventuale assenza del Comitato o diversa composizione rispetto alle raccomandazioni del Codice:										
♦ Sintesi delle motivazioni dell'eventuale assenza del Comitato o diversa composizione rispetto alle raccomandazioni del Codice:										
◇ Sintesi delle motivazioni dell'eventuale assenza del Comitato o diversa composizione rispetto alle raccomandazioni del Codice: non è stato costituito il Comitato in quanto ai sensi di statuto la nomina di 14 consiglieri spetta agli enti locali ex artt. 2449 e 2450 c.c. e quella degli altri 4 consiglieri ai soci diversi dai primi attraverso il sistema del voto di lista										
Numero riunioni svolte durante l'esercizio di riferimento		CdA: 14	Comitato Controllo Interno: 6		Comitato Remunerazioni: 3		Comitato Nomine: /		Comitato Esecutivo: 3	

NOTE

* La presenza dell'asterisco indica se l'amministratore è stato designato attraverso liste presentate dalla minoranza

** In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercato regolamentati, anche esteri, in società finanziarie, bancarie, assicurative o di rilevanti dimensioni

*** In questa colonna è indicata con una "X" l'appartenenza del membro del CdA al Comitato

**** In questa colonna è indicata la percentuale di partecipazione degli amministratori rispettivamente alle riunioni del CdA e dei Comitati

Table 2: Board of Statutory Auditors

Carica	Componenti	Percentuale di partecipazioni alle riunioni del Collegio	Numero altri incarichi **
Presidente	Venturini Antonio	100%	-
Sindaco effettivo	Fernando Lolli	100%	-
Sindaco effettivo *	Sergio Santi	100%	2
Sindaco supplente *	Stefano Ceccacci	-	-
Sindaco Supplente	Roberto Picone	-	-

Numero riunioni svolte nell'anno solare: 15

Indicare il quorum richiesto per la presentazione delle liste da parte delle minoranze per l'elezione dei uno o più membri effettivi: l'articolo 26 dello Statuto specifica che (i) i Comuni, le Province e i Consorzi costituiti ai sensi dell'art. 31 del D.Lgs. n. 267/2000 nonché i consorzi o le società di capitali comunque controllate dagli stessi concorrono a presentare un'unica lista e (ii) i soci diversi da quelli indicati sub (i) possono presentare liste purché rappresentino almeno il 3% delle azioni aventi diritto di voto.

NOTE

* L'asterisco indica se il sindaco è stato designato attraverso liste presentate dalla minoranza.

**In questa colonna è indicato il numero di incarichi di amministrazione o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati italiani.

Table 3: Other provisions of the Code of Conduct

	SI	NO	Sintesi delle motivazioni dell'eventuale scostamento delle raccomandazioni del Codice
Sistema delle deleghe e operazioni con parti correlate			
Il CdA ha attribuito deleghe definendone:			
a) limiti	X		
b) modalità d'esercizio	X		
c) e periodicità dell'informativa?	X		
Il CdA si è riservato l'esame e approvazione delle operazioni aventi un particolare rilievo economico, patrimoniale e finanziario (incluse le operazioni con parti correlate)?	X		
Il CdA ha definito linee-guida e criteri per l'identificazione delle operazioni "significative"	X		
Le linee-guida e i criteri di cui sopra sono descritti nella relazione?	X		
Il CdA ha definito apposite procedure per l'esame e approvazione delle operazioni con parti correlate?	X		
Le procedure per l'approvazione delle operazioni con parti correlate sono descritte nella relazione?	X		
Procedure della più recente nomina di amministratori e sindaci			
Il deposito delle candidature alla carica di amministratore è avvenuto con almeno dieci giorni di anticipo?	X		
Le candidature alla carica di amministratore erano accompagnate da esauriente informativa?	X		
Le candidature alla carica di amministratore erano accompagnate dall'indicazione dell'idoneità a qualificarsi come indipendenti?		X	Lo statuto sociale non lo prevede, tuttavia a seguito della nomina, i consiglieri hanno sempre depositato idonea dichiarazione attestante la sussistenza del requisito di indipendenza. In occasione della prossima Assemblea dei Soci verrà inserita apposita previsione nello Statuto, in riferimento alle modifiche introdotte dal D.Lgs. 303/06.
Il deposito delle candidature alla carica di sindaco è avvenuto con almeno dieci giorni di anticipo?	X		
Le candidature alla carica di sindaco erano accompagnate da esauriente informativa?	X		
	SI	NO	Sintesi delle motivazioni dell'eventuale scostamento delle raccomandazioni del Codice
Assemblee			
La società ha approvato un Regolamento di Assemblea?	X		
Il Regolamento è allegato alla relazione (o è indicato dove esso è ottenibile / scaricabile?)	X		
Controllo interno			
La società ha nominato i preposti al controllo interno?	X		
I preposti sono gerarchicamente non dipendenti da responsabili di aree operative?	X		
Unità organizzativa preposta al controllo interno (ex art. 8 del Codice)	X		
Investor relations			
La società ha nominato un responsabile investor relations?	X		
Unità organizzative e riferimenti (indirizzo/telefono/fax/e-mail) del responsabile investor relations	Jens Klint Hansen (HERA S.p.A. V.le Carlo Berti Pichat 2/4, 40127 Bologna / telefono 051 287737 / fax 051 287224 / e-mail ir@gruppohera.it.		

2.01.11 Performance of the Parent Company in 2006

In application of the national laws concerning the implementation of the EU Regulation no. 1606 of 19 July 2002, the Financial Statements of the Parent Company SpA were drawn up in accordance with the IFRS principles starting from 2006. As a result, the Company prepared the figures related to 2006 by applying the IFRS, to enable comparison with the figures for the same period of the previous year. The last Financial Statements drawn up according to the Italian accounting principles were those for the financial year ending on 31 December 2005.

The figures presented show a restatement of the Financial Statements as at 31 December 2005, as confirmed by the specific appendix attached to the Financial Statements

(million Euro)	31-Dec-05	31-Dec-06	Absolute change	Change (%)
Revenues	1,416.5	1,802.3	385.8	27.2%
EBITDA	187.2	224.6	37.4	20.0%
Operating profit	79.9	79.6	(0.3)	-0.4%
Net profit	83.9	68.1	(15.8)	-18.8%

The interpretation of the results must also take into consideration the current economic set-up of the Group, which sees the distribution of the total result between the Parent Company and the various sales, operational and maintenance companies and specific business units. For this reason, there was a shift in Hera SpA's profitability towards the dividend component from subsidiaries and towards the results of financial operations and equity investments. The implementation of the service contracts between the different units of the Group also led to an increase in the value of production and the EBITDA.

A summary is presented below of the reclassified balance sheet and financial position as at 31 December 2006, shown on a comparative basis with the balances as at 31 December 2005:

Analysis of Invested Capital and Sources of Financing (millions of Euro)	31-Dec-05	%	31-Dec-06	%	Absolute Change	Change (%)
Net non-trading assets	2,280.8	97.8%	2,564.1	102.0%	283.3	12.4%
Net working capital	267.2	11.5%	206.0	8.2%	(61.2)	-22.9%
Gross invested capital	2,548.0	109.3%	2,770.0	110.2%	222.0	8.7%
Other provisions	(216.8)	-9.3%	(255.6)	-10.2%	(38.8)	17.9%
Net invested capital	2,331.2	100.0%	2,514.4	100.0%	183.2	7.9%
Total shareholders' equity	1,421.8	61.0%	1,424.7	56.7%	3.0	0.2%
Net financial indebtedness	909.4	39.0%	1,089.7	43.3%	180.3	19.8%
Sources of financing	2,331.2	100.0%	2,514.4	100.0%	183.2	7.9%

The net invested capital increased as at 31 December 2006 by Euro 183.2 million, rising from Euro 2,331.2 million to Euro 2,514.4 million .

Net non-trading assets as at 31 December 2006 amount to Euro 2,564.1 million, an increase by Euro 283.3 million compared with 31 December 2005. The change is connected with the investments made, which are more fully described in the Group's report on operations.

Net working capital stands at Euro 206 million.

Other provisions went from Euro 216.8 million up to Euro 255.6 million, an increase by Euro 38.8 million.

The shareholders' equity increased from Euro 1,421.8 to 1,424.7 million.

In relation to the afore-mentioned share capital increases, the net financial position passed from Euro 909.4 million as at 31 December 2005 to Euro 1,089.7 million at the end of 2006.

2.01.12 Equity Investments of Directors, Statutory Auditors and General Managers (Article 79 of the CONSOB Regulations)

Name and Surname	Offices held within Hera SpA	Company invested in	Number of shares held as at 31 Dec. 2005	Number of shares acquired in 2006	Number of shares sold in 2006	Number of shares held as at 31 Dec. 2006
Tomaso Tommasi di Vignano (1)	Chairman	Hera S.p.A.	10,000		2,000	8,000
Maurizio Chiarini	Managing Director	Hera S.p.A.	-	-	-	-
Giorgio Razzoli	Vice Chairman	Hera S.p.A.	-	-	-	-
Mara Bernardini	Director	Hera S.p.A.	-	-	-	-
Filippo Brandolini	Director	Hera S.p.A.	2,750	-	2,750	-
Luigi Castagna (1)	Director	Hera S.p.A.	1,950	-	-	1,950
Pier Luigi Celli	Director	Hera S.p.A.	-	-	-	-
Piero Collina	Director	Hera S.p.A.	-	-	-	-
Pier Giuseppe Dolcini	Director	Hera S.p.A.	2,750	-	-	2,750
Giuseppe Fiorani	Director	Hera S.p.A.	-	3,700	-	3,700
Lanfranco Maggioli (in office as from 11 July 2006)	Director	Hera S.p.A.	500 (2)	-	-	500
Vander Maranini	Director	Hera S.p.A.	-	-	-	-
Nicodemo Montanari	Director	Hera S.p.A.	-	-	-	-
Fabio Alberto Roversi Monaco	Director	Hera S.p.A.	36,000	-	36,000	-
Roberto Sacchetti	Director	Hera S.p.A.	-	-	-	-
Luciano Sita	Director	Hera S.p.A.	-	-	-	-
Bruno Tani (in office as from 26 April 2006)	Director	Hera S.p.A.	-	-	-	-
Ermanno Vichi (in office until 26 April 2006)	Director	Hera S.p.A.	-	-	-	-
Stefano Zolea	Director	Hera S.p.A.	-	-	-	-
Antonio Venturini	Chairman of Board of Statutory Auditors	Hera S.p.A.	-	-	-	-
Fernando Lolli	Member of Board of Statutory Auditors	Hera S.p.A.	-	-	-	-
Sergio Santi	Member of Board of	Hera S.p.A.	-	-	-	-

	Statutory Auditors					
Roberto Barilli	General Manager	Hera S.p.A.	25,000	-	25,000	-
(1) indirect investment held via spouse.						
(2) referring to situation as at 11 July 2006.						

2.01.13 Significant events after year-end

The most significant corporate events during the first few months of 2007 are summarised below

Increase in the equity investment held in SGR Servizi

With effect as at 1 January 2007, Hera Comm S.r.l. increased the interest held in SGR Servizi from 20% to 29.6%. This increase took place following the conferral to the share capital increase account of 100% of Gas Riccione, a gas sales company operative in the Riccione area, with more than 20,000 customers, which originated from the merger transaction carried out in 2006 between Hera S.p.A. and Geat Distribuzione Gas S.p.A. The rationale underlying this transaction should be sought in the expediency of concentrating the sales activities for the entire province of Rimini within SGR Servizi, involving consequent synergies from both a commercial and operational point of view. Furthermore, this transaction consolidates the partnership with the SGR Group, which also envisages joint activities for the supply of electricity to customers in the Rimini area.

Operational start-up of Galsi

During January and February, the agreements entered into in December 2005 were implemented for the transformation of Galsi from a project company to a company for the creation and management of new transport infrastructures for importing natural gas from Algeria to Italy. At the end of February, the first share capital increase was carried out, thereby making it possible to avail of the resources for the operational start-up of the activities associated with the analytical planning and authorization procedure. The Shareholders are expected to express their final investment decisions between the end of 2007 and the first half of 2008. Around 8 billion cm³/year of natural gas will be imported via this infrastructure, of which 1 billion cm³/year forming the subject matter of the supply contract between Sonatrach and Hera, entered into in August 2006.

Public Illumination rationalisation activities

As from 1 January 2007, the process for the rationalisation of the Group's public lighting activities was completed, by means of the conferral to the share capital increase account of the management activities for this service in the city of Modena, excluding the plants, within Hera Luce S.r.l. As a result of this transaction, the interest held by Hera S.p.A. in Hera Luce S.r.l. rose from 87.3% to 89.58%.

Merger by incorporation of Meta Service S.r.l. within Uniflotte S.r.l.

On 6 March 2007, the Merger Deed was signed for the incorporation of Meta Service S.r.l. within Uniflotte S.r.l., companies active in the sector concerned with the maintenance and rental of vehicles and equipment for the transportation and collection of solid urban and industrial waste; the transaction was effective for statutory purposes as from 1 April 2007. This transaction completes the corporate rationalization of these activities, which now sees Uniflotte as the only operating company serving the Group's activities.

Merger by incorporation of Meta Energy S.r.l. within Hera Comm S.r.l.

The merger by incorporation of Meta Energy S.r.l. within Hera Comm S.r.l. became effective as from 1° January 2007; both companies are active in the gas and electricity purchase and sales sector.

Hera Comm Mediterranea S.r.l.

On 5 February 2007, Hera S.p.A. transfer the 50.01% equity investment held in Hera Comm Mediterranea S.r.l., formerly Cales S.r.l., to Hera Comm S.r.l.; this company is involved in the generation, purchase, transportation and sale of electricity.

As far as progress in the main plant investments was concerned, the following is indicated:

- according to schedule, the activities for the construction of the Waste-to-Energy plants of Ferrara, Forlì and Modena continued; they are expected to be started up halfway through and at the end of the current year respectively, and during the first few months of 2008 in relation to Modena;
- the Rimini plant, following completion of the authorization procedure which took place during the last quarter of 2006, saw the start of construction;
- the Teverola power station, run by SET, in which the Group holds a 39% equity investment, has covered its first operational phase, which will conclude by the end of May;
- the Sparanise power station, run by Calenia Energia, in which the Group holds a 15% equity investment, continued construction work which is now extremely advanced and which in March saw the last start-up phases of the first unit, while the second unit is expected to be started during May.

2.01.14 Resolutions concerning the Parent Company's results for the year

Dear Shareholders,

Your Company's financial statements as at 31 December 2006, closed with net profit of Euro 68,068,186.67.

If you are in agreement with the criteria used for drawing up the financial statements and the accounting policies used, we invite you to approve the following resolutions:

The Shareholders' Meeting

- having acknowledged the Directors' Report on operations;
- having acknowledged the Report of the Board of Statutory Auditors;
- having acknowledged the Independent Auditors' Report;
- having reviewed the financial statements as at 31 December 2005 which closed with net profit of Euro 68,068,186.67,

resolves

- a) to approve the financial statements as at 31 December 2006 of HERA S.p.A and the Directors' Report on operations drawn up by the Board of Directors;
- b) to allocate the net profit for the year 1 January 2006 – 31 December 2006 equating to Euro 68,068,186.67, as follows:

- Euro 167,988.48 to the legal reserve,
- Euro 64,708,417.05 to the restricted reserve pursuant to Article 6.II of Italian Legislative Decree No. 38/2005,
- Euro 3,191,781.14 to the shareholders' dividend.

- b) to supplement the shareholders' dividend to the extent of Euro 78,148,381.18, withdrawing the amount from the unrestricted reserve for the surplus on exchange and therefore for a total of Euro 81,340,162.32 corresponding to Euro 0.08 per share, also proposing that payment take place as from 7 June 2007, with detachment of coupon No. 4 on 4 June 2007.

2.02 Hera Group Consolidated Financial Statements

2.02.01 Income Statement

€ /000	Note	2006	2005
Ricavi	4	2,311,450	1,730,723
Variazione delle rimanenze di prodotti finiti e prodotti in corso di lavorazione		2,699	2,465
Altri ricavi operativi	5	50,295	34,771
Consumi di materie prime e materiali di consumo (al netto della variazione delle rimanenze di materie prime e scorte)	6	-1,146,683	-809,571
Costi per servizi	7	-642,544	-515,415
Costi del personale	8	-296,598	-227,639
Ammortamenti e accantonamenti		-195,358	-142,652
Altre spese operative	9	-46,457	-32,758
Costi capitalizzati	9 bis	194,516	138,463
Utile operativo		231,320	178,387
Ripristino di valore di immobilizzazioni tecniche	10		15,518
Quota di utili (perdite) di imprese partecipate	11	4,313	277
Proventi finanziari	12	43,858	33,638
Oneri finanziari	12	-100,244	-74,102
Utile prima delle imposte		179,247	153,718
Imposte del periodo	13	-79,009	-66,055
Utile dell'esercizio da attività cessate			
Utile netto dell'esercizio		100,238	87,663
Attribuibile:			
Azionisti della Controllante		90,105	80,347
Azionisti di minoranza		10,133	7,316
Utile per azione	13.1		
di base		0.089	0.096
diluito		0.089	0.096

2.02.02 Balance Sheet

€ /000	Note	31 dic 2006	31 dic 2005
ATTIVITA'			
Attività non correnti			
Immobilizzazioni materiali	14	2.120.445	1.914.946
Attività Immateriali	15	231.248	212.847
Avviamento e differenza di consolidamento	16	398.927	273.432
Partecipazioni	17	123.543	91.809
Attività finanziarie	18	19.474	54.463
Attività fiscali differite	19	47.778	41.474
Strumenti finanziari – derivati	20	7.877	3.413
		2.949.292	2.592.384
Attività correnti			
Rimanenze	21	44.590	35.751
Crediti commerciali	22	1.000.322	900.934
Lavori in corso su ordinazione	23	23.593	20.688
Attività finanziarie	24	17.462	13.918
Strumenti finanziari – derivati	20	4.587	
Altre attività correnti	25	107.051	174.049
Disponibilità liquide e mezzi equivalenti	26	213.629	189.107
		1.411.234	1.334.447
TOTALE ATTIVITA'		4.360.526	3.926.831

cont.d

€ /000	Note	31 dic 2006	31 dic 2005
PATRIMONIO NETTO E PASSIVITA'			
Capitale sociale e riserve	27		
Capitale sociale		1.016.752	1.016.752
-Riserva azioni proprie valore nominale		-115	
Riserve		368.982	360.020
-Riserva azioni proprie valore eccedente il valore nominale		-237	
Riserva per strumenti derivati valutati al fair value		648	-4.185
Utile (perdita) del periodo		90.105	80.346
Patrimonio netto del Gruppo		1.476.135	1.452.933
Interessenze di minoranza		40.208	30.603
Totale patrimonio netto		1.516.343	1.483.536
Passività non correnti			
Finanziamenti – scadenti oltre l'esercizio successivo	28	937.243	534.518
Trattamento fine rapporto ed altri benefici	29	113.050	100.902
Fondi per rischi ed oneri	30	152.551	119.923
Passività fiscali differite	31	134.624	94.614
Debiti per locazioni finanziarie – scadenti oltre l'esercizio successivo	32	31.004	39.859
Strumenti finanziari – derivati	20	7.838	19.225
		1.376.310	909.041
Passività correnti			
Banche e finanziamenti – scadenti entro l'esercizio successivo	28	443.846	645.628
Debiti per locazioni finanziarie – scadenti oltre l'esercizio successivo	32	9.485	9.784
Debiti commerciali	33	746.482	672.497
Debiti tributari	34	86.362	32.545
Altre passività correnti	35	174.831	173.800
Strumenti finanziari – derivati	20	6.867	
		1.467.873	1.534.254
Totale passività		2.844.183	2.443.295
TOTALE PATRIMONIO NETTO E PASSIVITA'		4.360.526	3.926.831

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 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 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 year has been provided.

Information on the operations of group companies and on significant events after year-end is provided in the Directors' Report.

When comparing the balance sheet balances as at 31 December 2006 and as at 31 December 2005 it is necessary to take into account the changes in the scope of consolidation (listed in the paragraph 2.04.01) in addition to the contribution from the Geat Distribuzione Gas Group, whose merger by incorporation into Hera SpA was resolved as of 1 January 2006, and the Aspes Multiservizi Group. Aspes was fully consolidated as of 1 January 2006 following modification to the shareholders' agreements and subsequent position of effective control of the group by Hera.

When comparing the balance sheet balances for 2006 and 2005, aside from that set forth above, it is also necessary to take into account that the latter do not include the contribution from the Meta Group; in fact, the merger by incorporation of Meta SpA into Hera SpA was resolved as at 31 December 2005, the date from which effective control was determined.

In addition, it is important to consider that the balance sheet figures as at 31 December 2005 were reclassified with regard to amounts due for guarantee deposits and other assets/liabilities in accordance with the international accounting standards, and for the purposes of a clearer representation of the current (operative) and non-current (non-operative) assets and liabilities.

Securities held under the item “equity investments and securities” and “financial assets” were also reclassified.

The income statement figures for 2005 were subject to reclassification with regard to costs for the use of third party assets under items from “other operating costs” to “service costs”.

A reclassification summary is provided below:

Consolidated Appendix	31/12/2005	31/12/2005 reclassified	Change
Balance sheet			
ASSETS			
Non-current assets			
Equity investments	91,831	91,809	-22
Financial assets	54,441	54,463	22
Other non-current assets	33,799	0	-33,799
	180,071	146,272	-33,799
Current assets			
Trade receivables	895,657	900,934	5,277
Other current assets	145,527	174,049	28,522
	1,041,184	1,074,983	33,799
Total reclassifications	1,221,255	1,221,255	0
Non-current liabilities			
Other non-current liabilities	105,344	0	-105,344
	105,344	0	-105,344
Current liabilities			
Trade payables	670,051	672,497	2,446
Other current liabilities	70,902	173,800	102,898
	740,953	846,297	105,344
Total reclassifications	846,297	846,297	0
Income Statement			
Costs for services	(440,135)	(515,415)	-75,280
Other operating costs	(108,038)	(32,758)	75,280
	-548,173	-548,173	0

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.

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 income) 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.

These Financial Statements were approved by the Board of Directors at the meeting of 26
March 2007.

CONSOLIDATION AREA

The financial statements of the Hera Group as at 31 December 2006 include the financial statements of the Parent Company, Hera SpA, and those of the subsidiary companies. Control is obtained when the Parent Company has the power to determine the financial and operating policies of a company in such a way as to benefit from its activities.

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

ACCOUNTING POLICIES AND CONSOLIDATION PRINCIPLES

The consolidated financial statements as at 31 December 2006 are composed of the balance sheet, income statement, cash flow statement, changes in shareholders' equity and the explanatory notes. In drafting the financial statements, the same formats, principles and criteria used in drafting the financial statements as at 31 December 2005 were applied. The adopted criteria and principles are indicated below.

The financial statements used for the preparation of the balance sheet and income statement schedules were those which the companies included within the scope of consolidation reclassified and adjusted (on the basis of specific instructions issued by the Parent Company) for the purposes of consistency with the accounting policies and principles of the Hera Group. With regard to associated companies, adjustments in shareholders' equity values were considered in order to adapt to IAS/IFRS principles.

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

ACCOUNTING STANDARDS AND POLICIES

Tangible assets – Tangible assets are recorded at acquisition or production costs, including accessory costs, or at the value based on expert appraisals of the business assets, if relating to purchased companies, net of the related accumulated depreciation and any impairment. The production cost includes the portion of the direct and indirect costs reasonably attributable to the asset (such as: transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notary fees, land registry expenses). Cost includes any professional fees and, for certain assets, 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 criteria of fair value as a replacement for cost (fair value as deemed cost) for the tangible fixed assets, applying it selectively to certain categories of assets; the additional value which emerged was

credited directly to the reserves. The adoption of the fair value occurred on the basis of an expert appraisal carried out by an independent expert, which made it possible, amongst other things, to identify the individual plant and machinery components of a significant amount and with a different useful life, in accordance with the approach for components envisaged by IAS 16.

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

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

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

General services	min %	max %
Land	0	0
Buildings	1.5	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
Electricity 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
Electrical 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	2.5	5.5
- General plant	7.5	15
- Specific plant	4	10
2nd stage pressure reducer stations – district – Specific plant-user stations	5	10
User transformers - Specific plant	4	8
Distribution network in steel	2.22	8
Distribution network in cast iron or spheroidal cast iron	2	8
Distribution network in PE or PVC	2.86	8
Outlets/intakes	2.5	8
Meters	4	10
Cathodic protection	4	8
Electrical substations - Specific plant	3.5	7
Cogeneration and district heating:		
- Production - Buildings	2.5	5.5
- Production - General plant	4.5	9
- Production - specific plant	4.5	9
Distribution network	2.86	8
Meters	2.5	5
Heat exchange units	4.5	9
- Boilers	1.43	2.86
- Heat exchangers	2.5	5
- Expansion tanks	1.66	3.33
Pumping stations		
- Electrical substations	2	4
- Generators	2.75	4.55
- Pumps	3.33	6.67
- Electrical substations	3.5	7
Equipment	5	10

Water service	min %	Max %
Land	0	0
Buildings/Civil works	1.75	3.5
Wells		
- Buildings/Civil works	1.75	3.5
- General and specific plant	1.25	2.5
- Disinfection plant	2.5	5
- Pumps	5	10
- Building works	1.43	2.86
Abstraction – Buildings/Civil works	1.25	2.5
Lifting and fresh water stations		
- Buildings/Civil works	1.75	3.5
- General plant	7.5	15
- Specific plant	6	12
- Fresh water plant	4	8
- Disinfection plant	2.5	5
- Transformers	2	4
- 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	4
- Disinfection plant	2.5	5
- Building works	1.11	2.22
Pipelines and distribution network	2.5	5
Distribution network in steel-cast iron-spheroidal cast iron	1	2
Distribution network in reinforced cement-PE-PVC	1.43	2.86
Outlets/intakes and connections	2.22	5
Meters	4	10
Electrical substations - Specific plant	3.5	7
Vehicles	10	20

Electricity production and distribution service	Min %	Max %
Land	0	0
Buildings	1.5	3
MV underground and overhead distribution network	2	4
LV underground and overhead distribution network	4	8
HV/MV – LV/MV transformers	3.5	7
- station transformers	2	4
- pole transformers	2.5	5
Connections	3.33	8
Meters	4	10
Tables	1.66	3.33
Limiting devices	1.66	3.33
Masonry and single-pole stations	1.66	3.33
Polyfers	1.25	2.5
Receiver stations	1.66	3.33

Servizi Ambientali	min %	Max %
Land	0	0
Buildings	1.5	3
Secondary building units (warehouse)	1.5	3
General plant	7.5	15
Specific IIR plant	5	10
- 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	4
- general plant	2.5	5
- waste-to-energy post-combust. furn.boiler and fume recovery line	2.5	5
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity generation	2.5	5
- waste-to-energy line control systems	5	10
Specific BIOGAS plant, storage + IRE	5	10
- 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	2.5	5
- CDR packing	2.5	5
- 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	2.5	5
- control systems	5	10
- containers and bins	5.00 – 10.00	10.00 – 20.00
- internal handling equipment	4.16	8.33
Specific waste composting plant	5	10
- 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	2.5	5
- mixing plant	3.33 – 5.00	6.67-10.0
- palleting plant	5	10
- energy recovery plant	2.5	5
- screening and refining plant	3.33 – 4.16	6.67-8.33
- weighing plant	2.25	5
- dioxidization / organic treatment systems	3.33	6.67
- second maturing	5	10
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10	20
Waste containers and equipment	5	10
General equipment	5	10
Snow service equipment	5	10
Sanitary equipment	5	10
Light construction	5	10
Automobiles	12.5	25
Controlled landfills		

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 year. All the other leases are considered to be operating leases and the related costs for the lease instalments are recorded on the basis of the conditions anticipated in the agreement.

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

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

The advertising expenses are charged directly to the income statement.

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

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

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

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

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

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

Availing itself of the faculty envisaged by the IFRS, 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.

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 impairment. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the total of the write-down. 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 write-down 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 write-down 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 impairment test results. 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.

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

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

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

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

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

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

Trade receivables – Trade receivables are recorded at face value, reduced by an appropriate write-down 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 write downs 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 amortized 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 (the Corridor Method).

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

Trade payables – These concern commercial supply transactions.

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

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

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

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

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

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

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

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

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

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

Specifically:

- 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 - Income taxes represent the sum of current and deferred taxes.

Current taxes are based on the taxable income for the year. Taxable income differs from the result recorded in the income statement, as it excludes positive and negative components which will be taxable or deductible in other years, and excludes items which will never be taxable or deductible. Current tax liabilities are calculated using current tax rates in force, or in force at the balance sheet date, and are recorded under the item “income taxes payable”.

Deferred taxes are calculated with reference to the temporary differences in taxation and are entered in the item “deferred tax provision” only if their sum gives rise to a charge. When a positive component emerges, a prepaid tax asset is recorded, entered under the item “deferred tax assets”, only if there is reasonable certainty of existence in the years in which the deductible temporary differences will be reversed of taxable income no lower than the amount of the differences that will be mutually offset. The amount of the prepaid taxes will be reviewed each year in order to verify that there is still reasonable certainty of achieving future taxable income, such as to recover the prepaid taxes in full.

Deferred taxes are determined on the basis of the tax rates in force at the time the temporary differences are recorded. Any variations, as a result of amendments to taxes and/or to rates, will be recorded in the year in which the new provisions will come into force and will become effectively applicable.

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 ruling as of the year end date and the related exchange gains and losses are duly charged to the income statement; any net gain which might arise, is set aside in a specific restricted reserve until the date of realization.

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 year. 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 few months the IASB and the International Financial Reporting Interpretations Committee (IFRIC) have issued new Standards and Interpretations. Even though, at present, said Standards and Interpretations are not yet obligatory, the 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 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 year are set forth below. Specific information is provided on the nature of these estimates and the assumptions on which

they have been based; as regards the reference book values, reference should be made to the notes to the accounts.

Impairment of goodwill

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

Allocations to provisions for risks.

These provisions have been made by adopting the same procedures as previous years and hence by referring to the updated reports of the legal counsel and the consultants following the disputes, as well as on the basis of developments in the related proceedings. Specifically, in the paragraph relating to provisions for risks the assumptions used to estimate the provision for risks in INPS (Social Security) disputes are specified.

4. Revenues

The revenues for the year 2006 amounted to Euro 2,364,444 thousand. The breakdown is presented below.

	2006	2005	Change
Revenues from sales and services	2,311,450	1,730,723	580,727
Change in inventories of work in progress, semi-finished and finished products	53	-3,034	3,087
Change in contract work in progress	2,646	5,499	-2,853
Other income and revenues	50,295	34,771	15,524
Total	2,364,444	1,767,959	596,485

As indicated in the Directors' Report, from 1 July 2006, revenues from gas sales implemented the criteria for determining sales tariffs indicated in resolution no. 134/06, though they are still under review by the competent administrative authorities, while they did not implement, in relation to the first half of 2006, the effects of the previous resolution no. 248/04, which was annulled by the Council of State.

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

5 Other operating income

Other operating income amounts to Euro 50,295 thousand. The breakdown is presented below.

	2006	2005	Change
Insurance reimbursements	2,052	4,245	-2,193
Sale of materials and stock to third parties	676	214	462
Portion of capital grants	2,865	2,518	347
Portion of operating grants and from separated waste collection	10,130	6,698	3,432
Current leases	1,916	804	1,112
Use of provisions	2,575	4,095	-1,520
Profits from the sale of assets	7,657	3,274	4,383
Costs reimbursed	1,010	991	19
Other	21,414	11,932	9,482
Total	50,295	34,771	15,524

The item “Insurance reimbursements” disclosed a decrease with respect to the previous period due mainly to the enforcement of a guarantee policy by the subsidiary company Frullo Energia Ambiente SrL for Euro 2,500 thousand during the first half of 2005.

The item “Portion of operating grants and from separated waste collection” increased with respect to the previous period by Euro 3,432 thousand due to Parent Company finalisation 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, Can, Comieco, Corepla, Rilegno) in relation to separated waste collection and the recovery of energy.

The item “Use of provisions” disclosed a decrease with respect to the previous period due to a decrease of Euro 1,336 thousand in costs sustained in relation to the management of landfill post-closure provisions.

The item “Profits from the sale of assets” demonstrated a significant increase with respect to the previous period, due to the sale of property and land by the Parent Company.

The item “Others” is composed mainly of income from meteoric water (Euro 4,535 thousand in 2006 and Euro 4,427 thousand in 2005), income generated from energy efficiency securities (white and grey certificates) and revenues from electrical energy service continuity. The changes with respect to the previous year relate to Euro 1,300 thousand for the line-by-line consolidation of the Aspes Group and the Euro 7,085 thousand increase in income generated from energy efficiency securities (white and grey certificates) and revenues from electrical energy service continuity.

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.

	2006	2005	Change
Methane ready for sale and LPG net of inventory changes	715,815	522,147	193,668
Income and charges from derivatives	33,343	918	32,425
Fuel for heat generation	3,859	2,761	1,098
Electricity ready for sale	263,098	171,377	91,721
Water	24,425	23,676	749
Maintenance materials: handling and spare parts net of change in stock	53,903	37,057	16,846
Electricity	17,013	20,217	-3,204
Fuels and lubricants	11,265	10,607	658
Methane for industrial use	3,015	3,424	-409
Water for industrial use	746	1,169	-423
Chemical products	11,053	8,587	2,466
Consumables and sundry materials	9,148	7,631	1,517
Total	1,146,683	809,571	337,112

The analysis of the trend in costs for raw materials and consumables is presented in the Director's Report on operations.

The considerable increase recorded under the item "income and charges from derivative contracts" is due to increased transactions in derivatives on commodities developed during the period.

7 Costs for services

The breakdown is as follows.

	2006	2005	Change
Domestic usage (water, methane, heat and energy services)	7,401	3,038	4,363
Work and maintenance	214,711	166,105	48,606
Energy transport and storage	80,691	64,945	15,746
Insurance	12,272	10,157	2,115
Cleaning and security	5,009	3,749	1,260
Waste transportation, disposal and collection	113,879	90,220	23,659
Announcements, advertising and disputes	7,229	5,945	1,284
Transport	1,627	637	990
Technical, organization, legal and tax assistance consultancy	28,594	23,543	5,051
Remuneration of Directors and Statutory Auditors	4,947	4,136	811
Meter reading	3,580	3,634	-54
Postal and telephone costs	16,401	9,731	6,670
Recruitment, training and other staff costs	9,211	8,623	588
IT and CED services	19,365	18,641	724
Laboratory analyses	2,451	2,724	-273
Bank fees and charges	5,057	2,911	2,146
Fees paid to local authorities	66,183	58,246	7,937
Rents and leases payable	18,072	13,375	4,697
Fees payable	5,164	3,659	1,505
Other	20,700	21,396	-696
Total	642,544	515,415	127,129

Comments on the changes in the main operating costs with respect to the previous year are included in the Directors' report on operations.

8 Personnel costs

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

	2006	2005	Change
Wages and salaries	208,077	159,108	48,969
Social security contributions	70,043	55,706	14,337
Employee leaving indemnities	9,501	7,803	1,698
Other costs	8,977	5,022	3,955
Total	296,598	227,639	68,959

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

	2006	2005	Change
Executives	110	89	21
Managers	270	207	63
White-collar workers	2,606	2,228	378
Blue-collar workers	3,279	2,688	591
Total	6,265	5,212	1,053

Overall the average pro-capita cost of labour for 2006 came to Euro 47 thousand, up by 6.8 % when compared with 2005.

As at 31 December 2006 the actual number of employees totalled 6,227; the increase with respect to the previous period amounts to 323, and is mainly due to consolidation of the Aspes Group.

9 Other operating costs

The breakdown of other operating costs is as follows.

	2006	2005	Change
State property rents	4,624	4,360	264
Taxation other than income taxes	16,888	3,254	13,634
Membership fees and other contributions	2,052	1,432	620
Special landfill levy	14,654	12,038	2,616
Losses on the sale of assets	756	702	54
Losses on receivables	244	1,977	-1,733
Other minor charges	7,239	8,995	-1,756
Total	46,457	32,758	13,699

The item “Taxation other than income taxes” increased with respect to the previous year, mainly due to consolidation of the Aspes Group.

The item “Other minor charges” is composed mainly of subscription costs (Euro 258 thousand), expenses related to the business purpose (Euro 570 thousand), fines and penalties (Euro 578 thousand) and of other expense composed mainly of “contributions to customers in conditions of hardship” totalling Euro 1,621 thousand.

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

9 bis Capitalised costs

This item is analysed as follows.

	2006	2005	Change
Increases for internally-constructed fixed assets	194,516	138,463	56,053
Total	194,516	138,463	56,053

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).

10 Value write-back on tangible fixed assets

	2006	2005	Change
Value write-back	0	15,518	-15,518
Total	0	15,518	-15,518

The write-back relates to a transaction performed in 2005 in the telecommunications sector.

11 Portion of profit (loss) pertaining to investee companies

	2006	2005	Change
Net income from associated companies	1,849	1,079	770
Other quotas of profits/losses	-75	-1,047	972
Dividends from other companies	2,539	245	2,294
Total	4,313	277	4,036

“Income from associated companies” includes the effects generated from 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. As regards “Dividends from other companies”, these regard the dividend resolved by Energia Italiana SpA (Euro 2.464 million).

12. Financial income and charges

Financial income is analysed in the following table:

	2006	2005	Change
Bank interest income	4,228	1,746	2,482
Interest income on other short-term receivables	564	99	465
Interest charged to customers	770	724	46
Financial income generated by derivatives on commodities	22,927	25,690	-2,763
Financial income generated by derivatives on rates	9,831	3,319	6,512
Other financial income	5,538	2,060	3,478
Total	43,858	33,638	10,220

Financial charges are analysed in the following table:

	2006	2005	Change
Interest expense on bank current account overdrafts	10,422	10,089	333
Interest expense charged by banks for medium/long-term loans	22,533	18,974	3,559
Financial charges generated by derivatives on commodities	22,933	24,423	-1,490
Financial charges generated by derivatives on rates	6,200	4,768	1,432
Financial charges for discounting of Employee Severance Indemnity and other employee benefits	3,754	1,886	1,868
Financial charges generated by the application of "other international accounting standards"	10,965	9,128	1,837
Other	23,437	4,834	18,603
Total	100,244	74,102	26,142

Comments on the change in the balance of financial operations are included in the Directors' Report. Here, we note the increase when compared with the previous year in "Other financial charges", due to Euro 17,696 thousand in charges accrued in relation to the bond issue issued on 16 February 2006 (Euro 500 million Eurobond with a rate of 4.125%).

With regard to derivatives on rates, the rise in interest rates in the period generated a positive net financial effect.; these income and charges include the effects of the closing operations previously discussed in the Directors' Report.

With regard to derivatives on commodities, the reduced revenues are for the most part compensated by a corresponding decrease in charges.

The financial charges generated from the application of “other international accounting standards” include charges of Euro 2,112 thousand deriving from financial leasing and the charges in the period generated from the discounting back of the “Provision for the restoration of third party assets” for Euro 3,797 thousand and of the “Provision for landfill post-closure” for Euro 5,056 thousand.

13 Income taxes

This item is made up as follows

	2006	2005	Change
Current, deferred and prepaid taxes	79,009	66,055	12,954
Total	79,009	66,055	12,954

The total percentage of income taxes for the period on the pre-tax result came to 44%.

Shareholders are hereby informed that in accordance with and for the purposes of Article 27 of Italian Law No. 62 dated April 18, 2005, which established the procedure for the recovery of government aid declared illegitimate by the Ruling of the European Commission No. 2003/193 dated June 5, 2002, Hera S.p.A has presented tax declarations relating to the tax periods affected by the exemption regime. The Inland Revenue office responsible for the area has completed the assessment activities at the Company relating to the afore-mentioned declarations, issuing a verification proceedings report as at October 17, 2005; the Company therefore presented briefs on 1 December 2005. Furthermore, section 132 of the Finance Bill, Italian Law No 266 dated 23 December 2005 introduced significant amendments to Article 27 of Italian Law No. 62 dated April 18, 2005, foreseeing, among other things, the extension of the timescale for the recovery of the aid and a change of responsibility from the Exchequer to the Home Office. Italian Legislative Decree 10 of 15/2/2007 was then issued, effective as of 16/2/2007, establishing the reimbursement methods of aid declared illegitimate. At the current date, this decree is still to be converted into law.

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 Stock market 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 relation to the former Meta SpA, please note that the tax periods affected by the moratorium have been subject to automatic definition (“tax amnesty”) as per Article 9 of Italian Law No. 289/2002 and therefore all assessment activities in relation to the same are precluded in accordance with the matters laid down by Article 9.9 of the afore-mentioned Italian Law No. 289/2002. The financial statements do not contain any provision for this purpose since the Directors, based on current legal status, believe that the risk of having to repay the taxes following a negative final outcome of the entire infraction procedure is possible but not probable. Prudently, it was considered expedient to restrict a portion of the Unrestricted Reserves, amounting to Euro 4,100 thousand, for the possible liability generated by the merger with Meta SpA and on a consistent basis with the resolution adopted on 15 January 2003 by said company; this amount would cover any charges consequent to the recovery of the government aid declared illegitimate by the European Commission.

13.1 Earnings per share

Euro thousands	FY 2006	FY 2005
Group profits (losses) for the period (A) (Euro thousands)	90,105	80,347
weighted average number of shares in circulation for the purposes of calculating earnings (losses) per share:		
- base (B)	1,013,931,574	840,388,396
- diluted (C)	1,013,931,574	840,388,396
Earnings (losses) per share (in Euro)		
- base (A/B)	0.089	0.096
- diluted (A/C)	0.089	0.096

The base earnings per share is calculated on the economic result attributable to holders of ordinary shares of the parent company. The diluted earnings per share is 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 2006, with respect to the previous period, changed following an increase in capital from the merger with Meta on 31 December 2005 and as a result of the purchase and sale of own shares during the 2006 financial period.

14 Tangible fixed assets

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

		Land and buildings	Plant and machinery	Other moveable assets	Work in progress	Total tangible fixed assets
PURCHASE COST						
Balance as at	31/12/2005	292,534	1,858,828	248,441	206,199	2,606,002
Increases		9,640	88,641	18,520	174,439	291,240
Disposals		-7,639	-7,552	-10,135	-235	-25,561
Change in consolidation area		11,173	45,541	20,919	307	77,940
Other changes		7,868	-102,455	160	-75,699	-170,126
Balance as at	31/12/2006	313,576	1,883,003	277,905	305,011	2,779,495
ACCUMULATED DEPRECIATION						
Balance as at	31/12/2005	43,622	511,454	135,979	0	691,055
Depreciation for the year		6,664	99,224	23,843	0	129,731
Disposals		0	-2,684	-7,727	0	-10,411
Change in consolidation area		650	10,775	12,865	0	24,290
Other changes		-3,610	-169,180	-2,825	0	-175,615
Balance as at	31/12/2006	47,326	449,589	162,135	-	659,050
Net value						
Balance as at	31/12/2005	248,912	1,347,374	112,462	206,199	1,914,946
Balance as at	31/12/2006	266,250	1,433,414	115,770	305,011	2,120,445

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:

		Patents	Franchise, licenses, trademarks and similar rights	Other	Work in progress and prepayments	Total intangible fixed assets
PURCHASE COST						
Balance as at	31/12/2005	79,144	242,221	18,730	15,334	355,429
Increases		12,105	6,101	4,479	20,073	42,758
Disposals		0	-1,055	-86	-1,941	-3,082.00
Change in consolidation area		403	1,521	10,810	45	12,779
Other changes		3,134	-12,597	3,540	-4,834	-10,757.00
Balance as at	31/12/2006	94,786	236,191	37,473	28,677	397,127
ACCUMULATED AMORTISATION						
Balance as at	31/12/2005	28,704	105,817	8,061	0	142,582
Amortisation for the year		17,709	14,137	4,086	0	35,932
Disposals		0	0	-14	0	-14.00
Change in consolidation area		402	1,179	6,511	0	8,092
Other changes		-1,365	-19,540	192	0	-20,713.00
Balance as at	31/12/2006	45,450	101,593	18,836	-	165,879
Net value						
Balance as at	31/12/2005	50,440	136,404	10,669	15,334	212,847
Balance as at	31/12/2006	49,336	134,598	18,637	28,677	231,248

The item “Patent rights and know-how”, amounting to Euro 49,336 thousand as at 31 December 2006, mainly concerns the costs incurred for the acquisition and implementation of the SAP R/3 and SAP/ISU computerized information system. Such costs are amortised over a period of five years.

Concessions, licences, trademarks and similar rights, totalling Euro 134,598 thousand as at 31 December 2006 (down by Euro 1,806 thousand when compared with the previous year) mainly comprise the value of the concessions belonging to the Parent Company relating to gas, water and purification plants. The decrease in this item is due to the changeover from concession to ownership of assets relating to the energy and purification services in the municipalities of Bazzano, Pieve di Cento, Monterenzio and Monteveglio, as envisaged by the related contracts on reaching the expiry dates of said concessions.

Other intangible fixed assets totalling Euro 18,637 thousand as at 31 December 2006 relate to improvement costs for third party assets, not held under financial leasing, and expense incurred for external road access to the plants.

Assets in process of formation, amounting to Euro 28,677 thousand as at 31 December 2006 essentially represent the costs incurred for IT projects not yet completed. The increase with respect to the previous period relates to enhanced implementation of the SAP/ISU IT system.

16 Goodwill and consolidation differences

	31/12/2006	31/12/2005	Change
Goodwill and consolidation difference	398,927	273,432	125,495
Total	398,927	273,432	125,495

As at 31 December 2006, goodwill and consolidation differences totalled Euro 398,927 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;
- Gas Riccione SpA, Euro 2,096 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 item "Equity investments" is made up as follows:

Equity investments	31/12/2006	31/12/2005	Change
Subsidiaries			
Sbi S.r.l.	51	51	0
Consorzio Frullo	3	0	3
Consorzio Energia Servizi	5	3	2
Calor Più Italia S.c.a.r.l.	6	5	1
Calor Più Modena S.c.a.r.l.	7	6	1
Argilegas S.r.l.	0	19	-19
Hera Clion S.r.l.	0	200	-200
Hera Immobiliare S.r.l.	0	100	-100
Hera Modena S.r.l.	0	10	-10
Hera Servizi Funerari S.r.l.	0	10	-10
Rio D'Orzo	0	202	-202
Total	72	606	-534
Associated companies			
Acantho S.p.a.	5,898	6,288	-390
Agea reti S.r.l.	7,759	7,739	20
Ambiente 3000	0	54	-54
Aspes Multiservizi S.p.A.	0	13,995	-13,995
Attivabologna Srl in liquid.	1,777	1,803	-26
Dyna Green Srl	156	193	-37
FlamEnergy Trading GmbH	263	0	263
Gasgas	0	105	-105
Meta rete gas	0	204	-204
Modena Network SpA	724	417	307
Refri Srl	1,655	1,706	-51
SGR Servizi Spa	5,687	5,144	543
SAT SpA	35,803	0	35,803
SET S.p.a	30,087	23,028	7,059
Tecnometano	0	591	-591
Yele S.p.a	0	177	-177
Other	503	583	-80
Total	90,312	62,027	28,285
Other companies			
Energia Italiana S.p.A.	24,695	24,695	0
Galsi	639	639	0
Ambiente Mare	300	300	0
Calenia	6,505	2,835	3,670
Other	1,020	707	313
Total	33,159	29,176	3,983
Total equity investments	123,543	91,809	31,734

Equity investments in non-consolidated subsidiary companies

Illustrated below are the changes with respect to 31 December 2005:

Argilegas S.r.L., in liquidation from 3 November 2005, was wound up on 5 July 2006.

Hera Clion S.r.L., placed in liquidation on 3 October 2005, was cancelled from the Companies Register on 7 September 2006.

Hera Immobiliare S.r.L. resolved on 17 January 2006 to reduce share capital to cover losses and to restore at a later date. On 12 June 2006 the Shareholders' Meeting resolved to wind up the company. Cancellation from the Companies Register took place on 6 September 2006.

Hera Modena S.r.L, incorporated on 24 November 2005 following merger of the Meta Group into Hera Spa, became operative as of 1 January 2006 and is therefore consolidated by the integral method from that date.

On 7 April 2006, Rio d'Orzo S.r.L. was placed in liquidation and cancelled from the Companies Register on 5 September 2006.

Hera Servizi Funerari S.r.L. became operative as of 1 January 2006 and is consolidated by the integral method as of that date.

Equity investments in associated companies

Illustrated below are the main changes with respect to 31 December 2005:

On 4 April 2006 the Hera Group sold 496,000 Acantho SpA shares to Infracomm, equal to 3.124% of share capital, for a total Euro 496,000. As a result of this transaction, Hera SpA controls 47.46% of Acantho SpA.

Ambiente 3000 S.r.L., assessed by the equity method as at 31 December 2005, became operative as of 1 January 2006 and was fully consolidated as from that date.

On 27 July 2006, Hera purchased 2,512,488 shares in Aspes Multiservizi SpA from the Municipality of Pesaro, increasing its equity investment from 26.87% to 49.79%. Valued by the equity method as at 31 December 2005, the company is now line-by-line consolidated following modification to the shareholders' agreements and the subsequent position of effective control by the Hera Group.

On 19 April 2006, Flame Energy Trading GmbH was incorporated. The company sells, transports and procures natural gas on the European markets. The Hera Group controls 50% of the company.

GAS GAS S.r.L., in liquidation since 6 November 2005, was wound up on 27 July 2006 and at the same time cancelled from the Companies Register.

Meta Rete Gas S.r.L., in liquidation since 24 June 2005, was wound up on 3 August 2006 and at the same time cancelled from the Companies Register.

With regard to Modena Network SpA, following the resolution to increase share capital from Euro 2,000 thousand to Euro 3,000 thousand, the Hera Group subscribed to and paid its own quota (30%).

On 18 October 2006, the Group purchased 46.50% of share capital in SAT SpA. The company is involved in the provision of environmental, gas distribution and integrated water cycle services in the municipal areas of Sassuolo, Formigine, Fiorana Modenese, Maranello and Serramazzoni.

In 2006 the Hera Group paid in the further sum of Euro 7,059 thousand for the future increase in share capital of SET SpA.

Tecnometano S.r.L., in liquidation since 10 November 2005, was wound up on 27 July 2006 and at the same time cancelled from the Companies Register.

On 28 December 2006, the Hera Parent Company sold its equity investment in Yele SpA to a third party company.

Equity investments in other companies

The only event to report under this item is a further sum paid in for the future increase in share capital of affiliate Calenia Energy SpA for a total of Euro 3,040 thousand, to complete the construction project of a combined cycle power plant in the district of Splanise.

18 Financial assets

Financial assets are made up as follows:

	31/12/2006	31/12/2005	Change
amounts receivable for loans to associated companies	19,239	20,066	-827
amounts due for guarantee deposits	0	33,324	-33,324
amounts receivable for mortgage loans to be collected	215	925	-710
Fixed-income securities	20	22	-2
Other	0	126	-126
Total	19,474	54,463	-34,989

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 792 thousand with respect to the previous period. The net decrease as compared with 31 December 2005 is the result of reclassification of the loan granted to Oikothen (Euro 1,343 thousand) and to Four Italy (Euro 277 thousand), allocated as at 31 December 2006 to current financial assets.

The decrease in guarantee deposits is due mainly to the clearance of guarantees previously afforded in favour of the Provincial authorities of Forlì, Cesena and Ravenna to guarantee post-closure management of the landfills.

19 Deferred tax assets

Deferred tax assets are made up as follows:

	30/12/2006	30/12/2005	Change
Receivables on deferred tax assets	36,767	26,547	10,220
Receivables on IAS deferred tax assets	11,011	14,927	-3,916
Total	47,778	41,474	6,304

As at 31 December 2006 this balance amounted to Euro 47,778 thousand (Euro 41,474 thousand as at 31 December 2005). Receivables on deferred tax assets are generated from the temporary differences between the balance sheet profit and the related taxable income, mainly in relation to the taxed provision for bad debts, 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) Derivatives on commodities						
- Swaps on natural gas prices	Future natural gas sales	3	138,390,000 Sm ³	0	(1,115)	(1,115)
- Swaps on crude prices	Future natural gas sales	3	38,205 Bbl	74	0	74
- Swaps on gas oil prices	Future natural gas sales	3	16,604 Ton	0	(745)	(745)
B) Derivatives on rates						
- Interest rate Swap	Mortgages	18	621 mln	7,803		7,803
- Interest rate Swap	Mortgages	17	334 mln		(5,978)	(5,978)
TOTAL				7,877	(7,838)	39

The derivative financial instruments classified under non-current assets amounted to Euro 7,877 thousand, an increase of Euro 4,464 thousand with respect to 31 December 2005, and include Euro 74 thousand for derivatives on commodities and Euro 7,803 thousand for derivatives on rates. As at 31 December 2005 they totalled Euro 3,413 and included Euro 1,187 thousand for derivatives on rates and Euro 2,226 thousand for derivatives on commodities.

The derivative financial instruments classified under non-current liabilities amounted to Euro 7,838 thousand, recording a significant decrease of Euro 11,387 thousand compared to the previous year: these refer to Euro 5,978 thousand for interest rate derivatives and Euro 1,860 thousand for derivatives on commodities.

As at 31 December 2005, the derivative financial instruments classified under non-current liabilities amounted to Euro 19,225 thousand and included Euro 13,646 thousand for interest rate derivatives and Euro 5,579 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 the sources of medium/long-term lending at floating rates. Therefore, with the aim of mitigating this risk, over the last few accounting periods the Group has stipulated derivative instruments against part of its current financial liabilities. In particular, 6 Interest Rate Swap agreements were underwritten for a notional amount as of the year end date totalling Euro 343.4 million against variable rate mortgage loans for the same amount. The value of these agreements is positive for a total of Euro 2.9 million.

The Hera Group, with a view to restructuring of the derivatives portfolio, is also party to other derivative contracts on rates, also in structured form, for a nominal residual amount of Euro 611.6 million, whose value as of the year end date was negative for Euro 1.1 million.

All hedges as cover of the above-mentioned derivative contracts and related underlying liabilities are classed as "Cash Flow Hedges" for which a specific equity provision of Euro 0.6 million has been allocated. 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 prices to the index-linking formulas of the supply prices, in the event of supplies at index-linked prices; in fixed prices, in the event that said sales are supplied at a fixed price.

The agreements in question are represented by 9 Swap agreements on the price of natural gas, crude oil and gas-oil against sales anticipated at a variable price. The value of these agreements is negative for a total of Euro 1.8 million.

All hedges regarding the above derivative contracts and underlying elements qualify as Cash Flow Hedges. A specific negative equity provision has been allocated of Euro 1.2 million.

Trading derivatives – current financial assets

These total Euro 4,587 thousand and increased by the same sum in 2006 as in 2005. The amounts refer to the positive fair values deriving from valuation of the trading derivative contracts existing as at the end of the period in relation to the electricity sector.

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

Type	Underlying	N° contracts	Measurement unit	Quantity	Fair value (€000)
SWAP	Price of Electricity	28	MWh	120,540	2,207
SWAP	Fuel formula	2	MWh	175,200	2,348
Option	Fuel formula	1	MWh	120,000	32
					4,587

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.

Trading derivatives – current financial liabilities

These total Euro 6,867 thousand and increased by the same sum in 2006 as in 2005. The amounts refer to the negative fair values deriving from valuation of the trading derivative contracts existing as at the end of the period in relation to the electricity sector.

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

Type	Underlying	N° contracts	Measurement unit	Quantity	Fair value (€000)
SWAP	Price of Electricity	31	MWh	1,003,930	3,099
SWAP	Fuel formula	3	MWh	219,000	2,907
SWAP	Fuel formula	1	MT	63,299	123
Option	Fuel formula	1	MWh	120,000	738
					6,867

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:

	31/12/2006	31/12/2005	Change
Raw materials and stock	43,528	34,730	8,798
Work in progress and semi-finished products	368	284	84
Finished products	674	682	-8
Advance payments	20	55	-35
Total	44,590	35,751	8,839

The inventories as at 31 December 2006 are stated net of the obsolescence allowance and total Euro 1,155 thousand (Euro 1,407 thousand as at 31 December 2005). Inventories of raw, ancillary and consumable materials essentially comprise spare parts and equipment mainly intended for maintenance and the running of the operative plants, as well as stock of methane gas amounting to Euro 22,064 thousand, increasing by Euro 8,698 thousand with respect to 31 December 2005.

22. Trade receivables

	31/12/2006	31/12/2005	Change
Trade receivables	581,390	426,353	155,037
Trade receivables on invoices to be issued	111,521	158,514	-46,993
Trade receivables on unmeasured consumption	284,803	296,933	-12,130
Receivables from associated companies	22,608	19,134	3,474
Total	1,000,322	900,934	99,388

Trade receivables as at 31 December 2006 amounted to Euro 1,000,322 thousand (Euro 900,934 thousand as at 31 December 2005) and comprise estimated consumption, for the portion pertaining to the period, relating to bills and invoices which will be issued after 31 December 2006. The balances are stated net of the allowance for doubtful receivables amounting to Euro 26,738 thousand (Euro 23,442 thousand as at 31 December 2005) which is considered to be fair and prudent in relation to the estimated realizable value of said receivables. 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 increase in trade receivables when compared with the previous year is mainly attributable to the consolidation of the Aspes Group.

Allowance for doubtful receivables	31/12/2005	Provisions	Uses	Change in consolidation area	31/12/2006
Allowance for doubtful receivables	23,442	7,508	-4,544	332	26,738
Total	23,442	7,508	-4,544	332	26,738

23. Contract work in progress

Contract work in progress is made up as follows:

	31/12/2006	31/12/2005	Change
Contract work in progress	23,593	20,688	2,905
Total	23,593	20,688	2,905

Contract work in progress as at 31 December 2006 disclosed a balance of Euro 23,593 thousand; as at 31 December 2005, the balance amounted to Euro 20,688.

24. Financial assets

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

Financial assets are made up as follows:

	31/12/2006	31/12/2005	Change
Receivables for mortgage loans to be received	4,648	5,483	-835
Portfolio securities and financing policies	5,721	5,528	193
Receivables from Energia Italiana S.p.A.	2,464	0	2,464
Amounts receivable on loans to others	4,629	2,907	1,722
Total	17,462	13,918	3,544

The receivables from associate Energia Italiana relate to dividends for collection as at the end of the period. Detailed below are the loans granted to others:

- Other municipal areas, Euro 2,900 thousand;
- Oikothén, Euro 1,343 thousand;
- 4 Italy, Euro 277 thousand;
- other minor loans totalling Euro 109 thousand.

25. Other current assets

Other current assets comprise:

	31/12/2006	31/12/2005	Change
Guarantee deposits	16,548	15,176	1,372
Indirect tax	25,421	92,245	-66,824
Ires (corporation tax)/Irap (regional business tax) advances	4,408	13,265	-8,857
Withholdings on interest	52	42	10
Sundry amounts due from tax authorities	929	534	395
Contributions	6,891	4,475	2,416
Advances paid to suppliers/employees	7,264	6,951	313
Amounts due from social security and welfare institutions	787	564	223
Insurance reimbursements	17	93	-76
Other receivables	44,734	40,704	4,030
Total	107,051	174,049	-66,998

The item “Guarantee deposits” for Euro 16,548 thousand comprises Euro 12,000 thousand as guarantee deposit in favour of Acosea Impianti S.r.l. and other guarantee deposits in favour of various public authorities and companies.

Indirect tax of Euro 25,421 thousand, is composed mainly of advance payments for excise and additional payments for electricity to regional tax authorities. The balance as at 31 December 2005 was again for excise and additional payments to regional tax authorities, but for gas. Particularly with regard to gas, other than full repayment of the credit position as at 31 December 2005, a consistent debit position was recorded at the end of 2006 (see note 36). This phenomenon is directly attributable to implementation of the invoicing process. As described fully in the management report, these processes had slowed following the introduction of the SAP-ISU customer IT system. Most of these delays have now been overcome and the increased invoiced amount has allowed recovery of the receivables in existence as at 31 December 2005 and, as can be seen, has generated a tax authority debit position.

The item “Ires and Irap advances”, totalling Euro 4,408 thousand mainly comprises advance payments made by the companies in excess of the overall debt. As at 31 December 2005 the advance payments value was particularly significant, mostly in relation to companies within the scope of the tax consolidation system.

The item “Sundry amounts due from tax authorities”, totalling Euro 929 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 6,891 thousand, is composed mainly of non-refundable grants obtained from other authorities. The increase with respect to the previous year is due to accounting on an accruals basis (as opposed to a cash basis, in the previous year). The change of criteria did not have any effects on the income statement for the year, as deferred income was recorded at the same time.

Other receivables totalling Euro 44,734 thousand include receivables due from Assets companies of Euro 3,225 thousand, from anticipated costs of Euro 12,037 thousand (composed mainly of substitute tax charges), voluntary Alfa and CCSE (Electricity Equalisation Fund) contributions of Euro 5,003 thousand, anticipated raw materials costs of Euro 1,005 thousand, gas release rights of Euro 594 thousand, TAG rights Euro 2,369 thousand, receivables from the AMI Consortium Euro 1,529 thousand (in relation to post-closure landfills), receivables from Acosea Impianti Euro 2,628 thousand, receivables from ENEL in relation to price compensation for the purchase of Hera Rete Modena Euro 1,153 thousand, interest income receivables Euro 555 thousand and CCPE (Electricity Standardisation Fund) receivables of Euro 2,428 thousand.

26. Cash and cash equivalents

Cash and cash equivalents totalled Euro 213,629 thousand as at 31 December 2006 (Euro 189,107 thousand as at 31 December 2005) and include cash, cash equivalent effects, bank cheques and drafts held in central and decentralized accounts for a total of Euro 190 thousand, plus bank deposits available for current transactions and post office accounts totalling Euro 213,438 thousand. An increase of Euro 24,522 thousand is recorded with respect to the temporarily available funds in the current account.

27. Share capital and reserves

Share capital

As at 31 December 2006 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.

Reserves for own shares

The item Reserve for own shares includes the “reserve for own shares at par value” with a negative total of Euro 115 thousand and the “reserve for own shares exceeding par value” with a negative total of Euro 237 thousand. These reserves, established in observance of the reference accounting standards, reflect the purchase of own shares held in portfolio at the end of the period. The change during the year generated gains amounting to Euro 411 thousand, attributed directly to shareholders’ equity reserves.

Reserves

The item “Reserves” totalling Euro 368,982 thousand, includes the following:

legal for Euro 13,955 thousand
extraordinary for Euro 13,592 thousand
revaluation for Euro 2,885 thousand
share premium reserve for Euro 12,253 thousand
capital account payments for Euro 5,400 thousand
retained earnings, negative for Euro 21,604 thousand
share swap surplus for Euro 120,556 thousand
IFRS3 reserve for Euro 149,790 thousand
reserve for gains on sale of treasury shares for Euro 411 thousand
IAS/IFRS reserve for Euro 71,744 thousand

Cash Flow-Hedge Reserve

As at 31 December 2006 this reserve totalled Euro 648 thousand following movements confirmed by the fair value assessment of hedges.

The related Statement of Changes in Shareholders’ Equity is set forth 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 FROM THE PARENT COMPANY'S FINANCIAL STATEMENTS	68,068	1,424,728
Elimination of the effects of transactions between consolidated companies net of tax effects:		
- Reversal of write-downs to equity investments in subsidiaries	2,227	
Effect of the change and the standardization of the accounting policies within the Group, net of tax effects:		
- Dividends recorded	(50,202)	
- Valuation at equity of companies carried at cost in statutory financial statements	2,995	1,153
Book value of consolidated equity investments		(374,006)
Shareholders' equity and net profit for the year of consolidated companies	73,103	314,168
Allocation of differences to assets of consolidated companies and related amortisation/depreciation:		
- Goodwill on consolidation		122,965
- Other adjustments	(6,085)	(12,872)
TOTAL	90,106	1,476,135
Allocation of portion pertaining to minority interests	10,133	40,208
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS	100,239	1,516,343

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

As at 31 December 2006, medium/long term loans totalled Euro 937,243 thousand (Euro 534,518 thousand as at 31 December 2005), and mainly relate to mortgages and loans of Euro 439,686 thousand and the bond issue of Euro 497,557 thousand described later in these notes.

Medium/long term payables to banks also include loans obtained by subsidiary Fea Srl for a total Euro 75,600 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 31 December 2006 is provided below, expressed in thousands of Euro.

<i>Lender</i>	<i>Residual balance 31/12/2006</i>	<i>Portion due in FY 2007</i>	<i>Portion due within 5 years</i>	<i>Portion due beyond 5 years</i>
ACTELIOS	4,116,000.00		4,116,000.00	
B.CR. COOPERATIVO	594,340.33	70,355.40	331,802.68	192,182.25
BANCA ANTONVENETA	8,994,249.20	995,410.98	6,031,716.53	1,967,121.70
BANCA DELLE MARCHE	970,447.97	258,713.71	711,734.26	-
BANCA DI ROMAGNA	1,588,163.88	416,324.63	1,171,839.25	-
BANCA INTESA	103,032,749.48	22,551,217.11	74,651,217.50	5,830,314.88
BANCA NAZIONALE DEL LAVORO	258,228.40	258,228.40	-	0.00
BANCA OPI	85,514,517.45	15,797,106.38	52,229,508.91	17,487,902.17
BANCA POPOLARE DI MILANO	6,527,003.19	722,356.08	4,377,133.89	1,427,513.22
BANCA POPOLARE DI RAVENNA	253,275.07	80,936.50	172,338.57	0.00
BANCO DI SARDEGNA	8,859,993.37	487,738.45	2,669,305.34	5,702,949.58
BANCO DI SICILIA	340,907.63	223,783.39	117,124.24	0.00
BAYERISCHE	8,994,249.20	995,410.98	6,031,716.53	1,967,121.70
CARIFANO	260,834.92	49,180.81	211,654.11	
CARIFE	389,786.14	274,991.75	114,794.39	-
CASSA DEPOSITI E PRESTITI	29,783,795.77	3,980,246.40	13,166,301.36	12,637,248.01
CASSA DI RISPARMIO DI BOLOGNA	6,223,432.13	773,953.14	3,581,462.03	1,868,016.96
CASSA DI RISPARMIO DI CENTO	1,040,679.18	402,437.34	638,241.84	0.00
CASSA DI RISPARMIO DI CESENA	7,813,679.68	2,354,213.23	3,517,038.94	1,942,427.51
CASSA DI RISPARMIO DI RAVENNA	1,978,108.80	87,688.85	396,589.46	1,493,830.49
CASSA DI RISPARMIO DI RIMINI	4,761,137.29	344,908.29	1,540,040.49	2,876,188.51
CREDIOP SPA	593,054.91	593,054.91	-	0.00
EFIBANCA	14,779,767.31	516,456.89	7,264,568.99	6,998,741.43
FON SPA	5,124,393.97	539,521.81	2,432,756.95	2,152,115.21
INTERBANCA SPA	6,416,950.50	2,297,878.46	4,119,072.04	0.00
ISTITUTO SAN PAOLO DI TORINO	2,163,890.77	256,770.17	1,907,120.60	0.00
MCC SPA	41,092,699.28		16,026,152.72	25,066,546.56
MEDIOCREDITO	60,000,000.00	15,000,000.00	45,000,000.00	0.00
MONTE DEI PASCHI DI SIENA	21,658,042.06	4,975,239.26	16,682,802.80	0.00
UNICREDIT BANCA	52,739,202.87	10,873,492.82	32,421,958.96	9,443,751.09
UNIPOL	52,000,000.00	13,000,000.00	39,000,000.00	0.00
TOTAL	538,863,580.76	99,177,616.14	340,631,993.37	99,053,971.25

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

As at the end of this period, the group has no debit positions calling for the application of “covenants”. The contract governing the bond issue, on the other hand, contains a “negative pledge” clause in line with international market practices.

As at 31 December 2006, short term loans totalled Euro 443,846 thousand (Euro 645,628 thousand as at 31 December 2005) 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 Italian 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. This method has been considered acceptable so far in accordance with the international accounting standards. AS 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.

The item “gas discount” represents annual indemnities provided to Federgasacqua member employees, hired prior to January 1980, which may be paid out 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.

Employee leaving indemnity and other employee benefits	31/12/2005	Service cost	Financial charges	Use and other movements	Change in consolidation area	31/12/2006
Employee severance indemnity	95,626	9,221	3,421	-8,129	7,339	107,478
Gas discount	3,394		101		253	3,748
Premungas Fund	1,882		210	-737	469	1,824
Balance as at 31/12/2006	100,902	9,221	3,732	-8,866	8,061	113,050

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

Discounting back rate, average	4.43%
Cost of labour increase rate, average	3.04%

30. Provisions for risks and charges

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

	31/12/2005	Provisions	Use and other movements	Change in consolidation area	31/12/2006
Pensions and similar commitments	128	0	-92	0	36
Staff disputes and legal costs	9,864	5,194	-2,682	0	12,376
Landfill closure and post-closure costs	52,548	8,880	2,503	1,589	65,520
Restoration of third party assets	35,819	13,121	-477	865	49,328
Risks and charges	17,903	4,557	-3,160	2,505	21,805
Tariff reductions	3,661	159	-334	0	3,486
Total	119,923	31,911	-4,242	4,959	152,551

The provision for staff disputes and legal costs amounting to Euro 12,376 thousand, reflects the assessments of the outcome of lawsuits and disputes brought by employees.

The provision also includes Euro 6,950 thousand relating to an initial dispute pending with INPS (national social security institute) concerning the alleged payment of contributions on involuntary unemployment, social security benefits (CIG, CIGS, Mobility), sick leave for manual workers and for the rates reduction in contribution for family allowances (CUAF) and maternity allowance to employees governed by the National Pay Agreement for the electricity industry 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.

In particular, in 2005 the Labour Tribunal in Ferrara and with respect to the former AGEA, issued a sentence in favour of exoneration from the involuntary unemployment contribution. In December 2006, the Labour Tribunal in Ravenna accepted two appeals against INPS findings reports and, amongst other things, declared that the involuntary unemployment contribution was not payable. In August 2006 the Italian Ministry for Employment issued a decree confirming exoneration from unemployment contributions for ENEL SpA and all companies of the ENEL Group. Given the fact that the Hera Group organization and especially its development have led to a setup very similar to that of ENEL SpA, the Confservizi association has undertaken to apply to the Ministry for exoneration from the unemployment contribution also for Confservizi members.

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 claim was accepted in 2004 by order of the Court of Genoa, but later overturned by the court of appeal. The claim is currently pending hearing before the Court of Cassation. In December 2006, the Labour Tribunal in Ravenna, by the aforementioned sentence, also declared the CIG, CIGS and Mobility contribution as not payable, contrary to the INPS claim.

With regard to sickness benefit contributions, these are considered not payable in that, by express contractual clause, the Group assumes responsibility for the entire economic treatment of sickness. 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. By order dated 17 January 2007, the Labour Tribunal of Bologna combined five claims relating to payment files that also included sick pay contributions and deferred judgement to the Constitutional Court regarding the legitimacy of part of an old law (Italian Law 138/1943) which establishes that sickness insurance contributions must be paid in full also by companies obliged by law or under national pay agreements to issue sick leave payments directly to their employees. The assignment to the Constitutional Court suspends

judgement, also for elements not relating to sickness contributions, until sentence is pronounced, which is expected to be in not less than two years.

With regard to the rates reduction in contribution for family allowances (CUAF) and maternity allowance to employees governed by the National Pay Agreement for the electricity industry, litigation (deriving from the Meta SpA merger) concerns the interpretation of art. 41, Italian Law 488/1999 (Finance Act 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 Ministry for Employment. The decisions to be adopted are 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 16.2 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** of Euro 65,520 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 year.

The **provision for the restoration of third party assets** of Euro 49,328 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 year, 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 risks and charges**, under the item “other provisions”, amounting to Euro 21,805 thousand, comprises provisions made against sundry risks (all for an essentially modest amount). In particular, Euro 3,576 thousand was provisioned for self-certification of electricity charges deriving from the estimate of “excess” income relevant to 2006, calculated in observance of AEEG Resolution 204/99 *et seq.* The sum of Euro 8,249 thousand was also set aside to the “write-off provision”, established in previous years to finance water services sewerage and purification investments.

The provision also includes Euro 693 thousand for costs to be incurred for safety maintenance on the old waste-to-energy plant of subsidiary FEA S.r.L together with funds set aside for waste storage and funds deriving from the Meta S.p.A. merger (in particular a provision relating to the Rosola plants for the restoration of assets donated free of charge from the Rosola aqueduct network).

With regard to the problem relating to the application of the Authority for Electricity and Gas Resolution No. 248/04, reference should be made to the matters more fully described in the report on operations under section 3.01.02.02.

The **tariff reduction provision**, totalling Euro 3,486 thousand, has been provided to cover the charges deriving from the acknowledgement to retired staff of tariff concessions for electricity consumption.

Aside from 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:

	31/12/2006	31/12/2005	Change
Deferred tax liabilities	44,726	10,806	33,920
Other IAS deferred tax liabilities	89,898	83,808	6,090
Total	134,624	94,614	40,010

As at 31 December 2006 this balance amounted to Euro 134,624 thousand (Euro 94,614 thousand as at 31 December 2005). The provision for deferred taxes includes temporary differences between the balance sheet profit and taxable income, mainly capital allowance exceeding statutory depreciation and capital gains instalments, and differences emerging following the application of IAS/IFRS. The latter mainly relate to:

- Euro 5,320 thousand IAS 17 (financial leasing);
- Euro 41,775 thousand IAS 16 (fair value assessment of certain asset categories);
- Euro 38,000 thousand IAS 37 (discounting of the provisions for post-mortem landfill and restoration of third party assets);
- Euro 4,003 thousand IAS 19 (discounting of Employee Leaving Indemnity and other employee benefits);
- Euro 800 thousand IAS 39 (fair value of financial instruments).

32. Financial leasing payables

As at 31 December 2006 this balance amounted to Euro 40,489 thousand (Euro 49,643 thousand as at 31 December 2005).

Financial leases payable during and beyond the next period	31/12/2006	31/12/2005	Variazione
Payables for financial leases	40,489	49,643	-9,154
Total	40,489	49,643	-9,154

This item represents the booking of payables as a result of IAS 17 lease accounting by the financial method. The decrease with respect to the previous period is due to payments made in 2006.

The table below shows the balance as at 31 December 2006, specifying current and non-current portions.

	Residual balance	Current portion	Non-current portion
Payables for financial leases	40,489	9,485	31,004
Total	40,489	9,485	31,004

33. Trade payables

The item "Trade payables" is made up as follows:

	31/12/2006	31/12/2005	Change
Trade payables	375,022	376,682	-1,660
Trade payables for invoices due	338,665	278,326	60,339
Advance payments received	3,734	3,424	310
Trade payables to non-consolidated subsidiaries	6,813	5,071	1,742
Trade payables to associated companies	22,248	8,994	13,254
Total	746,482	672,497	73,985

Trade payables, all of a commercial nature and included in sums provisioned to cover invoices due, total Euro 713,687 thousand as at 31 December 2006 (Euro 655,008 thousand as at 31 December 2005). The increase of Euro 58,679 thousand is for the most part due to seasonal fluctuations in the purchase price of basic raw materials and the different composition of turnover.

Payables to non-consolidated subsidiaries are composed mainly of trade payables (Euro 3,944 thousand to Calorpiù Italia Scarl and Euro 1,685 thousand to Attivabologna S.r.l.).

Trade payables to associated companies are mainly represented by sums due to the following: Acantho Euro 7,027 thousand, Flam Energy Euro 568 thousand and SET Euro 13,003 thousand. The increase compared to the previous year is attributed to the increase in debt positions in relation to both companies which were already present as at 31 December 2005 (Acantho and Set), and the "new debt" regarding Flam Energy.

34. Income tax payables

As at 31 December 2006, tax liabilities total Euro 86,362 thousand (Euro 32,545 thousand as at 31 December 2005) and are composed as follows:

	31/12/2006	31/12/2005	Change
Income tax payables (IRES, IRAP)	8,576	2,417	6,159
Tax on consumption and regional surtax	47,009	14,820	32,189
Payables due for employee withholdings	6,222	5,718	504
VAT payables	13,507	334	13,173
Substitute tax	16	76	-60
Sewerage charges	4,606	652	3,954
Other tax payables	6,426	8,528	-2,102
Total	86,362	32,545	53,817

As at 31 December 2006 the item “income tax payable” of Euro 8,576 thousand shows a significant increase over 31 December 2006 particularly with regard to “tax consolidation” applied to certain companies in the Group.

The item tax payable on consumption and state taxes for gas and electricity totalled Euro 47,009 thousand as at 31 December 2006, a considerable increase with respect to the previous period due to both increased amounts invoiced and invoice recoveries (already commented under note 25).

The increase in VAT payables, amounting to Euro 13,173 thousand, is due to the same reasons as stated in the previous paragraph.

The item other tax payables of Euro 6,426 thousand as at 31 December 2006 is composed mainly of the environmental impact tax for the last quarter of 2006 paid in 2007.

35. Other current liabilities

As at 31 December 2006 other liabilities amounted to Euro 174,831 thousand (Euro 173,801 thousand as at 31 December 2005). A breakdown and comparison with the previous period is given below.

	31/12/2006	31/12/2005	Change
Due to social security authorities: INPS	2,884	2,554	330
Due to social security authorities: INPDAP	6,057	5,362	695
Due to social security authorities: INAIL	99	23	76
Other authorities	5,645	6,015	-370
Payables due to employees	19,333	15,967	3,366
Payables due to Directors and Statutory Auditors	356	343	13
Guarantee deposits	50,622	50,869	-247
Customer deposits	562	272	290
Other	89,273	92,395	-3,122
Total	174,831	173,800	1,031

Payables to employees of Euro 19,333 thousand as at 31 December 2006 take into account leave matured but not taken and the productivity bonus.

The item “amounts due for guarantee deposits” of Euro 50,622 thousand as at 31 December 2006 relate to deposits paid by customers on gas, electricity and water supply contracts.

Other payables of Euro 89,273 thousand as at 31 December 2006 are composed by payables to the following:

- municipalities, mainly for “environmental disturbance”,
- the CCSE (Electricity Equalisation Fund),
- non-refundable grants relating to works not yet completed.

IAS 14: Breakdown by business segment

Income statement 2006

	Gas	Electricity	Water Cycle	Waste Management	Other services	Structure	Total	Consolidated Income Statement
Direct revenues	944.4	335.7	381.3	505.7	157.7	39.7	2,364.4	2,364.4
Infra-cycle revenues	33.0	50.9	6.5	19.9	2.4	1.1	113.7	
Total direct revenues	977.4	386.5	387.8	525.5	160.1	40.7	2,478.2	2,364.4
INDIRECT REVENUES	10.2	2.8	10.6	14.1	3.0	-40.7	0.0	
TOTAL REVENUES	987.6	389.4	398.4	539.6	163.1	0.0	2,478.2	2,364.4
EBITDA	116.1	25.2	107.5	150.4	27.4	0.0	426.7	426.7

Direct amort/depr and prov.	31.0	10.3	37.4	65.1	14.1	37.5	195.4	195.4
Indirect amort/depr and prov.	7.2	4.7	10.7	11.6	3.3	-37.5		
Total amort/depr and prov.	38.2	15.0	48.1	76.7	17.4	0	195.4	195.4

EBIT	77.9	10.2	59.4	73.8	10.1	0.0	231.3	231.3
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Income Statement 2005

	Gas	Electricity	Water Cycle	Waste Management	Other services	Structure	Total	Consolidated income statement
Direct revenues	719.2	215.4	302.0	402.8	98.2	30.4	1,768.0	1,768.0
Infra-cycle revenues	17.1	20.1	3.1	7.6	16.6	3.6	68.0	
Total direct revenues	736.3	235.5	305.1	410.3	114.7	34.0	1,836.0	1,768.0
INDIRECT REVENUES	20.3	0.9	5.4	6.4	1.1	-34.0	0.0	
TOTAL REVENUES	756.6	236.4	310.5	416.7	115.8	0.0	1,836.0	1,768.0
EBITDA	97.0	9.1	82.1	115.5	17.3	0.0	321.0	321.0

Direct amort/depr and prov.	21.5	1.8	29.2	48.2	12.0	29.9	142.7	142.7
Indirect amort/depr and prov.	6.1	0.7	9.4	10.7	3.1	-29.9		
Total amort/depr and prov.	27.6	2.4	38.6	58.8	15.2		142.7	142.7

EBIT	69.4	6.6	43.5	56.7	2.1	0.0	178.3	178.3
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Balance Sheet as at 31 December 2006

	Gas	Electricity	Water Cycle	Waste Management	Other services	Structure	Consolidated balance sheet
Net working capital	92.2	56.8	-18.5	43.8	-6.3		167.9
Net fixed assets	511.5	334.7	754.6	817.4	231.0	272.8	2,921.9
Provisions	-112.7	-44.0	-74.8	-147.5	-18.9	-2.3	-400.2
Net capital invested	491.0	347.4	661.2	713.7	205.9	270.5	2,689.6
Shareholders' Equity							1,516.3
Net financial position							1,173.3

Balance Sheet as at 31 December 2005

	Gas	Electricity	Water Cycle	Waste Management	Other services	Structure	Consolidated balance sheet
Net working capital	107.0	56.6	13.6	51.4	9.8		238.4
Net fixed assets	463.8	195.6	656.4	756.5	218.4	243.9	2,534.5
Provisions	-76.6	-23.5	-67.3	-124.5	-19.9	-3.7	-315.4
Net capital invested	494.2	228.7	602.7	683.4	208.3	240.2	2,457.5
Shareholders' Equity							1,483.5
Net financial position							974.0

GUARANTEES GIVEN

The main guarantees given to third parties are described below.

- mortgages and special liens on land, plant and machinery recorded by the subsidiary Fea Srl in favour of a pool of banks for project financing without recourse, amounting to Euro 216,909 thousand;
- unsecured guarantees given by the Parent Company in favour of the associated company Acantho SpA for Euro 23,441 thousand, including Euro 15,000 thousand by means of non-binding letter of patronage, against the loan without recourse obtained by said Acantho SpA, and Euro 8,441 thousand through a letter of patronage against financial leasing agreements stipulated by Acantho SpA;
- unsecured guarantees given by the Parent Company in favour of the associated company SET SpA for a total Euro 108,154 thousand, including approximately Euro 51,000 thousand for the loan obtained from a pool of banks by SET SpA and approximately Euro 45,000 thousand in relation to guarantees issued to the construction company for construction of the Teverola plant.
- surety issued by the subsidiary Medea SpA in favour of the Municipality of Sassari guaranteeing work for the extension of the gas mains in that area for Euro 3,096 thousand;
- surety issued by the subsidiary Sotris SpA in favour of the Provincial Authority of Ravenna as environmental impact guarantee deriving from landfill management activities for Euro 19,608 thousand;
- surety issued by the subsidiary Nuova Geovis SpA in favour of the Provincial Authority of Bologna as environmental impact guarantee deriving from landfill management activities for Euro 8,849 thousand;
- surety issued by the subsidiary Asa SpA in favour of the Provincial Authority of Bologna as environmental impact guarantee deriving from landfill management activities for Euro 16,430 thousand;
- sureties issued by the Parent Company for Euro 298,768 thousand, as guarantee against landfill post-mortem costs and as mortgage guarantees;
- sureties for insurance purposes issued in favour of companies as guarantee for works by Aspes Multiservizi SpA totalling Euro 2,408 thousand;
- sureties given by banks in favour of subsidiaries Hera Comm S.r.l. and Hera Trading as guarantees to raw materials suppliers, in observance of existing supply agreements, totalling Euro 80,298 thousand;
- mortgage and lien guarantee against the mortgage of subsidiary Nuova Geovis for Euro 8,906 thousand;
- third party assets in use mainly comprise assets used by the Parent Company for Euro 1,473,439 thousand by way of concession and business leases, for Euro 15,690 thousand by the subsidiary Medea by way of concession for the gas mains from the municipality of Sassari and Euro 27,111 thousand by subsidiary Aspes Multiservizi SpA for leased assets in the gas sector.

TRANSACTIONS WITH RELATED PARTIES

Management of the services

As sole agency, the Hera Group provides local public services of an economic nature and subject to license or franchise (distribution of natural gas via local pipelines, integrated water services and environmental services, including scavenging, collection, transportation and organization of waste treatment and disposal) to almost all related Municipal party areas. 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) to part of Modena province.

Other utilities (urban distance-controlled heating systems, heat management, public lighting, cemetery-related 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 related parties. HERA is responsible for waste treatment and disposal service via special agreements with local authorities, precluded from exclusive rights under Italian regional law 25/1999 but subject to monitoring by the regional public services regulatory authority.

The above-mentioned regional law has appointed AATOs, as required under the national reference law, to organize and monitor integrated water services and urban cleansing service management previously covered by the licensing municipalities. With regard to provisions of the regional law and relevant national law (particularly art. 113 of the consolidated local authority act), the HERA Group has signed special agreements with the AATOs determining the implementation of technical planning and local tariffs.

Energy sector

In relation to the contracts in the Gas Area, management of the service is, as per normal practice, assigned exclusively to the Hera Group. Certain agreements stipulated prior to the enactment of industry regulations (the 'Letta' decree) involve the production and distribution of heat energy ("energy services").

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"). The residual duration of distribution agreements is not less than that foreseen in the HERA stock exchange listing.

The conventions relating to the distribution concessions concern the distribution of methane gas or other similar, heating, domestic uses, artisan, industrial and for other general use. Gas distribution tariffs applied to the consumer are collected by HERA and established in accordance with current law and rulings of the Electrical and Gas Energy Authority (AEEG).

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 infringement committed.

In relation to the electricity area, the contracts relate to the distribution of energy, including management of the distribution network, decisions on maintenance work, planning and identification of the development interventions, functioning of the plants and the carrying out of maintenance and development.

The most significant convention for the distribution of electricity was agreed with the Municipality of Imola, has a duration of thirty years with expiry on 31 December 2030 and is renewable based on the provisions of Article 2 of the Bersani Decree. A similar agreement exists for the management of networks previously assigned to META SpA, under HERA responsibility as from 1 January 2006 following the merger of this former local government-run agency.

The Authority for Electricity and Gas may suspend or revoke the concession, based on a predetermined procedure against non compliance and violations attributable to the company granted the concession, that harms in a serious manner the provision of the electricity distribution service.

The company awarded the concession is obliged to apply to the users fixed tariffs in accordance with regulations in force and deliberations adopted by the Authority for Electricity and Gas .

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 aqueduct service includes the public services of collection, purifying, distribution and sale of drinkable 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 conventions 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 conventions regulate, in addition, other aspects such as the manner 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.

Normally the 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 users are disciplined and regulated by specific "Service Charters" that provide a detailed description of the services to be provided by the operator and the rights of users.

The fee received by HERA for the management of the integrated water service consists of the payment of the tariffs in force determined, from 2004, on the basis of the standardized method introduced by the Galli law and subsequent legislation.

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 Conventions is fixed by the regional regulations as ten years. The conventions discipline the method for the functioning of the services, the amount payable to Hera for the services performed (equal to the tariff, where implemented, in accordance with Italian Presidential Decree No. 158/1999), the reciprocal 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 via which the local public services are carried out, or rather the gas networks and the aqueduct and sewerage networks, are in part owned by HERA and in part owned by third parties (Municipalities, Consortium of Municipalities, Asset Companies). The dealings between the service operators and the owners of the operating assets are disciplined by specific conventions; 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 plans agreed with the Asset Companies.

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).

Integrated Water Cycle

For the period of the contract subsequent to December 31, 2006, the rental will be equal to a sum corresponding to the final value (that indicated in the rental contract of the business division) multiplied by the percentage established in the tariff as a percentage remuneration on the net capital invested, as determined by the application of the normalised method for the determination of the tariffs as per Regional Law No. 25/1999

Gas distribution

The rental contract of the business division relating to energy services does not indicate the amount of the rental for the periods after 31 December 2006.

Assets granted under rental contracts by CON.AMI

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. This contract contains similar provisions to those contained in the contracts with the Asset Companies.

State property conceded in use to HERA together with the awarding of the services

The state properties utilised by HERA for the carrying out of the activities are granted under use to HERA together with the awarding of the relative public services.

Transactions between HERA and Romagna Acque

The Municipalities of Ravenna, Forlì, Cesena and Rimini, principal shareholders of HERA, are also the principal shareholders of Romagna Acque with whom AMF, AMIR, AREA, SIS, TEAM and UNICA, companies taking part in the integration, have agreed contracts for the procurement of water prior to the merger in HERA SpA. Following the spin-offs and mergers of business units relating to the afore-mentioned Company, 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 asset companies.

Taking into account the above, the following tables summarise only the most significant transactions with related parties; more specifically, the data as at 31 December 2006 and as at 31 December 2005 are set out, as well as their weight on the Balance Sheet and Income Statement items.

Data as at 31 December 2006

	loans	percent of trade receivables, note 22 BS 1,000,322	payables	percent of trade payables note 33 BS 746,482	revenues	percent of ricavi delle vendite e prestazioni note 4 e 5 CE 2.364.444	costs	percent of costs for services and other operating expenses notes 7 and 9 IS 689,001
Comune di 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%
Comune di 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%

Data as at 31 December 2005

	loans	percent of trade receivables note 22 BS 900,934	payables	percent of trade payables note 33 BS 672,497	revenues	percent of revenues from sales and services notes 4 and 5 IS 1,767,959	costs	percent of costs for services and other operating expenses notes 7 and 9 IS 548,173
Comune di Bologna	17,533	1.95%	1,658	0.25%	63,121	3.57%	7,727	1.41%
CON. AMI	529	0.06%	1,818	0.27%	1,696	0.10%	7,834	1.43%
Romagna Acque SpA	35	0.00%	7,572	1.13%	75	0.00%	23,212	4.23%
Unica reti assets	751	0.08%	2,335	0.35%	87	0.00%	8,249	1.50%
AMF assets	1,746	0.19%	48	0.01%	226	0.01%	13	0.00%
AMIA assets	8	0.00%	0	0.00%	0	0.00%	10	0.00%
AMIR assets	2,187	0.24%	925	0.14%	483	0.03%	2,322	0.42%
AREA assets	1,138	0.13%	3,829	0.57%	335	0.02%	5,321	0.97%
TEAM assets	502	0.06%	668	0.10%	12	0.00%	1,588	0.29%
SIS SpA	3,038	0.34%	1,986	0.30%	0	0.00%	2,048	0.37%
Comune di Modena	8,266	0.92%	15,393	2.29%	46,822	2.65%	5,421	0.99%
Total	35,733	3.97%	36,232	5.39%	112,857	6.38%	63,745	11.63%

2.04 Statement of Changes in Shareholders' Equity

€/000	Share capital	Reserves	Reserves for derivative instruments measured at fair value	Profit for the period	Shareholder s' equity	Minority interests	Total
Balance as at 31 December 2004	839,903	114,988		80,994	1,035,885	28,346	1,064,231
Effect of applying IAS 39		-6,465	-2,474		-8,939	-1,381	-10,320
Balance as at 1 January 2005	839,903	108,523	-2,474	80,994	1,026,946	26,965	1,053,911
Meta Group merger	176,849	222,829			399,678		399,678
		2,231	-1,711		520	183	703
change during period in fair value derivatives							
use of reserves		-762			-762		-762
other movements		-3,401			-3,401	42	-3,359
<u>Appropriation of profits for 2005:</u>					0		0
- dividends paid out				-50,394	-50,394	-2,247	-52,641
- allocation to reserve		8,974		-8,974	0		0
- retained earnings		21,626		-21,626	0	-1,656	-1,656
Profit for the period				80,346	80,346	7,316	87,662
Balance as at 31 December 2005	1,016,752	360,020	-4,185	80,346	1,452,933	30,603	1,483,536
Balance as at 31 December 2005	1,016,752	360,020	-4,185	80,346	1,452,933	30,603	1,483,536
GDG merger		323			323		323
own shares in portfolio	-115	175			60		60
		1,320	4,834		6,154	815	6,968
change during period in fair value derivatives							
use of reserves					0		0
other movements		-2,267			-2,267	4,267	1,999
<u>Appropriation of profits for 2005:</u>					0		0
- dividends paid out		-19,405		-51,767	-71,172	-5,610	-76,782
- allocation of undivided profits to reserves		-7,792		7,792	0		0
- allocation to other reserves		4,240		-4,240	0		0
- profits after the impact of IAS		32,131		-32,131	0		0
Profit for the period				90,105	90,105	10,133	100,238
Balance as at 31 December 2006	1,016,637	368,744	649	90,105	1,476,135	40,207	1,516,343

2.05 Consolidated Cash Flow Statement

Rendiconto finanziario consolidato	31/12/2006	31/12/2005
Attività di gestione		
Cash flow		
Utile di gruppo e di terzi	100.238	87.663
Ammortamento e svalutazione immobilizzazioni materiali	129.731	91.094
Ammortamento e svalutazione attività immateriali	35.990	29.436
Totale cash flow	265.959	208.193
Variazione imposte anticipate e differite	33.706	35.182
Trattamento di fine rapporto e altri benefici:		
Accantonamenti / (utilizzi)	12.148	18.268
Fondi per rischi ed oneri:		
Accantonamenti / (utilizzi)	32.629	40.717
Totale cash flow prima delle variazioni del capitale circolante netto	344.442	302.360
Capitale circolante		
Variazione crediti commerciali	(99.388)	(303.482)
Variazioni rimanenze	(11.744)	(256)
Variazione altre attività correnti	66.999	(85.322)
Variazione debiti commerciali	73.982	239.574
Variazione debiti tributari	53.817	(54.125)
Variazione altre passività correnti	1.032	16.774
Variazione capitale circolante	84.698	(186.836)
Disponibilità generate dall'attività di gestione	429.140	115.523 a)
Attività di investimento		
Disinvestimento/(investimento) in immobilizzazioni materiali al netto degli investimenti/disinvestimenti	(335.230)	(707.174)
Disinvestimento/(investimento) in attività immateriali al netto degli investimenti/disinvestimenti	(54.390)	(31.335)
Avviamento	(125.495)	(121.822)
Investimenti in partecipazioni al netto dei disinvestimenti	(31.734)	(13.424)
(Incremento) / decremento di altre attività di investimento	31.445	(12.651)
Disponibilità generate/(assorbite) dall'attività di investimento	(515.404)	(886.406) b)
Attività di finanziamento		
Finanziamenti a medio/lungo termine	402.726	45.455
Variazione delle voci di patrimonio netto	9.352	384.283
Variazione di indebitamento bancario a breve termine	(201.782)	373.796
Dividendi distribuiti	(76.782)	(52.641)
Variazione dei debiti per locazioni finanziarie	(9.154)	20.913
Variazioni strumenti finanziari - derivati	(13.573)	15.812
Disponibilità generate/(assorbite) dall'attività di finanziamento	110.787	787.618 c)
	<u>24.523 (a+b+c)</u>	<u>16.735 (a+b+c)</u>
Variazione nelle disponibilità liquide e mezzi equivalenti		
Disponibilità liquide e mezzi equivalenti all'inizio dell'esercizio	189.107	172.372
Disponibilità liquide e mezzi equivalenti alla fine dell'esercizio	213.629	189.107
	<u>24.523</u>	<u>16.735</u>

2.06 Net Financial Position

NET FINANCIAL POSITION	31/12/2006	31/12/2005
(euro/m)		
Cash and cash equivalents	213.6	189.1
Other current loans	12.8	8.4
Current bank indebtedness	-312.4	-568.5
Current portion of non-current bank indebtedness	-109.4	-68.3
Other current loans	-17.3	-1.2
Financial liabilities from derivative instruments	-2.3	
Financial leasing payables - expiring within the following year	-9.5	-9.8
Current financial indebtedness	-450.9	-647.8
Net current financial indebtedness	-224.5	-450.3
Non-current loans	19.2	53.4
Financial assets (liabilities) from derivative instruments	0.0	3.4
Non-current bank indebtedness (long-term loans)+	-410.0	-491.3
Bonds issued	-497.6	0.0
Other non-current loans	-29.5	-30.1
Financial liabilities from derivative instruments		-19.2
Financial leasing payables - expiring beyond the following year	-31.0	-39.9
Non-current financial indebtedness	-968.0	-580.5
Net non-current financial indebtedness	-948.8	-523.7
Net financial indebtedness	-1173.3	-974.0

2.07 Equity investments

2.07.01 List of consolidated companies

List of Group Companies consolidated with the Line-by-Line Method

Name	Registered office	Share capital	Percentage held		Total	Overall share
			Direct	Indirect		
Parent Company:						
Hera S.p.A.	Bologna	1,016,752,029				
Akron S.p.A.	Imola (BO)	1,152,940	57.50%		57.50%	57.50%
Ambiente 3000 S.r.l.	Bologna	100,000	51.00%		51.00%	51.00%
Ares S.p.A. consortile	Bologna	1,125,240	100.00%		100.00%	100.00%
Asa S.p.A.	Castelmaggiore (BO)	1,820,000	51.00%		51.00%	51.00%
Aspes Multiservizi S.p.A.	Pesaro	10,963,627	49.79%		49.79%	49.79%
Ecologia Ambiente S.r.l.	Ravenna	20,000,000	100.00%		100.00%	100.00%
Ecosfera S.p.A.	Ferrara	1,000,000	51.00%		51.00%	51.00%
Eris S.c.r.l.	Ravenna	300,000		51.00%	51.00%	51.00%
Famula On-line S.p.A.	Bologna	4,364,030	60.00%		60.00%	60.00%
Frullo Energia Ambiente S.r.l.	Bologna	17,139,100	51.00%		51.00%	51.00%
Gal.A. S.p.A.	Bologna	300,000	60.00%		60.00%	60.00%
Gas Riccione S.p.A.	Riccione (RN)	748,600		100.00%	100.00%	100.00%
Hera Bologna S.r.l.	Bologna	1,250,000	100.00%		100.00%	100.00%
Hera Comm S.r.l.	Imola (BO)	88,591,541	100.00%		100.00%	100.00%
Hera Comm Mediterranea S.r.l. ex Cales	Napoli	50,000	50.01%		50.01%	50.01%
Hera Energie Bologna S.r.l.	Bologna	500,000		67.00%	67.00%	67.00%
Hera Ferrara S.r.l.	Cassana (FE)	810,000	100.00%		100.00%	100.00%
Hera Forlì-Cesena S.r.l.	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 S.r.l.	Imola (BO)	750,000	100.00%		100.00%	100.00%
Hera Luce S.r.l.	San Mauro Pascoli (FC)	216,600	87.30%		87.30%	87.30%
Hera Modena S.r.l.	Modena	1,000,000	100.00%		100.00%	100.00%
Hera Ravenna S.r.l.	Ravenna	850,000	100.00%		100.00%	100.00%
Hera Rete Modena S.r.l.	Bologna	22,221,850	100.00%		100.00%	100.00%
Hera Rimini S.r.l.	Rimini	1,050,000	100.00%		100.00%	100.00%
Hera Servizi Funerari S.r.l.	Bologna	10,000	100.00%		100.00%	100.00%
Herasocrem S.p.A.	Bologna	2,218,368	51.00%		51.00%	51.00%
Hera Trading S.r.l.	Imola (BO)	2,600,000	100.00%		100.00%	100.00%
Ingenia S.r.l.	Imola (BO)	52,000	74.00%		74.00%	74.00%
Medea S.p.A.	Sassari	4,500,000	100.00%		100.00%	100.00%
Metaenergy S.r.l.	Modena	13,795,000		100.00%	100.00%	100.00%
Metaservice S.r.l.	Modena	2,492,000		100.00%	100.00%	97.00%
Nuova Geovis S.p.A.	Sant'Agata Bolognese (BO)	2,205,000	51.00%		51.00%	51.00%
Recupera S.r.l.	Voltana di Lugo (RA)	1,673,290	93.95%		93.95%	93.95%
Romagna Compost S.r.l.	Cesena (FC)	310,000	60.00%		60.00%	60.00%
Seas Lavori e Servizi s.c.ar.l.	Bologna	51,000	6.00%	94.00%	100.00%	100.00%
Sinergia S.r.l.	Forlì (FC)	579,600		59.00%	59.00%	59.00%
Sotris S.p.A.	Ravenna	2,340,000	70.00 %		70.00%	70.00%
Uniflotte S.r.l.	Bologna	2,254,177	97.00%		97.00%	97.00%

The table below provides a summary of the changes in the scope of consolidation compared to the previous year.

Companies consolidated with the line-by-line method

Companies which entered the scope of consolidation in 2006	Companies which exited the scope of consolidation in 2006	Notes
	Agea One S.r.L.	discontinued operations
	TS Distribuzione S.r.L.	discontinued operations
	TS Energia S.r.L.	discontinued operations
Ambiente 300 S.r.L.		became operative
Hera Modena S.r.L.		became operative
Hera Servizi Funerari S.r.L.		became operative
	Bio Energy S.r.L.	valued at equity-company in liquidation
Aspes Multiservizi SpA		acquisition of control
Gas Riccione SpA		Acquisition following incorporation of GDG S.r.L.
Hera Rete Modena S.r.L.		acquired

List of Group Companies valued with the Equity Method

Name	Registered office	Share capital	Percentage held		Total	Overall share
			Direct	Indirect		
Acantho S.p.A.	Imola (BO)	15,875,781	47.46%		47.46%	47.46%
Adriatica Acque S.r.l.	Rimini (RN)	89,033		26.21%	26.21%	26.21%
Agea Reti S.r.l.	Ferrara	19,000,000	39.72%		39.72%	39.72%
Agess s.c.ar.l.	Forlì (FC)	79,750	21.44%		21.44%	21.44%
Attivabologna S.r.l. Cons. in liquid.	Bologna	2,558,600		96.40%	96.40%	96.40%
DYNA Green Srl	Milano	30,000		33.33%	33.33%	33.33%
Estense global service	Ferrara	10,000	23.00%		23.00%	23.00%
FlamEnergy Trading Gmbh	Vienna	400,000		50.00%	50.00%	50.00%
Modena Network S.p.A.	Modena	2,000,000	30.00%		30.00%	30.00%
Oikoten S.c.r.l.	Siracusa	1,101,730		46.10%	46.10%	46.10%
Refri S.r.l.	Reggio Emilia	2,800,000	20.00%		20.00%	20.00%
SAT S.p.A.	Sassuolo (MO)	27,752,560	46.50%		46.50%	46.50%
SGR Servizi SpA.	Rimini	5,264,000		20.00%	20.00%	20.00%
Service Imola S.r.l.	Borgo Tossignano (BO)	10,000	40.00%		40.00%	40.00%
SET S.p.A.	Milano	120,000	39.00%		39.00%	39.00%
Sinergie Ambientali S.r.l.	Bologna	100,000	50.00%		50.00%	50.00%

The table below provides a summary of the changes in the scope of consolidation compared to the previous year.

Companies valued at net equity		
Companies which entered the scope of consolidation in 2006	Companies which exited the scope of consolidation in 2006	Notes
	GAS GAS S.r.L.	discontinued
	Meta Rete Gas S.r.l.	discontinued
	Tecnometano S.r.l.	discontinued
	4 Italy Energy & Environment SpA	disposed
	Yele SpA	disposed
SAT SpA		acquired

2.07.02 List of significant equity investments as per Article 120.4 of Italian Legislative Decree No. 58/98 and Article 126 of the CONSOB resolution

Direct investments as at 31 December 2005

ACANTHO S.p.A. Share Capital €15,875,781 fully paid-up. Investee company of HERA S.p.A. since 2000		
OFFICE: Via Molino Rosso 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	7,534,200	47.457%

AGEA RETI S.r.l. Share Capital €19,000,000 fully paid-up. Investee company of HERA S.p.A. since 31/12/2004		
OFFICE: Piazza Municipale 2 - 44100 FERRARA		
Shareholder	Equity investment in €	Interest
Hera S.p.A.	7,546,800	39.72%

AGESS S.c.a r.l. Share Capital €79,750 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: P.zza Falcone e Borsellino 23 - 47100 FORLÌ		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	17,100	21.442%

AKRON S.p.A. Share Capital €1,152,940 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: Via Molino Rosso 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	662,940	57.50%

AMBIENTE 3000 S.r.l. Share Capital €100,000 fully paid-up. Investee company of HERA S.p.A. since 01/06/2003		
OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	51,000	51.000%

AMBIENTE MARE S.p.A. Share Capital €2,000,000 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: Via del Marchesato 35 - 48023 MARINA DI RAVENNA (RA)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	300,000	15.00%

ARES S.p.A. Consortile Share Capital €1,125,240 fully paid-up. Investee company of HERA S.p.A. since 1998		
OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	1,125,240	100.000%

A.S.A. S.p.A. Share Capital €1,820,000 fully paid-up. Investee company of HERA S.p.A. since 1994		
OFFICE: Via Saliceto 43/A - 40013 CASTEL MAGGIORE (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	928,200	51.00%

ASPES MULTISERVIZI S.p.A. Share Capital €10,963,627 fully paid-up. Investee company of HERA S.p.A. since 2002		
OFFICE: Via dei Canonici 144 - 61100 PESARO		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	5,458,870	49.791%

CALENIA ENERGIA S.p.A. Share Capital €100,000 fully paid-up. Investee company of HERA S.p.A. since 23/09/2004		
OFFICE: Via Appia - Area Industriale ex Pozzi, Sparanise (CE)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	15,000	15.00%

HERA COMM MEDITERRANEA S.r.l. (formerly CALES S.r.l.) Share Capital €50,000 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002

OFFICE: Zona Industriale ASI Nord - 81032 Carinaro (CE)

Shareholder	Equity investment in €	Interest
HERA S.p.A.	25,005	50.010%

ECOLOGIA AMBIENTE S.r.l. Share Capital €20,000,000 fully paid-up. Investee company of HERA S.p.A. since 10/2004

OFFICE: Via Baiona 182 - 48100 RAVENNA

Shareholder	Equity investment in €	Interest
HERA S.p.A.	20,000,000	100.00%

ECOSFERA S.p.A. Share Capital €1,000,000 fully paid-up. Investee company of HERA S.p.A. since 31/12/2004

OFFICE: Via Stefano Trenti 32 - 44100 FERRARA

Shareholder	Equity investment in €	Interest
HERA S.p.A.	510,000	51.000%

ENERGIA ITALIANA S.p.A. Share Capital €26,050,000 fully paid-up. Investee company of HERA S.p.A. since 2001

OFFICE: Via Giovanni Battista Pirelli 20 - 20124 MILAN

Shareholder	Equity investment in €	Interest
HERA S.p.A.	2,865,500	11.00%

ESTENSE GLOBAL SERVICE S.c.a r.l. Share Capital €10,000 fully paid-up. Investee company of HERA S.p.A. since 31/12/2004

OFFICE: Via M.N. Plattis 5/c - 44100 Ferrara

Shareholder	Equity investment in €	Interest
HERA S.p.A.	2,300	23.000%

FAMULA ON-LINE S.p.A. Share Capital €4,364,030 fully paid-up., Investee company of HERA S.p.A. since 2001

OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)

Shareholder	Equity investment in €	Interest
HERA S.p.A.	2,618,418	60.00%

FRULLO ENERGIA AMBIENTE S.r.l. Share Capital €17,139,100 fully paid-up. Investee company of HERA S.p.A. since 2000

OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)

Shareholder	Partecipazione in €	Partecipazione
HERA S.p.A.	8,740,941	51.000%

GAL.A S.p.A. Share Capital €300,000 fully paid-up. Investee company of HERA S.p.A. since 1997

OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)

Shareholder	Equity investment in €	Interest
HERA S.p.A.	180,000	60.00%

HERA IMOLA-FAENZA S.r.l. Share Capital €750,000 fully paid-up. Investee company of HERA S.p.A. since 21/10/2002

OFFICE: Via Casalegno 1 - 40026 IMOLA

Shareholder	Partecipazione in €	Partecipazione
HERA S.p.A.	750,000	100.000%

HERA BOLOGNA S.r.l. Share Capital € 1,250,000 fully paid-up. Investee company of HERA S.p.A. since 21/10/2002

OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)

Shareholder	Equity investment in €	Interest
HERA S.p.A.	1,250,000	100.00%

HERA COMM S.r.l. Share Capital € 88,591,541 fully paid-up. Investee company of HERA S.p.A. since 2001		
OFFICE: Via Molino Rosso 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	88,591,541	100.000%

HERA FERRARA S.r.l. Share Capital €810,000 fully paid-up. Investee company of HERA S.p.A. since 23/11/2004		
OFFICE: Via Diana 40 - 44044 Cassana (FE)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	810,000	100.00%

HERA FORLI'-CESENA S.r.l. Share Capital €650,000 fully paid-up. Investee company of HERA S.p.A. since 21/10/2002		
OFFICE: Via Spinelli 60 - 47023 CESENA (FC)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	650,000	100.000%

HERA GAS TRE S.p.A. Unipersonale Share Capital €120,000 fully paid-up. Investee company of HERA S.p.A. since 27/04/2005		
OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	120,000	100.00%

HERA LUCE S.r.l. Share Capital €216,600 fully paid-up. Investee company of HERA S.p.A. since 2000		
OFFICE: Via Due Martiri 2 - 47030 S. MAURO PASCOLI (FC)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	189,092	87.300%

HERA MODENA S.r.l. Share Capital €1,000,000 fully paid-up. Investee company of HERA S.p.A. since 24/11/2005		
OFFICE: Via Razzaboni 80 - 41100 MODENA		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	1,000,000	100.00%

HERA RAVENNA S.r.l. Share Capital € 850,000 fully paid-up. Investee company of HERA S.p.A. since 21/10/2002		
OFFICE: Via Romea Nord 180/182 - 48100 RAVENNA		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	850,000	100.000%

HERA RETE MODENA S.r.l. Share Capital € 22,221,850 fully paid-up. Investee company of HERA S.p.A. since 30/06/2006		
OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	22,221,850	100.00%

HERA RIMINI S.r.l. Share Capital €1,050,000 fully paid-up. Investee company of HERA S.p.A. since 21/10/2002		
OFFICE: Via del Terrapieno 25 - 47900 RIMINI		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	1,050,000	100.000%

HERA TRADING S.r.l. Share Capital €2,600,000 fully paid-up. Investee company of HERA S.p.A. since 2001		
OFFICE: Via Molino Rosso 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	2,600,000	100.00%

HERA RETE MODENA S.r.l. Capitale Sociale € 22.221.850 i.v. Partecipata da HERA S.p.A. dal 30/06/2006		
SEDE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna		
Socio	Partecipazione in €	Partecipazione
HERA S.p.A.	22,221,850	100.00%

HERA RIMINI S.r.l. Capitale Sociale €1.050.000 i.v. Partecipata da HERA S.p.A. dal 21/10/2002		
SEDE: Via del Terrapieno 25 - 47900 RIMINI		
Socio	Partecipazione in €	Partecipazione
HERA S.p.A.	1,050,000	100.000%

HERA TRADING S.r.l. Capitale Sociale €2.600.000 i.v. Partecipata da HERA S.p.A. dal 2001		
SEDE: Via Molino Rosso n. 8 40026 IMOLA (BO)		
Socio	Partecipazione in €	Partecipazione
HERA S.p.A.	2,600,000	100.00%

HERASOCREM S.p.A. Share Capital resolved €2,218,368 fully paid-up. Investee company of HERA S.p.A. since 10/07/2003		
OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	1,131,368	51.000%

INGENIA S.r.l. Share Capital €52,000 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: Via Molino Rosso 8 - 40026 IMOLA (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	38,480	74.00%

ITALCIC S.c.a r.l. Share Capital €90,000 fully paid-up., Investee company of HERA S.p.A. since 31/12/2005		
OFFICE: Via Razzaboni 80 - 41100 MODENA		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	30,000	33.333%

MEDEA S.p.A. Share Capital €4,500,000 fully paid-up. Investee company of HERA S.p.A. since 01/07/2003		
OFFICE: Via Torres 4 - 07100 SASSARI		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	4,500,000	100.00%

MODENA NETWORK S.p.A. Share Capital €2,000,000 fully paid-up. Investee company of HERA S.p.A. since 31/12/2005		
OFFICE: Via Razzaboni 80 - 41100 MODENA		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	600,000	30.00%
S.A.T. - Servizi Territorio Ambiente S.p.A.	640,000	32.00%

NUOVA GEOVIS S.p.A. Share Capital €2,205,000 fully paid-up. Investee company of HERA S.p.A. since 2001		
OFFICE: Via Romita 1 - 40019 Sant'Agata Bolognese (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	1,124,550	51%

HERA SERVIZI FUNERARI S.r.l. Share Capital €10,000 fully paid-up. Investee company of HERA S.p.A. since 22/12/2005		
OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	10,000	100%

SAT S.p.A. Share Capital €27,752,560 fully paid-up. Investee company of HERA S.p.A. since 18/10/2006		
OFFICE: Via Brigata Folgore 26 - 41049 Sassuolo (MO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	12,904,935.23	46.50%

SERVICE IMOLA S.r.l. Share Capital €10,000 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: Via Allende 39 - 40021 BORGO TOSSIGNANO (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	4,000	40%

SET S.p.A. Share Capital €120,000 fully paid-up. Investee company of HERA S.p.A. since 15/12/2004		
OFFICE: Viale Bianca Maria 15 - 20122 MILAN		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	46,800	39%

SOTRIS S.p.A. Share Capital €2,340,000 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: S.S. 309 Romea Km. 2.6 no. 272 - 48100 RAVENNA		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	1,638,000	70%
Ambiente Mare S.p.A.	70,200	3%

TORRICELLI S.r.l. Share Capital €1,300,000 fully paid-up. Investee company of HERA S.p.A. since 01/11/2002		
OFFICE: Via Cardano 13 - 47100 FORLI' (FC)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	21,513.70	1.65%

UNIFLOTTE S.r.l. Share Capital €2,254,177 fully paid-up. Investee company of HERA S.p.A. since 2001		
OFFICE: Viale Masini 42 - 40126 BOLOGNA		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	2,186,551	97%

VIVISERVIZI S.r.l. Consortile Share Capital €250,000 fully paid-up. Investee company of HERA S.p.A. since 2002		
OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)		
Shareholder	Equity investment in €	Interest
HERA S.p.A.	204,347.31	81.7389%

Indirect investments as at 31 December 2005

Equity investments of HERA COMM S.r.l.:

ADRIATICA ACQUE S.r.l. Share Capital € 89,033 fully paid-up. Investee company of HERA COMM S.r.l. since 23/11/2005		
OFFICE: Via Dario Campana 65 - 47900 RIMINI		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	19,872	22.32%
ASPES Multiservizi S.p.A.	6,838	7.68%

CALORPIU' MODENA S.c.a r.l. Share Capital € 10,000 fully paid-up., Investee company of HERA COMM S.r.l. since 26/09/2006		
OFFICE: Via Razzaboni 80 - 41100 MODENA		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	6,000	60.00%

CALORPIU' ITALIA S.c.a r.l. Share Capital € 10,000 fully paid-up., Investee company of HERA COMM S.r.l. since 26/09/2006		
OFFICE: Via Razzaboni 80 - 41100 MODENA		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	5,100	51.00%

ERIS Soc. cons. a responsabilità limitata Share Capital € 300,000 - paid-up € 75,000 - Investee company of HERA COMM S.r.l. since 28/09/2004		
OFFICE: Via Romea Nord 180/182 - 48100 Ravenna		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	153,000	51%

HERA ENERGIE BOLOGNA S.r.l. Share Capital resolved and subscribed € 500,000 - paid-up € 384,500 - Investee company of HERA COMM S.r.l. since 30/06/2005		
OFFICE: Via dell'Elettricista 2 - 40138 Bologna		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	335,000	67.00%

GAS RICCIONE S.p.A. Share Capital € 748,600 fully paid-up. Investee company of HERA Comm S.r.l. since 18/07/2006		
OFFICE: Via Mantova, 6 Riccione (RN)		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	748,600	100%

METAENERGY S.r.l. Unipersonale Share Capital € 13,795,000 fully paid-up., Investee company of HERA COMM S.r.l. since 09/05/2006		
OFFICE: Via Razzaboni 80 - 41100 MODENA		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	13,795,000	100.00%

SGR Servizi S.p.A. Share Capital € 5,264,000 fully paid-up. - Investee company of HERA COMM S.r.l. since 17/05/2005		
OFFICE: Via Chiabrera 34/b - 47900 Rimini		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	1,052,800	20%

SINERGIA S.r.l. Share Capital € 579,600 fully paid-up. Investee company of HERA COMM S.r.l. since 19/12/2005		
OFFICE: Via Righi 1 - 47100 FORLÌ (FC)		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	341,964	59.00%

Equity investments of Hera Trading S.r.l.:

DYNA GREEN S.r.l. Share Capital €30,000 fully paid-up. Investee company of Hera Trading S.r.l. since 22/11/2005		
OFFICE: Viale Bianca Maria 24 - 20100 MILAN		
Shareholder	Equity investment in €	Interest
Hera Trading S.r.l.	10,000	33%

FlameEnergy Trading GmbH Share Capital €400,000 fully paid-up. Investee company of Hera Trading S.r.l. since 19/04/2006		
OFFICE: Traungasse 14 - 1030 VIENNA (Austria)		
Shareholder	Equity investment in €	Interest
Hera Trading S.r.l.	200,000	50.00%

Equity investments of Uniflotte S.r.l.:

META SERVICE S.r.l. Unipersonale Share Capital €2,492,000, paid-up €2,064,650 Investee company of Uniflotte S.r.l. since 05/12/2006		
OFFICE: Via Razzaboni 80 - 41100 MODENA		
Shareholder	Equity investment in €	Interest
Uniflotte S.r.l.	2,492,000	100%

Equity investments of SAT S.p.A.:

SO.SEL S.p.A. Share Capital €240,240 fully paid-up. Investee company of METAENERGY S.r.l. since 16/12/2004		
OFFICE: Via Bellinzona n. 37/F - 41100 MODENA		
Shareholder	Equity investment in €	Interest
S.A.T. - Servizi Territorio Ambiente S.p.A.	62,462	26.00%

SATCOM S.p.A. Share Capital €2,000,000 fully paid-up. Investee company of SAT S.p.A. since 27/11/2000		
OFFICE: Via Brigata Folgore 26 - 41049 Sassuolo (MO)		
Shareholder	Equity investment in €	Interest
S.A.T. - Servizi Territorio Ambiente S.p.A.	2,000,000	100%

SINERTI S.r.l. Share Capital €312,000 fully paid-up. Investee company of SAT S.p.A. since 30/07/2001		
OFFICE: Via Brigata Folgore 26 - 41049 Sassuolo (MO)		
Shareholder	Equity investment in €	Interest
S.A.T. - Servizi Territorio Ambiente S.p.A.	104,000	33.33%

PRI.GE.A.S. S.r.l. Share Capital €15,600 fully paid-up. Investee company of SAT S.p.A. since 23/01/1998		
OFFICE: Via Brigata Folgore 26 - 41049 Sassuolo (MO)		
Shareholder	Equity investment in €	Interest
S.A.T. - Servizi Territorio Ambiente S.p.A.	7,644	49%

Equity investments of ARES S.p.A. Consortile:

OIKOTHEN S.c.a r.l. Share Capital €1,101,730 fully paid-up. Investee company of ARES S.p.A. Consortile since 2001		
OFFICE: Via Augusta 17 - 96100 SIRACUSA		
Shareholder	Equity investment in €	Interest
ARES S.p.A. Consortile	507,892	46.10%

Equity investments of ASPES MULTISERVIZI S.p.A.:

ACQUE S.r.l. Share Capital € 102,700 fully paid-up. Investee company of ASPES MULTISERVIZI S.p.A. since 1996		
OFFICE: Via dei Canonici 144 - 61100 PESARO		
Shareholder	Equity investment in €	Interest
ASPES Multiservizi S.p.A.	102.700	100%

ASPES GAS S.r.l. Share Capital € 1,000,000 fully paid-up. Investee company of ASPES MULTISERVIZI S.p.A. since 2002		
OFFICE: Via dei Canonici 144 - 61100 PESARO		
Shareholder	Equity investment in €	Interest
ASPES Multiservizi S.p.A.	1.000.000	100,00%

SIS Società Intercomunale di Servizi S.p.A. Share Capital € 103,300 fully paid-up. Investee company of ASPES MULTISERVIZI S.p.A. since 01/11/2002		
OFFICE: Piazza Municipio 1 - 61020 Montecalvo in Foglia (PU)		
Shareholder	Equity investment in €	Interest
ASPES Multiservizi S.p.A.	43.128	42%

RICICLA S.r.l. Share Capital € 100,000 fully paid-up. Investee company of ASPES MULTISERVIZI S.p.A. since 2001		
OFFICE: Via dei Canonici 144 - 61100 PESARO		
Shareholder	Equity investment in €	Interest
ASPES Multiservizi S.p.A.	60.000	60,00%

Direct and indirect equity investments in liquidation as at 31 December 2005

ATTIVABOLOGNA S.r.l. Consortile Share Capital € 2,558,600 paid-up € 808,725 Investee company of HERA COMM since 29/9/2003		
OFFICE: Viale Carlo Berti Pichat 2/4 - 40127 Bologna (BO)		
In liquidation since 19/07/2005		
Shareholder	Equity investment in €	Interest
HERA COMM S.r.l.	2,466,464	96.40%

Equity investments of ASPES MULTISERVIZI S.p.A.:

ASPES ENERGY S.r.l. Share Capital € 50,000 fully paid-up. Investee company of ASPES MULTISERVIZI S.p.A. since 2002		
In liquidation		
OFFICE: Via dei Canonici 144 - 61100 PESARO		
Shareholder	Equity investment in €	Interest
ASPES Multiservizi S.p.A.	50,000	100%

MARKANET S.r.l. Share Capital € 335,449.50 fully paid-up. Investee company of ASPES MULTISERVIZI S.p.A. since 2000		
In liquidation		
OFFICE: Via Mameli n. 15 - 61100 PESARO		
Shareholder	Equity investment in €	Interest
ASPES Multiservizi S.p.A.	171,080	51%

2.07.03 Essential Financial Statement Data for Subsidiaries and Asosciated Companies

The following pages provide highlights from the approved financial statements of subsidiary and associated companies
(art. 2429 of the Civil Code, last paragraph)

Società controllate	Crediti v/soci vers.dovuti	Immobilizz.	Attivo circolante	Capitale sociale	Riserve	Utilità Perdita -	Fondi	Fondo TFR	Debiti	Valore della produzione	Costi della produzione	Proventi e oneri	Rettifica valore att.	Proventi e oneri	Imposte di esercizio	utile netto
Akron S.p.A. IAS	0	15.993	19.831	1.153	4.293	2.141	1.383	336	26.518	32.050	-28.280	0	-158	0	0	2.141
Ambiente 3000 S.r.l. IAS	0	415	4.875	100	6	175	0	1.076	3.933	8.123	-7.707	0	0	0	0	175
Ares S.p.A. Consortile IAS	0	1.730	451	1.125	-372	-162	0	0	1.590	1	-76	0	0	-87	0	-162
ASA S.p.A.	0	8.851	3.855	1.820	575	130	8.405	76	1.700	6.222	-5.929	0	-5	0	0	130
Aspes Multiservizi S.p.A. IAS (subconsolid)	0	39.207	43.800	10.964	-15	1.592	10.149	8.119	52.208	88.333	-82.991	0	-874	0	0	1.592
Ecologia Ambiente S.r.l. IAS	0	65.594	12.339	20.000	31.049	4.248	1.561	800	20.275	29.495	-22.061	0	-798	0	0	4.248
Ecosfera S.p.A. IAS	0	1.498	1.773	1.000	604	196	104	42	1.325	3.217	-2.978	0	-11	0	0	196
Eris S.r.l. IAS	113	231	1.533	300	64	92	6	0	1.415	3.011	-2.865	0	11	0	0	92
Famula On-line S.p.A. IAS	0	14.847	26.215	4.364	7.229	363	1.613	1.947	25.546	37.872	-37.023	0	-2	0	0	363
Frullo Energia Ambiente S.r.l. IAS	0	119.576	46.385	17.139	994	12.598	698	6	134.526	48.652	-23.927	0	-4.589	0	0	12.598
Gal.A. S.p.A. IAS	0	10.847	6.175	300	60	30	1.108	0	15.524	3.872	-3.378	0	-396	0	0	30
Gas Riscione IAS S.p.A. IAS	0	48	5.380	749	106	521	0	32	4.020	13.974	-13.210	0	77	0	0	521
Hera Bologna S.r.l. IAS	0	68.282	114.518	1.250	2.024	23.164	1.456	21.019	133.887	334.000	-292.237	0	-551	0	0	23.164
Hera Comm S.r.l. IAS	0	56.428	583.259	88.592	-12.615	-6.170	171	1.561	568.148	1.029.194	-1.039.072	0	919	-637	0	-6.170
Hera Comm Mediterranea S.r.l. IAS	0	4	424	50	120	-237	2	9	484	224	-459	0	0	0	0	-237
Hera Energie Bologna Srl	116	831	2.327	500	-9	26	0	0	2.757	2.406	-2.373	0	15	0	0	26
Hera Ferrara S.r.l. IAS	0	10.462	42.015	810	324	8.282	435	9.997	32.629	109.836	-94.904	0	-297	0	0	8.282
Hera Forlì-Cesena S.r.l. IAS	0	19.546	73.217	650	914	274	1.275	5.824	83.826	136.974	-134.910	0	-158	0	0	274
HERA GAS TRE Spa	0	0	118	120	-2	-1	0	0	1	0	-1	0	0	0	0	-1
Hera Imola-Faenza S.r.l. IAS	0	28.670	42.142	750	978	4.036	532	6.459	58.057	115.189	-107.335	0	-199	0	0	4.036
Hera Luce S.r.l. IAS	0	4.751	23.145	217	380	3.883	126	449	22.841	36.526	-30.086	0	73	0	0	3.883
Hera Modena S.r.l. IAS	0	16.122	132.703	1.000	-9	12.690	1.027	15.618	118.499	177.130	-153.743	0	-431	0	0	12.690
Hera Ravenna S.r.l. IAS	0	10.821	60.235	850	1.090	5.605	632	7.606	55.273	135.512	-124.966	0	-249	0	0	5.605
Hera Rete Modena S.r.l. IAS	0	26.948	2.886	22.222	0	1.585	2.466	0	3.361	2.884	-471	0	-6	0	0	1.585
Hera Rimini S.r.l. IAS	0	11.352	58.420	1.050	1.425	1.009	1.302	8.344	56.642	142.636	-138.831	0	-282	0	0	1.009
Hera Trading S.r.l. IAS	0	5.763	124.919	2.600	-818	148	168	147	128.437	362.986	-362.706	0	13	0	0	148
Hera Servizi Funerari S.r.l. IAS	0	0	561	10	0	48	0	0	503	1.033	-964	0	7	0	0	48
Herasocrem S.p.A. IAS	0	506	2.334	2.218	119	190	75	72	166	800	-536	0	50	0	0	190
Ingenia S.r.l. IAS	0	46	548	52	49	23	0	0	470	1.113	-1.069	0	1	0	0	23
Medea S.p.A. IAS	0	15.593	4.868	4.500	-31	-602	1.157	107	15.330	2.657	-3.076	0	-348	0	0	-602
Metanergy S.r.l.	0	15.940	215.573	13.795	196	1.851	139	250	215.282	187.021	-187.354	0	3.193	0	0	1.851
Metaservice S.r.l.	427	1.251	4.184	2.492	569	339	213	456	1.793	5.184	-4.566	0	11	0	0	339
Nuova Geovis S.p.A. IAS	0	15.517	8.423	2.205	1.127	67	6.856	319	13.366	11.758	-11.088	0	-351	0	0	67
Recupera S.r.l. IAS	0	22.763	6.186	1.673	10.476	382	190	216	16.012	14.775	-14.017	0	-23	0	0	382
Romagna Compost S.r.l. IAS	0	239	955	310	241	135	0	0	508	677	-455	0	6	0	0	135
Seas Lavori e Servizi s.c.a.r.l. IAS	0	0	1.619	51	-13	-39	19	0	1.601	1.738	-1.777	0	0	0	0	-39
Sinergia S.r.l. IAS	0	2.579	6.363	580	2.815	1.211	130	105	4.101	9.721	-7.764	0	18	0	0	1.211
Sotris S.p.A. IAS	0	10.217	11.495	2.340	4.791	1.643	6.302	59	6.577	7.846	-5.452	0	-212	0	0	1.643
Uniflotte S.r.l. IAS	0	15.216	8.527	2.254	1.802	1.395	1.724	3.096	13.472	22.146	-19.005	0	-447	0	0	1.395
Viviservizi S.r.l. Consortile	0	0	1.690	250	3	42	0	0	1.395	2.440	-2.402	0	5	0	0	-1

Società collegate	Crediti v/soci vers.dovuti	Immobilizz.	Attivo circolante	Capitale sociale	Riserve	Utile+ Perdita -	Fondi TFR	Fondo	Debiti	Valore della produzione	Costi della produzione	Proventi e oneri	Rettifica valore att.	Proventi e oneri	imposte di esercizio	utile netto
* Acantho S.p.a	0	24.343	37.962	15.876	-3.584	-229	121	329	49.792	23.702	-23.074	0	-560	88	-385	-229
Adriatica Acque S.r.l. IAS	0	66	554	89	-94	20	0	14	591	377	-319	0	-33	0	-5	20
Agea reti S.r.l.	0	25.527	274	19.000	485	49	0	0	6.267	1.950	-1.478	0	-363	0	-60	49
Agess S.c.a.r.l.	0	53	228	80	-25	16	0	36	174	411	-367	0	0	0	-28	16
Attivabologna Srl (in Liquidazione)	1.750	19	1.903	2.559	-1.070	-28	0	20	2.191	698	-901	0	10	165	0	-28
DYNA Green Srl	0	2	92	30	172	-111	0	0	3	0	-127	0	0	16	0	-111
Estense global service Cons.a r.l.	0	181	4.025	10	0	0	0	0	4.196	5.340	-5.382	8	8	41	-7	0
FlamEnergy Trading GmbH	0	0	1.389	400	0	21	0	0	968	3.370	-3.347	5	5	0	-7	21
Modena Network S.p.a	0	8.702	4.306	2.000	386	24	0	0	10.598	5.538	-5.263	0	-233	0	-18	24
* Olkothien S.c.r.l. IAS	0	3.169	607	1.102	-47	-60	0	0	2.782	0	-77	0	0	-5	-21	-60
* Refri S.r.l.	0	2.969	1.006	2.800	-595	-117	0	14	1.873	852	-772	-10	-156	8	-39	-117
Service imola S.r.l. IAS	0	1	244	10	8	33	0	6	188	303	-244	0	-2	5	-29	33
* SAT S.p.A.	0	55.689	31.838	27.753	4.871	4.615	2.144	3.605	44.539	54.394	-44.842	0	-1.200	0	-3.737	4.615
SET S.p.A. IAS	0	234.987	57.595	120	58.579	-1.932	75	17	235.723	50.585	-46.165	0	-6.992	94	546	-1.932
SGR Servizi Spa	0	11.763	41.404	5.264	3.969	4.451	740	483	38.260	117.093	-110.731	695	0	345	-2.951	4.451
* Sinergie Ambientali S.r.l. IAS	0	0	77	100	-29	-5	0	0	12	0	-7	2	0	0	0	-5

2.08 Report by the Board of Statutory Auditors

Hera S.P.A.

Report of the Board of Statutory Auditors

Dear Shareholders,

The financial statements and the related Directors' Report which were made available to us, have been drawn up in compliance with the IAS/IFRS following the enactment of Regulation (EC) no. 1606/2002.

The following data relates to the financial year ended on 31 December 2006 (in Euro thousand):

BALANCE SHEET

Non-current assets

Tangible fixed assets	2,120,445
Intangible fixed assets	231,248
Goodwill and consolidation difference	398,927
Investments and securities	123,543
Financial assets	19,474
Deferred tax assets	47,778
Financial instruments – derivatives	7,877
TOTAL NON-CURRENT ASSETS	2,949,292

Current assets

Inventories	44,590
Trade receivables	1,000,322
Contract work in progress	23,593
Financial assets	17,462
Financial instruments – derivatives	4,587
Other current assets	107,051
Cash and cash equivalents	213,629
TOTAL CURRENT ASSETS	1,411,234

TOTAL ASSETS	4.360.526
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Liabilities

Group net equity	1,476,135
Minority interests	40,208
TOTAL NET EQUITY	1,516,343

Loans due after more than one year	937,243
Employee leaving indemnities	113,050
Provisions for risks and charges	152,551
Deferred tax liabilities	134,624
Payables for finance leases	31,004
Financial instruments	7,838
TOTAL NON-CURRENT LIABILITIES	1,376,310

Banks and other borrowings	443,846
Payables for finance leases	9,485
Trade payables	746,482
Income taxes payable	86,362
Other current liabilities	174,831
Financial instruments	6,867
TOTAL CURRENT LIABILITIES	1,467,873

Total liabilities	2,844,183
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TOTAL NET EQUITY AND LIABILITIES	4,360,526
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INCOME STATEMENT

Revenues	2,311,450
Changes in inventories of finished products and work-in-progress	2,699
Other operating income	50,295
Raw materials and consumables	(1,146,683)
Costs for services	(642,544)
Personnel costs	(296,598)
Amortization, depreciation and allocations	(195,358)
Other operating costs	(46,457)
Capitalised costs	(194,516)
EBIT	231,320
Value reversal of tangible fixed assets	
Share of profit/(loss) of associated companies	4,313
Financial income	43,858
Financial charges	(100,244)
Profit before tax	179,247
Tax charge for the year	(79,009)
Net profit for the year	100,238

In the Directors' Report to the consolidated financial statements and the related Notes, the Board of Directors has illustrated the group's consolidated performance and the highlights of global profitability.

As part of our duties we can state the following:

- the consolidated financial statements of the Hera group include the financial statements of the Parent Company Hera S.p.A. and those of its subsidiaries at 31 December 2006. Control exists when the parent company has the ability to direct the financial and operating policies of an enterprise with a view to gaining economic benefits from its activities.
- Subsidiaries that are not material and those where severe long-term restrictions substantially hinder the exercise of the rights of the parent company, as well as interests in subsidiaries that are held exclusively with a view to subsequent resale.
- Investments in associated companies that are not significant are valued at equity. Companies that are dormant, in liquidation or which are not material are stated at cost.
- Investments held exclusively with a view to subsequent resale are excluded from consolidation and are valued at fair value. These investments are classified under specific asset captions.

- No investments are included in the consolidation using the proportional method of consolidation.
- the consolidated balance sheet and income statement have been prepared using the accounting records of the companies included in the scope of consolidation after having been properly reclassified and adjusted (on the basis of ad hoc instructions issued by the Parent company) to bring them in line with the Hera group's accounting standards and criteria. As regards associated companies, adjustments to net equity values were taken into account to bring net equity in line with IAS/IFRS.
- In preparing the consolidated balance sheet and income statement, assets and liabilities as well as revenues and costs of companies included in the scope of consolidation are included on a line-by-line basis. Conversely, receivables and payables, income and charges, gains and losses deriving from intragroup companies are eliminated. Also the book value of investments is set off against the corresponding shares of the investees' net equity.
- the difference between the book value of investments and the corresponding share of net equity that is included in the consolidation is recognised as an adjustment to consolidated net equity. In the case of acquisitions, the aforesaid difference is allocated to assets and liabilities; any remainder, if negative, is booked in a consolidation reserve, i.e. if it refers to forecasted unfavourable economic results, under "consolidation provision for future risks and charges"; if positive is included under an asset item called "consolidation difference". The amount of capital and reserves of subsidiaries belonging to minority shareholders is included in a net equity caption called "Minority interests"; the minority interests' share of the consolidated result is stated under "Minority interests' profit/(loss) for the year".
- The valuation of balance sheet items was carried out on the basis of the prudence, accruals and going concern concepts. Transactions are recorded in accordance with the substance over form principle.
- All information contained in the Consolidated Financial Statements and associated documentation relates to the 2006 calendar year.
- As regards the valuation criteria, they comply with the provisions of the Italian Civil Code and are, nevertheless, fully illustrated in the Notes to the financial statements.
- The Consolidated Financial Statements also highlight the amount of any guarantees, commitments and risks.
- The Consolidated Financial Statements report a profit of € 100,238 thousand and net equity of € 1,516,343 thousand.

No departures from the valuation criteria prescribed by legal regulations governing financial statements and consolidated accounts have been made in the current financial year and previous ones.

In our opinion these financial statements show a true and fair view of the financial position of the Group and the result for the year ended on 31 December 2006, in accordance with the regulations governing the preparation of consolidated accounts.

Bologna, 10 April 2007

Antonio Venturini

Fernando Lolli

Sergio Santi

2.09 Report by the Independent Auditing Firm

PRICEWATERHOUSECOOPERS

Auditors' report pursuant to article no. 156 of Legislative Decree no.58 of 24 February 1998

To the Shareholders of
Hera SpA

1. We have audited the consolidated financial statements which comprise of the balance sheet, income statement, statement of changes in shareholder's equity, statement of cash flows and Notes relating to the financial statements of Hera SpA and its subsidiaries (the "Hera Group") as at 31 December 2006. Ultimate responsibility for the preparation of the consolidated financial statements rests with the management of Hera SpA. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.
2. We conducted our audit in accordance with the accepted auditing standards and criteria recommended by CONSOB. In compliance with the aforesaid standards and criteria, we planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements were free from material misstatement or error and that they were reliable. An audit includes the examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements as well as an assessment of whether the accounting policies are appropriate to the group's circumstances and, of the significant estimates made by the directors in the preparation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

As regards the opinion on the consolidated financial statements of the previous financial year whose data are shown for comparison purposes, please refer to the Report issued by another Auditing company on 11 April 2006.

3. In our opinion the consolidated financial statements of Hera SpA at 31 December 2006 comply with the International Accounting Standards endorsed by the European union, as well as the provisions issued to implement Article 9 of Legislative Decree no. 38/2005; therefore they have been properly prepared and give a true and fair view of the state of affairs, the statement of changes in shareholders' equity, the statement of cash flows and the profit of the Hera Group for the year then ended.

Rome, 10 April 2007-04-24
PricewaterhouseCoopers SpA

Aurelio Fedele
(Independent Auditor)

3 – FINANCIAL STATEMENTS OF HERA SPA

3.01 Financial Statements

3.01.01 Income Statement

CONTO ECONOMICO

	Note	2006	2005
Ricavi	3	1.751.922.579	1.384.987.501
Variazione delle rimanenze di prodotti finiti e prodotti in corso di lavorazione	4	(65.573)	(796.784)
Altri ricavi operativi	5	50.419.191	32.266.255
Consumi di materie prime e materiali di consumo (al netto della variazione delle rimanenze di materie prime e scorte)	6	(173.879.825)	(91.424.476)
Costi per servizi	7	(1.326.452.446)	(1.069.492.382)
Costi del personale	8	(58.957.545)	(48.081.759)
Ammortamenti e accantonamenti	9	(145.063.130)	(107.339.201)
Altre spese operative	10	(25.585.221)	(24.085.741)
Costi capitalizzati	11	7.220.410	3.838.263
Utile operativo		79.558.440	79.871.676
Ripristino valore immobilizzazioni tecniche	12		15.518.162
Quota di utili (perdite) di imprese partecipate	13	51.546.484	44.577.823
Proventi finanziari	14	17.312.651	5.602.583
Oneri finanziari	14	(66.749.183)	(39.643.684)
Utile prima delle imposte		81.668.392	105.926.560
Imposte del periodo	15	(13.600.205)	(22.061.780)
Utile netto dell'esercizio		68.068.187	83.864.780

3.01 02 Balance Sheet

Stato Patrimoniale	Note	31-dic-2006	31 dic 2005
ATTIVITA'			
Attività non correnti			
Immobilizzazioni materiali	16	1.614.488.729	1.522.848.959
Attività Immateriali	17	205.024.859	188.512.864
Avviamento	18	245.590.102	233.629.256
Partecipazioni	19	466.500.274	303.651.083
Attività finanziarie	20	24.400.972	58.550.758
Attività fiscali differite	21	32.447.461	32.152.958
Strumenti finanziari – derivati	22	7.803.531	1.186.370
		2.596.255.929	2.340.532.248
Attività correnti			
Rimanenze	23	2.496.818	5.543.838
Crediti commerciali	24	1.192.840.725	1.114.284.541
Lavori in corso su ordinazione	25	1.709.583	2.115.548
Attività finanziarie	26	13.806.261	11.735.710
Altre attività correnti	27	88.262.374	62.999.355
Disponibilità liquide e mezzi equivalenti	28	120.053.116	86.663.014
		1.419.168.877	1.283.342.006
TOTALE ATTIVITA'		4.015.424.805	3.623.874.254
		31-dic-2006	31 dic 2005
PATRIMONIO NETTO E PASSIVITA'			
Capitale sociale e riserve			
Capitale sociale	29	1.016.752.029	1.016.752.029
- Riserva azioni proprie valore nominale		(114.828)	
Riserve		339.611.937	325.326.989
- Riserva azioni proprie valore eccedente il valore nominale		(237.151)	
Riserva per strumenti derivati valutati al <i>fair value</i>		648.237	(4.185.479)
Utile (perdita) portato a nuovo		0	0
Utile (perdita) del periodo		68.068.187	83.864.780
Totale patrimonio netto		1.424.728.410	1.421.758.319
Passività non correnti			
Finanziamenti – scadenti oltre l'esercizio successivo	30	816.704.759	404.473.116
Trattamento fine rapporto ed altri benefici	31	18.900.435	33.763.295
Fondi per rischi ed oneri	32	116.835.176	97.525.793
Passività fiscali differite	33	119.892.249	85.539.914
Debiti per locazioni finanziarie – scadenti oltre l'esercizio successivo	34	8.796.437	12.933.014
Strumenti finanziari – derivati	22	4.722.068	9.726.507
		1.085.851.124	643.961.639
Passività correnti			
Banche e finanziamenti – scadenti entro l'esercizio successivo	30	421.353.378	636.086.248
Debiti per locazioni finanziarie – scadenti oltre l'esercizio successivo	34	4.157.577	4.320.844
Debiti commerciali	35	958.924.157	778.033.036
Debiti tributari	36	28.316.630	14.060.806
Altre passività correnti	37	92.093.530	125.653.362
		1.504.845.271	1.558.154.296
TOTALE PASSIVITA'		2.590.696.395	2.202.115.935
TOTALE PATRIMONIO NETTO E PASSIVITA'		4.015.424.805	3.623.874.254

3.02 Notes to the Accounts

INTRODUCTION

HERA S.p.A. 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 its main activities are carried out are indicated in the introduction to the financial statement dossier. The company's main activities are described in the report on operations.

Pursuant to Legislative Decree no. 38/05 Hera Spa has drawn up its Financial Statements in compliance with the IAS/IFRS international accounting standards with effect from the Financial Statements as at 31 December 2006 and has performed reclassification of the figures relating to the Financial Statements as at 31 December 2005, provided for comparative purposes, previously drawn up according to Italian accounting standards. The statements of reconciliation and the description of the effects of transition to the international accounting standards with reference to the financial year 2005 are provided in Annex 3.07.02. Specifically, these Financial Statements, consisting of the Income Statement, the Balance Sheet, the Cash Flow Statement, changes in shareholders equity and notes to the accounts (hereinafter also explanatory notes), have been drawn up in compliance with the IAS/IFRS International Accounting Standards (hereinafter also IFRS) approved by the European Commission, supplemented by the relative interpretations (Standing Interpretations Committee – SIC and International Financial Reporting Committee – IFRIC) issued by the International Accounting Standard Board (IASB). Specifically the standards used are those approved by the EU and contained in EU Regulations.

Hera SpA has drawn up the Consolidated Financial Statements according to regulations in force by applying the IAS/IFRS international accounting standards with effect from the Financial Statements as at 31 December 2005. In fact as from 1 January 2005, the Hera Group has adopted the new International Financial Reporting Standards (IFRS) issued by the IASB, approved by the European Commission. In drawing up the Financial Statements the company has recorded the assets (with the exception of equity investments in consolidated subsidiaries) and liabilities at the IFRS conversion date (1 January 2005) according to the same values used for the purposes of the Consolidated Financial Statements 2005 (with the exception of the consolidation adjustments) pursuant to paragraph 25 of IFRS 1. Hence the reference initial values for conversion are those as at 1 January 2004, previously used for the IFRS conversion at Group level.

In drawing up the statements as at 31 December 2006 the same principles and criteria applied in drawing up the IFRS reconciliation statements, previously mentioned, have been used.

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

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

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 income) 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.

It is important to bear in mind that in the Balance Sheet as at 31 December 2005 payables for guarantee deposits and other assets/liabilities have been reclassified in compliance with the international accounting standards and in order to provide clearer representation of the current (operating) and the non-current (non-operating) assets and liabilities.

The securities held have been reclassified from the item equity investments and securities to the item financial assets.

In the Income Statement as at 31 December 2005 costs for use of third party assets have been reclassified from other operating costs to service costs.

A summary of the reclassified items is provided below:

Balance Sheet			
	31 Dec 2005	31/12/2005 appendice	change
	/mil	/mil	/mil
Non-current assets			
Equity investments	303,651	303,652	-1
Other non-current assets	0	20,161	-20,161
	303,651	323,813	-20,161
Current assets			
Trade receivables	1,114,285	1,112,947	1,338
Other current assets	62,999	44,176	18,823
	1,177,284	1,157,123	20,161
	1,480,936	1,480,936	0
Non-current liabilities			
Other non-current liabilities		99,719	-99,719
	0	99,719	-99,719
Current liabilities			
Trade payables	778,033	758,033	20,000
Tax liabilities	14,061	14,061	-
Other current liabilities	125,653	45,938	79,719
	917,748	818,032	99,719
	917,750	917,750	0
Income Statement			
	31 Dec 2005	31/12/2005 appendice	change
		/mil	/mil
Costs for services	(1,069,492)	(990,820)	-78,672
Other operating costs	(24,086)	(102,758)	78,672
	-1,093,578	-1,093,578	0

When comparing the Balance Sheet balances as at 31 December 2005 and 31 December 2006, it is necessary to bear in mind that the first do not include the contribution of Geat Distribuzione Gas SpA, as its merger by incorporation into Hera SpA was completed with effect from 1 January 2006. As far as the Income Statement is concerned it is noted that the figures relating to the financial year 2005 do

not take into account the contribution not only of Geat Distribuzione Gas SpA, but also of Meta SpA, of which the merger by incorporation was finalised as at 31 December 2005

These Financial Statements were approved by the Board of Directors at the meeting of 26 March 2007.

The figures in the Balance Sheet and Income Statement are all expressed in units of Euro while the figures in the notes to the accounts are expressed in thousands of Euro.

ACCOUNTING STANDARDS AND POLICIES

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

As far as the income statement is concerned, that the costs and revenues stated include those recorded at year end, which have balancing entry in the Balance Sheet, and in this regard income is included only if realised by said year-end date, while account has been taken of the risks and losses even if known after said date.

Tangible assets - Tangible assets are recorded at acquisition or production cost including accessory costs, or at the value based on expert appraisals of the business assets, net of the related accumulated depreciation and any losses in value. 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, capitalised financial charges up to the moment the asset enters into service. Cost also comprises the costs for reclamation of the site on which the tangible fixed asset exists, if complying with the provisions of IAS 37.

As of the date of changeover to the IFRS – 1 January 2004 – the Group adopted the criteria of fair value as a replacement for cost (*fair value as deemed cost*) for the tangible fixed assets, applying it selectively to certain categories of assets; the additional value which emerged was credited directly to the reserves. The adoption of the fair value took place on the basis of an estimate made by an independent expert which made it possible to identify the individual elements of plant and machinery which have a significant value and a different useful life, in accordance with the approach by components as anticipated 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 on an annual basis, or when 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 networks	1.43	2.86
- votive lighting	1.66	3.33
Electricity 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

Gas and district heating services	min %	Max %
Land	0	0
1st stage pressure reducer stations - abstraction		
Buildings	2.5	5.5
General plant	7.5	15
Specific plant	4	10
2nd stage pressure reducer stations - district - specific plant use	5	10
User transformers - Specific plant	4	8
Distribution network in steel	2.22	8
Distribution network in cast iron or spheroidal cast iron	2	8
Distribution network in PE or PVC	2.86	8
Outlets/intakes	2.5	8
Meters	4	10
Cathodic protection	4	8
Electricity substations - Specific plant	3.5	7
Cogeneration and district heating		
Generation - Buildings	2.5	5.5
Generation - General plant	4.5	9
Generation - Specific plant	4.5	9
Distribution network	2.86	8
Meters	2.5	5
Heat exchange units	4.5	9
- Boilers	1.43	2.86
- Heat exchangers	2.5	5
- Expansion tank	1.66	3.33
Pumping stations		
- Electricity substations	2	4
- Generators	2.75	4.55
- Pumps	3.33	6.67
Electricity substations	3.5	7
Equipment	5	10

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
Civil works	1.43	2.86
Abstraction - Building/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	2.50
Filtration plant and filters	2.78	5.56
Generators and blowers	2.28	4.55
Civil works	1.43	2.86
Reservoirs	2.00	4.00
Disinfection plant	2.50	5.00
Civil works	1.11	2.22
Pipelines and distribution network	2.50	5.00
Distribution network in cast iron and sph. cast iron	1.00	2.00
Distribution network in reinforced cement - PE-PVC	1.43	2.86
Outlets/intakes and connections	2.22	5.00
Meters	4.00	10.00
Electricity substations - Specific plant	3.50	7.00
Vehicles	10.00	20.00

Electricity generation 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 services	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 civil works	1.66	3.33
- electricity generation plant	2.00	4.00
- general plant	2.50	5.00
- WTE post-combustion furnace boiler and fume recovery line	2.50	5.00
- WTE heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity generation	2.50	5.00
- WTE line control systems	5.00	10.00
Specific BIOGAS plant, storage and 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 civil 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 civil 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
- dioxidation / organic treatment plant	3.33	6.67
- second maturing	5.00	10.00
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10.00	20.00
Waste containers and equipment	5.00	10.00
General equipment	5.00	10.00
Snow service equipment	5.00	10.00
Sanitary equipment	5.00	10.00
Light construction	5.00	10.00
Automobiles	12.50	25.00
Controlled landfills		

Land is not depreciated. 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.

In the year in which the asset is acquired the rates are reduced by 50%, as this is deemed to provide a reasonable approximation of the distribution of acquisitions over the year.

For assets subject to amortisation/depreciation with a unit cost of less than Euro 516 and for which the possible use at maximum efficiency will not extend beyond the financial year, the amortisation/depreciation schedule has been prudently calculated providing for a single instalment of amortisation/depreciation equal to the cost of the asset.

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 assets at their fair value as of the date of acquisition, or, if lower, at the current value of the minimum payments due for the leasing; they are depreciated on the basis of their estimated useful life on a consistent basis with the assets owned. The corresponding liability vis-à-vis the lessor is recorded in the balance sheet. The payments for lease instalments are divided up into the principal portion and the interest portion and the financial charges are booked directly to the income statement for the year. All the other leases are considered to be operating leases and the related costs for the lease instalments are recorded on the basis of the conditions anticipated in the agreement.

Intangible assets – Intangible assets which are identifiable and 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, on a prudent basis.

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.

Work in progress and advance payments include the internal and external costs relating to intangible fixed assets for which the process of economic use has not yet commenced.

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 to the acquisitions of the Agea Group, the Meta Group and of Geat Distribuzione Gas SpA.

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 acquisition is recorded as an asset and initially valued at cost, represented by the additional value of the acquisition cost compared to the interest held in the current values of the identifiable assets, liabilities and potential liabilities recorded. If, after the re-determination of these values, the interest held in the current values of the identifiable assets, liabilities and potential liabilities exceeds the acquisition cost, the surplus is immediately carried in the income statement.

Availing itself of the faculty envisaged by the IRFS, the Company 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 policies.

Goodwill deriving from the acquisition of an investee 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 indicate that the book value cannot be recovered, Hera S.p.A. considers 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, Hera S.p.A. 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 writeback of the value is charged to the income statement, unless the asset is valued at revalued value, in which case the value writeback is charged to the revaluation reserve.

Treasury shares

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

Equity investments and securities -

Equity investments and securities refer to long-term investments.

A subsidiary is an enterprise in which the Company is able to exercise control. Control means the power to determine an entity's financial and management policies in order to obtain benefits from its activities.

An associated company is an enterprise in which the Company is able to exercise significant influence, (but not control, or joint control), by participating in decisions on the financial and operating policies of the investee company.

Equity investments in subsidiary and associated companies are recorded at cost adjusted by impairments to reflect the relative recoverable value, in accordance with IAS 36 – Impairment of assets. If at a later date the impairment ceases to exist or is reduced, the book value is increased to the new estimated recoverable value, which cannot however exceed the original cost. The write-back is charged to the income statement. In this respect it is stated that, in accordance with Italian accounting standards, Hera S.p.A. valued equity investments in subsidiary and associated companies at cost adjusted by any permanent impairments. In view of the procedures for creation and/or acquisition of the equity investments and of their performance recorded over the last years, upon first-time adoption of IFRS the write-downs and impairment entered in the financial statements drawn up according to the Italian accounting standards were deemed to be in line with those that would have been recorded pursuant to the IFRS.

If the Company's interest in the losses of the investee company exceeds the book value of the equity investment, the value of the investment will be written off and the interest in the further losses will be recorded as liability provision if the Company is to be held liable.

Dividends received are recorded in the income statement, at the time the right to receive payment is established, only if they derive from distribution of profit arising after acquisition of the investee. If, instead, they derive from distribution of the investee's reserves existing prior to acquisition, said dividends are entered as reduction in the cost of said equity investment.

Other equity investments and securities belong to the category provided 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 to cover its losses.

Financial assets which the Company intends or is able to maintain until maturity, are stated at cost represented by the fair value of the initial payment made in exchange, increased by the transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method.

Equity investments in other minor companies for which the fair value is not available are recorded at cost written down to reflect any impairment.

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

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

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

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

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

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

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

Contract work in progress when referred to job orders spanning a number of years are recorded according to the percentage completion method, determined by relating the costs incurred to the total costs estimated for completion of the works. Any losses on job orders estimated with reasonable approximation are entirely charged to the income statement in the year in which they become apparent.

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 Hera S.p.A. intends and is able to hold until maturity are recorded at cost, amortised/depreciated on the basis of the effective interest rate method, net of the write-downs 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.

This item includes securities destined for long-term holding, usually for investment purposes, which differ from those represented by the shares that comprise equity investments. They are mainly made up of government bonds and are recorded at purchase cost inclusive of accessory charges. The cost is written down to reflect any permanent impairment.

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 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 by more than 10% the highest value among the obligations referring to defined-benefit plans (known as the corridor method).

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

Trade payables – These refer to commercial supply transactions and are recorded at face value.

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

Derivative financial instruments – Hera SpA holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate fluctuations.

In line with the chosen strategy, Hera S.p.A. does not enter into derivative transactions for speculative purposes.

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

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

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

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

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

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

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

In further detail:

- the revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided, but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels),

- revenues from services rendered are recognised on the basis of services provided and in compliance with the relevant contracts,
- revenues from the sale of goods are recognised at the time Hera S.p.A. 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 – Income taxes represent the sum of current and deferred taxes.

Current taxes are based on the taxable income for the year. Taxable income differs from the result recorded in the income statement, as it excludes positive and negative components which will be taxable or deductible in other years, and excludes items which will never be taxable or deductible. Current tax liabilities are calculated using current tax rates in force, or in force at the balance sheet date, and are recorded under the item “income taxes payable”.

For the purposes of IRES (corporation tax) the Company has opted to use the “domestic tax consolidation” system with the major subsidiary companies. To this end, a special contract has been entered into with each subsidiary by which to regulate the tax items transferred with specific reference to current taxes. Prepaid and deferred taxes calculated when determining the income of the subsidiaries are not transferred to the Parent Company Hera S.p.A., but remain under the individual subsidiary.

Deferred taxes are calculated with reference to the temporary differences in taxation and are entered under the item “deferred tax liabilities” only if their sum gives rise to a charge. When a positive component emerges, a prepaid tax asset is recorded in the item “deferred tax assets”, only if there is reasonable certainty of existence in the years in which the deductible temporary differences will be reversed of taxable income no lower than the amount of the differences that will be mutually offset. The amount of the prepaid taxes will be reviewed each year in order to verify that there is still reasonable certainty of achieving future taxable income, such as to recover the prepaid taxes in full.

Deferred taxes are determined on the basis of the tax rates in force at the time the temporary differences are recorded. Any variations, as a result of amendments to taxes and/or to rates, will be recorded in the year in which the new provisions will come into force and will become effectively applicable.

Translation of foreign currency balances – The functional and reporting currency adopted by Hera S.p.A. 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 ruling as of the year end date and the

related exchange gains and losses are duly charged to the income statement; any net gain which might arise, is set aside in a specific restricted reserve until the date of realization.

New IFRS and IFRIC interpretations

Over the last 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 or have not yet been assimilated by the EU Legislator, 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 type of business carried out by the Company does not involve exchange-rate risk. At Group level the price risks are associated with the acquisition costs of raw materials and the determination of the sales tariff. For the latter, there are 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 Hera SpA does not have any significant risk concentrations.

Interest rate risk

Please refer to point 22 of the Notes to the Accounts.

Significant estimates and valuations

Use of estimates

In drawing up the financial statements and related notes it has been necessary for the directors to use estimates and valuations, with regard to the balance sheet figures, based on historical data and on the forecasts of punctual events that should reasonably occur on the basis of currently available information. *These estimates, by definition, are an approximation of the final figures. Hence the main areas characterised by valuations and assumptions that could give rise to variations in the values of assets and liabilities by next year are set forth below. Specific information is provided on the nature of these estimates and the assumptions on which they have been based, with indication of the reference book values.*

Impairment of goodwill

HERA SpA 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, as described in greater detail in the paragraph on goodwill.

Provisions to Employee Leaving Indemnities (TFR).

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

Employee leaving indemnities have been recorded as Euro 18,900 thousand.

Allocations to provisions for risks.

These provisions have been made by adopting the same procedures as previous years and hence by referring to the updated reports of the legal counsel and the consultants following the disputes, as well as on the basis of developments in the related proceedings. Specifically, in the paragraph relating to provisions for risks the assumptions used to estimate the provision for risks in INPS (Social Security) disputes are specified.

3. Revenues

	2006	2005	Changes
Revenues for gas distribution to third parties	15,928	4,974	10,954
Revenues for supply of water	257,020	210,047	46,972
Revenues for supply of electricity	112,432	26,831	85,601
Revenues for waste collection and disposal	425,343	357,831	67,513
Revenues for district heating	50,337	30,842	19,495
Revenues for sewerage purification	79,690	68,745	10,946
Revenues from public lighting	28,707	21,189	7,518
Revenues from cemetery and funeral services	12,569	17,015	(4,446)
Revenues for services for third party users	51,629	32,194	19,435
Revenues from subsidiary companies	710,424	602,996	107,428
Revenues for other services provided	7,844	12,324	(4,480)
Total	1,751,923	1,384,988	366,935

“Revenues from subsidiary companies” include the revenues generated from service contracts existing with said companies, in addition to “sundry revenues” of minor entity.

The items “revenues for gas distribution”, “revenues for supply of water”, “revenues for supply of electricity” and “revenues for waste collection and disposal” also include revenues generated by relations with subsidiary companies.

“Revenues for other services provided” include the invoicing of sundry services of negligible amount provided for municipalities and private customers

4. Change in inventories of finished products and work in progress

	2006	2005	Changes
Change in inventories of work in progress	(7)	(797)	790
Change in contract work in progress	(58)		(58)
Total	(66)	(797)	732

5 Other operating income

	2006	2005	Changes
Insurance reimbursements	1,569	1,499	69
Sale of materials and stock to third parties	257	677	(420)
Capital grants	2,285	2,281	4
Operating grants and grants for separated waste collectic	10,022	6,734	3,288
Rents receivable	3,261	2,261	1,000
Use of provisions	1,676	3,012	(1,336)
Capital gains from disposal of assets	11,465	3,714	7,751
Reimbursement of costs	3,215	2,504	712
Other	16,669	9,584	7,085
Total	50,419	32,266	18,153

The main differences compared to 2005 relate to:

- operating grants and grants for separated waste collection for Euro 3,288 thousand. The change is mainly due to finalisation of the new 2004-2008 Anci – Conai agreement which allowed Hera SpA to enter into conventions with the Consortiums of the Conai Chain (Cial, Cna, Comieco, Corepla, Rilegno) for separated waste collection and energy recovery;
- use of provisions records a decrease of Euro 1,336 thousand due to the lower costs incurred for post-closure management of closed landfills;

- capital gains from disposal of assets for Euro 7,751 thousand mainly deriving from sale of real estate and land;
- other for Euro 7,085 thousand: this mainly refers to revenues generated by energy efficiency bonds (white and grey certificates), by income from electricity service continuity and by billing to Group companies for reimbursement of costs incurred on their behalf (directors' fees, real estate services and fleet management and so on). The item "other" includes revenues generated by the management of meteoric water, invoiced to Local Authorities which are the users of the service (Euro 4,535 thousand in 2006 and Euro 4,427 thousand in 2005).
- 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)

	2006	2005	Change
Methane ready for sale and LPG net of inventory changes	15	0	15
Fuel for heat generation	3,972	3,313	660
Electricity ready for sale	77,731	16,295	61,436
Maintenance materials: handling and spare parts net of change in stock	6,612	6,908	(295)
Electricity for industrial use	47,423	35,416	12,007
Fuels and lubricants	9,808	7,845	1,963
Methane for industrial use	23,618	18,217	5,402
Water for industrial use	198	180	18
Chemical products	2,650	1,959	691
Consumables and sundry materials	1,853	1,293	560
Total	173,880	91,424	82,455

With regard to the items "Electricity ready for sale" and "Electricity for industrial use", the changes compared to 2005 equal to Euro 61,436 thousand and Euro 12,007 thousand respectively, are due to the merger by incorporation of Meta SpA into Hera SpA finalised as at 31 December 2005

7 Costs for services

	2006	2005	Change
Services provided by Group companies	969,537	778,236	191,301
Industrial utilities (water, methane, heat and electricity)	8,827	3,551	5,275
Works and maintenance	87,689	59,566	28,123
Energy transport and storage	489		489
Insurance	8,199	7,518	680
Cleaning and security	3,450	2,581	869
Transport, disposal and collection of waste	96,792	79,876	16,916
Announcements, advertising and disputes	2,930	2,837	92
Transport		558	(558)
Technical, organisation, legal and tax assistance consultancy	12,330	12,258	72
Remuneration of Directors and Statutory Auditors	2,216	1,860	356
Meter reading	699	1,425	(726)
Postal and telephone costs	13,777	8,014	5,764
Recruitment, training and other staff costs	5,965	6,884	(919)
IT and CED services	17,295	14,934	2,362
Laboratory analysis	1,660	2,074	(414)
Bank fees and charges	3,889	3,094	795
Fees paid to local authorities	65,341	63,420	1,920
Rents and leases payable	10,816	5,777	5,040
Fees payable	10,718	9,404	1,314
Other	3,833	5,626	(1,792)
Total	1,326,452	1,069,492	256,960

The item “Services provided by Group companies” includes the costs generated by service contracts stipulated between Hera SpA and subsidiary companies.

The item “Fees paid to local authorities” includes the charges incurred for the use of municipal networks, fees paid to asset companies for rent of the gas, water and electricity cycle assets and lease of the drop-off points owned thereby.

With regard to net remuneration paid to directors during 2006, this totals Euro 2,024 thousand, while remuneration of the board of statutory auditors is equal to Euro 280 thousand.

As provided by Article 78 of CONSOB Resolution no. 11791 of 14 May 1999, containing the

provisions for implementation of Legislative Decree no. 58 of 24 February 1998 concerning issuers, information on the remuneration paid in the year to the directors and statutory auditors of Hera SpA and of its subsidiaries is provided below. Remuneration means the emolument paid for the office held, even for a fraction of a year, any other non-monetary benefits, bonuses and incentives, including those assigned by subsidiaries of Hera SpA.

Board of Directors

Surname and name	Office held	Period over which office was held	Expiry of office	Emolument for the office	Non-monetary benefits	Bonus and other incentives	Other considerations
Tomaso Tommasi di Vignano	Chairman	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	300		34	
Maurizio Chiarini	Managing Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	302		34	
Giorgio Razzoli	Vice Chairman	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	120			
Bernardini Mara	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	73			
Brandolini Filippo	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	100			
Castagna Luigi	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	100			
Celli Pierluigi	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	75			
Collina Piero	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	75			
Dolcini Pier Giuseppe	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	75			
Fiorani Giuseppe	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	73			
Maranini Vander	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	100			
Montanari Nicodemo	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	100			
Roversi Monaco Fabio	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	75			
Sacchetti Roberto	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	100			
Sita Luciano	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	75			
Vichi Ermanno	Director	01.01.2006 - 26.04.2006	Approval Financial Statements at 31.12.2007	32			
Tani Bruno	Director	27.04.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	48			
Lanfranco Maggioli	Director	11.07.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	32			
Zolea Stefano	Director	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	100			

Board of Statutory Auditors

Surname and name	Office held	Period over which office was held	Expiry of office	Emolument for the office	Non-monetary benefits	Bonus and other incentives	Other considerations
dott. Antonio Venturini	Chairman	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	120			
dott. Fernando Lolli	Standing Auditor	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	80			
ing. Sergio Santi	Standing Auditor	01.01.2006 - 31.12.2006	Approval Financial Statements at 31.12.2007	80			
				280			

It is also specified that the remuneration paid in 2006 to the General Director amounts to Euro 252 thousand.

8. Personnel costs

	2006	2005	Changes
Wages and salaries	40,711	33,160	7,551
Social security costs	14,470	12,348	2,123
Employee leaving indemnity	1,736	1,636	99
Other costs	2,040	938	1,103
Total	58,958	48,082	10,876

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

Category	2006	2005	Changes
Senior management	64	63	1
Middle management	95	117	(22)
White-collar	538	784	(246)
Blue-collar	256	753	(497)
Total	953	1.717	(764)

The increase in personnel costs is due to the trend in the average unit cost, linked to salary increases and increased use of resources for duties in contact with customers.

9. Amortisation, depreciation and allocations

	2006	2005	Changes
Ordinary depreciation tangible fixed assets	98,221	70,040	28,181
Ordinary amortisation intangible fixed assets	29,378	23,949	5,429
Writedown current receivables	1,964	1,919	45
Provisions for risks	6,134	1,972	4,162
Other provisions	9,366	9,460	(93)
	145,063	107,339	37,724

A breakdown of these items is provided in the notes to the items tangible fixed assets, intangible assets, trade receivables and provisions for risks and charges.

10. Other operating costs

	2006	2005	Changes
Fees payable	3,237	7,598	(4,361)
Taxes other than income tax	3,436	2,459	977
<i>of which fees for advertising spaces and areas</i>	1,094	799	295
Membership fees and other contributions	1,152	952	200
Special landfill levy	12,153	9,780	2,373
Capital losses from disposal of assets	673	608	65
Losses on receivables	238		238
Other minor charges	4,696	2,688	2,007
<i>of which subscriptions to magazines, newspapers</i>	123	87	36
<i>of which expenses related to the business purpose</i>	156	184	(28)
<i>of which fines and penalties</i>	578	26	552
<i>of which sundry costs (mainly contributions to the needy)</i>	1,621	1,251	370
<i>of which other current costs</i>	1,546	255	1,291
Total	25,585	24,086	1,499

The change in fees payable, amounting to Euro 4,361 thousand, regards the different classification during 2006 with respect to 2005 of costs relating to the provision of services, and hence, classified under item 7, "works and maintenance".

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

11. Capitalised costs

During the year the following costs were capitalised in the items “Tangible fixed assets and intangible assets”:

	2006	2005	Changes
Material taken from inventories	143		143
Personnel costs	4,322	3,342	980
Capitalisation of financial charges	2,755	496	2,259
Total	7,220	3,838	3,382

This item includes the internal costs incurred for implementation of corporate investments; an analysis of the investments can be found in the notes to the balance sheet assets with regard to the analysis of Tangible and Intangible Fixed Assets

12. Value write-back on tangible fixed assets

The write-back refers to a transaction implemented in 2005 pertaining to the telecommunications sector.

13. Portion of profit (loss) pertaining to investee companies

	2006	2005	Changes
Income from equity investments in subsidiary companies	51,886	44,968	6,918
Income from equity investments in associated companies	1,305	429	876
Income from equity investments in other companies	2,617	392	2,225
Capital losses from disposal of equity investments in subsidiary compan	(1,727)	(13)	(1,713)
Capital losses from disposal of equity investments in associated compar	(86)	(33)	(52)
Capital losses from disposal of equity investments in other companies	(12)	(9)	(3)
Write-down of equity investments	(2,219)	(1,036)	(1,184)
Write-down of financial fixed assets	(218)	(120)	(98)
Total	51,546	44,578	6,968

The item “income from equity investments” in subsidiary, associated and other companies is mainly composed of dividends resolved on in 2006.

The item “write-downs of equity investments” relates to the write-down of the equity investment in Medea SpA (Euro 2,164 thousand) as a result of impairment test.

The item “write-downs of financial fixed assets” includes the write-down of a financial receivable due from a company that discontinued operations in 2006.

14. Financial income and charges

Financial income	2006	2005	Changes
Income from long-term receivables from subsidiary companies	306	73	233
Income from long-term receivables from associated companies	792	597	195
Income from long-term receivables from others	42	178	(136)
Income from short-term securities	25	19	6
Income other than the above - from subsidiary companies and others	39	269	(230)
Bank interest income	2,150	461	1,689
Interest income on short-term receivables	4,456	568	3,887
Financial income generated from interest rate derivatives	9,407	3,030	6,377
Income other than the above - from others	95	408	(313)
Total	17,313	5,603	11,710

Financial charges	2006	2005	Changes
Interest expense and other charges due to subsidiary and associated companies	37	5	32
Interest expense due to banks for current account overdrafts	10,376	9,822	554
Interest expense due to banks for medium/long term mortgages	17,485	14,759	2,726
Financial charges generated by interest rate derivatives	5,899	4,446	1,453
Financial charges pursuant to IAS 19	691	348	343
Financial charges pursuant to other international standards	8,868	7,496	1,372
Other	23,394	2,768	20,626
Total	66,749	39,644	27,105

The financial charges generated pursuant to “other international standards” include the charges deriving from financial leasing for Euro 853 thousand, the charges pertaining to the year following discounting back of the “Provision for restoration of third party assets”, Euro 4,679 thousand and of the “Landfill post closure provision”, Euro 4,289 thousand

Financial income and charges generated from interest rate derivatives include the effects of closing operations previously discussed in the Directors’ Report. The item “other” equal to Euro 23,394 thousand includes Euro 17,969 thousand relating to interest expense on the bond issue, Euro 1,586 thousand relating to interest expense on hedging contracts, Euro 1,786 thousand relating to charges on the cash pooling contract between Hera Spa and the related company Meta Energy. The change in the balance of financial operations is described in the Directors’ Report.

15 Income taxes

This item is made up as follows

	2006	2005	Changes
Current taxes (IRES, IRAP and substitute tax)	(17,046)	19,375	(36,420)
Deferred taxes	32,948	4,390	28,559
Prepaid taxes	(2,302)	(1,702)	(600)
Total	13,600	22,062	(8,462)

The income taxes for the period accounted for a total of approximately 16.7% of the pre-tax profit (20.8% in 2005).

Shareholders are hereby informed that in accordance with and for the purposes of Article 27 of Italian Law No. 62 dated April 18, 2005, which established the procedure for the recovery of government aid declared illegitimate by the Ruling of the European Commission No. 2003/193 dated June 5, 2002, Hera S.p.A has presented tax declarations relating to the tax periods affected by the exemption regime. The Inland Revenue office responsible for the area completed the assessment activities at the Company relating to the afore-mentioned declarations, issuing a verification proceedings report as at 17 October 2005; the Company then presented briefs on 1 December 2005. Furthermore, section 132 of the Finance Bill, Italian Law No. 266 dated 23 December 2005 introduced significant amendments to Article 27 of Italian Law No. 62 dated April 18, 2005, providing, among other things, the extension of the timescale for the recovery of the aid and a change of responsibility from the Exchequer to the Home Office. Subsequently said office issued Law Decree no. 10 of 15 February 2007, effective from 16 February 2007, which governs the procedures for the return of the aid declared illegitimate. At the current date, this decree is still to be converted into law.

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 Stock market 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. Hence HERA SpA did not make any provisions in this respect.

In relation to the former Meta SpA, please note that the tax periods affected by the moratorium have been subject to automatic definition (“tax amnesty”) as per Article 9 of Italian Law No. 289/2002 and therefore all assessment activities in relation to the same are precluded in accordance with the matters laid down by Article 9.9 of the afore-mentioned Italian Law No. 289/2002. The financial statements do not contain any provision for this purpose since the Directors, based on the current legal status, believe that the risk of having to repay the taxes following a negative final outcome of the entire infraction procedure is possible but not probable. Prudently, it was considered expedient to restrict a portion of the Unrestricted Reserves, amounting to Euro 4,100 thousand, for the possible liability generated by the merger with Meta SpA, on a consistent basis with the resolution adopted on 15 January 2003 by said company; this amount would cover any charges consequent to the recovery of the government aid declared illegitimate by the European Commission.

The theoretical rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 33%; reconciliation with the effective rate is provided below (IRAP was not taken into consideration given the specific nature)

STATEMENT OF RECONCILIATION OF THEORETICAL RATE AND EFFECTIVE RATE	
Current year	
Ordinary rate	33%
Exempt income	1.87%
Dividends	-22.93%
Non-deductible costs	-0.88%
Effective rate	11.06%

The prepaid and deferred taxes relating to the year 2006 refer to the following variations between taxable income and profit recorded in the financial statements.

Prepaid taxes:

Writedowns for impairments on financial fixed assets	2,242	740
Bad debt provision	7,765	2,562
Provisions for risks and charges	26,192	9,327
Amortisation and depreciation	27,057	10,079
Other	6,938	2,456
IAS/IFRS effects, including first-time application	-	7,283
Total	70,194	32,447
Amount charged to the 2006 Income Statement		-2,302

Deferred taxes:

Tax depreciation	90,837	33,837
Capital gains instalments	9,857	3,672
Other	123	41
IAS/IFRS effects, including first-time application	-	82,342
Total	120,693	119,892
Amount charged to the 2006 Income Statement		32,948
Net deferred (prepaid) taxes		87,445

16 Tangible fixed assets

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

<i>Euro/thousands</i>	Land and Buildings	Plant and machinery	Other moveable assets	Work in progress	Total tangible fixed assets
ACQUISITION COST					
Balance as at 31.12.2005	253,899	1,578,257	192,867	77,275	2,102,297
Increases	7,776	131,809	11,269	77,163	228,017
Disposals	-7,590	-24,308	-13,530	-6,439	-51,867
Variation consolidation area					0
Reclassifications and other changes	6,968	-162,084	2,476	-20,041	-172,681
Balance as at 31.12.2006	261,053	1,523,674	193,082	127,958	2,105,766
ACCUMULATED DEPRECIATION					
Balance as at 31.12.2005	37,128	432,929	109,391	0	579,448
Depreciation for the year	5,245	77,449	15,528		98,221
Disposals		-2,680	-10,718		-13,398
Variation consolidation area					0
Reclassifications and other changes	-3,914	-169,146	66		-172,994
Balance as at 31.12.2006	38,458	338,552	114,267	0	491,277
Net value					
As at 31 December 2005	216,771	1,145,328	83,476	77,275	1,522,849
As at 31 December 2006	222,594	1,185,122	78,815	127,958	1,614,489

The items land and buildings equal to Euro 67,012 and 155,582 thousand respectively mainly refer to company-owned properties. The increases are chiefly justified by the acquisition of the new head offices in Rimini.

Among the significant decreases recorded in the year attention is drawn to the sale of the property in Via Dario Campana in Rimini (previous head office) and of some premises used for storage located in Bologna.

The item general plant and machinery equal to Euro 16,501 thousand and the item specific plant equal to Euro 1,016,874 mainly refer to the water and gas distribution networks relating to the Bologna, Modena and Ferrara areas. The increase in the year is represented by the new investments as well as by reclassification of values from the item "Concessions" included under intangible fixed assets following expiry of some concessions relating to gas and purification services in the municipalities described in the notes to intangible assets

Among the significant decreases recorded in the year attention is chiefly drawn to the sale of the composting plant of Ca' Baldacci and Voltana to Recupera Srl. located in Rimini and Lugo di Ravenna respectively.

The item "other moveable assets" includes the equipment, furniture, electronic machines, motor vehicles and motor cars.

The item equipment, amounting to Euro 31,223 thousand mainly refers to the waste disposal bins. The increase is justified by significant purchases of equipment relating to the waste management services (in previous years managed under lease). The decrease in the year is mainly due to the sale of bins relating to the collection service.

The item furniture amounts to Euro 3,940 thousand, in line with last year's figure.

The item electronic machines is equal to Euro 1,425 thousand. The significant decrease in the year is chiefly due to sales of electronic machines to other Group companies.

The item motor cars amounts to Euro 642 thousand.

The item motor vehicles totals Euro 41,584 thousand. The increase in the year is chiefly due to acquisitions of motor vehicles relating to the waste management services. The decrease in the year is chiefly due to the sale of motor vehicles to other Group companies.

Work in progress and advance payments equal to Euro 127,958 chiefly refer to project costs incurred to date for the Imola cogeneration plant, to expansion of the Forlì and Ravenna waste to energy plants, to construction of the 2nd and 3rd line of the Ferrara waste incineration plant and construction and restructuring of company head offices.

17 Intangible assets

Intangible assets comprise:

	31/12/2006	31/12/2005	Changes
Patents and know-how	40,966	42,065	(1,099)
Concessions	126,201	129,538	(3,337)
Licences, trademarks and similar rights	5,935	4,175	1,760
Work in progress and advance payments	28,502	11,960	16,543
Other	3,420	775	2,645
Total	205,025	188,513	16,512

Intangible fixed assets are stated net of the related accumulated amortisation and present the following breakdown and changes during the year:

<i>Euro/thousand</i>	Patents	Concessions, licences, trademarks and similar rights	Other	Work in progress and prepayments	Total intangible assets
ACQUISITION COST					
Balance as at 31.12.2005	64,871	238,600	4,664	11,960	320,094
Increases	11,736	5,794	1,722	20,010	39,262
Disposals	-1,776	-1,023	-21	-1,042	-3,862
Variation consolidation area					0
Reclassifications and other changes	2,278	-12,596	2,622	-2,425	-10,121
Balance as at 31.12.2006	77,109	230,775	8,987	28,502	345,373
ACCUMULATED AMORTISATION					
Balance as at 31.12.2005	22,805	104,887	3,889	0	131,581
Amortisation for the year	14,703	13,292	1,382		29,378
Disposals	-1,367				-1,367
Variation consolidation area					0
Reclassifications and other changes		-19,540	296		-19,244
Balance as at 31.12.2006	36,142	98,639	5,567	0	140,348
Net value					
As at 31 December 2005	42,065	133,713	775	11,960	188,513
As at 31 December 2006	40,966	132,136	3,420	28,502	205,024

Patents and know-how, totalling Euro 40,966 thousand as at 31 December 2006, mainly relate to costs sustained for the purchase and implementation of the SAP R/3 and SAP/ISU IT systems. Said costs are amortised over five years.

Concessions equal to Euro 126,201 thousand mostly comprise the value of the concessions held by Hera SpA in relation with the gas, water and purification plants. The considerable increase mainly relates to Euro 3,051 thousand deriving from acquisition of Geat Distribuzione Gas SpA. The decrease is due to the changeover from concession to ownership for the assets relating to the energy and purification services in the municipalities of Bazzano, Pieve di Cento, Monterezenzio and Monteveglio, as envisaged by the related contracts on reaching the expiry dates of said concessions.

Licences, trademarks and similar rights are equal to Euro 5,935 thousand as at 31 December 2006.

Work in progress, equal to Euro 28,502 thousand as at 31 December 2006 essentially represents the costs incurred for IT projects not yet completed.

The considerable increase compared to the previous year is related to implementation of the SAP/ISU IT system.

Other intangible fixed assets, equal to Euro 3,420 thousand, refer to costs for improvement to third party assets, expenses incurred for the road system outside the plants.

	31/12/2006	31/12/2005	Changes
Goodwill	245,590	233,629	11,961
Total	245,590	233,629	11,961

A breakdown of the item goodwill as at 31 December 2006 is provided below. The main items are the following:

- residual goodwill from the 2002 integration resulting in the creation of Hera SpA of Euro 86,516 thousand;
- goodwill relating to the integration of Agea SpA in 2004, Euro 41,658 thousand. Said goodwill represents the additional value of the purchase cost compared to the fair 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 for the merger by incorporation of Agea, in accordance with IFRS 3 the share value was calculated as at the effective date of control takeover of Agea SpA;
- goodwill relating to the integration of Meta SpA, Euro 103,554 thousand. Said goodwill, recorded as an asset and initially valued at cost, represents the additional value of the purchase cost compared to Group's share of the fair values of the assets and liabilities recorded Euro. In particular, with regard to the fair value of Hera SpA shares issued following the increase in capital for the merger by incorporation 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. Goodwill, equal to Euro 11,670 thousand, represents the additional value of the purchase cost compared to the fair values of the assets and liabilities recorded.

As provided by the reference accounting standards, goodwill is no longer subject to amortisation and an impairment test is carried out on the residual value at year end.

19. Equity Investments

	31/12/2006	31/12/2005	Changes
Equity investments in subsidiary companies	351,808	233,618	118,190
Equity investments in associated companies	82,697	41,720	40,977
Equity investments in other companies	31,996	28,313	3,682
Total	466,500	303,651	162,849

Equity investments in subsidiary companies

Equity investments in subsidiary companies	%	final balance 31/12/2005	increase GDG	changes in the year				final balance 31/12/2006
				incre.s	dispos.	wr-up (wr-dw)	other ch.s	
Agea One Srl in liquidazione	100%	2,373					(2,373)	0
Akron SpA	58%	2,513						2,513
Ambiente 3000 Srl	51%	77						77
Ares SpA	100%	1,040					(27)	1,013
Asa SpA	51%	4,184						4,184
Aspes Multiservizi SpA	50%	17,856		16,589				34,445
Calorpiù Italia Scarl	51%	5			(5)			0
Calorpiù Modena Scarl	60%	6			(6)			0
Consorzio Energia Servizi Bologna	52%	3			(3)			0
Bio Energy Srl in liquidazione	100%	500		5			(505)	0
Ecologia Ambiente Srl	100%	49,017						49,017
Ecosfera SpA	51%	510						510
Famula On Line SpA	60%	5,426		629				6,055
Frullo Energia Ambiente Srl	51%	8,740						8,740
Gal.A SpA	60%	207						207
Gas Riccione SpA	100%	0	3,550		(3,550)			0
Hera Bologna Srl	100%	1,250						1,250
Hera Clion Srl in liquidazione	100%	200					(200)	0
Hera Comm Srl	100%	88,592						88,592
Hera Comm Mediterranea Srl (già Cales Srl)	50%	138						138
Hera Ferrara Srl	100%	810						810
Hera Forlì-Cesena Srl	100%	650						650
Hera Gas Tre SpA	100%	705						705
Hera Immobiliare Srl in liquidazione	100%	100		41		(41)	(100)	0
Hera Imola Faenza Srl	100%	1,370						1,370
Hera Luce Srl	87%	628		2,857				3,485
Hera Modena Srl	100%	10		990				1,000
Hera Ravenna Srl	100%	850						850
Hera Rete Modena Srl	100%	0		107,497			(1,153)	106,344
Hera Rimini Srl	100%	1,050						1,050
Herasocrem SpA	51%	1,131						1,131
Hera Servizi Funerari Srl	100%	10						10
Hera Trading Srl	100%	2,711						2,711
Ideametropoli Centro Global Service Srl in liquidazione	100%	0						0
Ingenia Srl	74%	63						63
Medea SpA	100%	11,988		2,164		(2,164)		11,988
Metaenergy Srl	100%	13,795			(13,795)			0
Meta Rete Gas Srl in liquidazione	100%	99					(99)	0
Meta Service Srl	51%	1,271			(1,271)			0
Nuova Geovis SpA	51%	4,856						4,856
Recupera Srl	94%	337		11,266				11,603
Rio d'Orzo Srl in liquidazione	93%	202					(202)	0
Romagna Compost Srl	60%	186						186
Sbi Srl in liquidazione	51%	51						51
Sotris SpA	70%	2,362						2,362
Ts Distribuzione Srl in liquidazione	100%	1,149		70			(1,219)	0
Tecnometano Srl in liquidazione	100%	591					(591)	0
Uniflotte Srl	97%	3,640			(74)			3,567
Viviservizi Scarl	82%	367		158			(248)	277
Total equity investments in subsidiary companies		233,618	3,550	142,266	(18,703)	(2,205)	(6,718)	351,808

The most important movements that occurred during the year are listed below:

AGEA ONE Srl

The company was placed in liquidation on 19 April 2006 and was deleted from the Register of Companies on 29 June 2006.

ASPES MULTISERVIZI SpA

On 27 July 2006 Hera SpA purchased from the Municipality of Pesaro 2,512,488 shares of ASPES MULTISERVIZI SpA. Hence the equity investment rose from 26.87% to 49.79%.

BIO ENERGY Srl

The company was placed in liquidation on 21 April 2006 and was deleted from the Register of Companies on 29 December 2006.

FAMULA ON LINE SpA

The Euro 629 thousand increase recorded in the year relates to the Euro 1,048 thousand increase in share capital subscribed and paid in by Hera SpA.

GAS RICCIONE SpA

The equity investment acquired following merger by incorporation into Hera Spa of Geat Distribuzione Gas SpA was transferred to Hera Comm Srl on 18 July 2006.

HERA CLION Srl

The company was placed in liquidation on 3 October 2005 and was deleted from the Register of Companies on 7 September 2006.

HERA IMMOBILIARE Srl

On 17 January 2006 Hera Immobiliare Srl approved a reduction of share capital for losses and subsequent reintegration thereof. On 12 June 2006 the Shareholders' Meeting passed a resolution to wind up the company. Deletion from the Register of Companies occurred on 6 September 2006.

HERA LUCE Srl

In January 2006 Hera SpA acquired the interest held by Gemmo SpA: hence the investment held rose from the 69.3% of 31 December 2005 to 87.3%.

HERA MODENA Srl

With effect from 1 January 2006, Hera SpA contributed the business division relating network management to the Modena Local Operating Company with consequent capital increase from Euro 10 to 990 thousand.

HERA RETE MODENA Srl

On the basis of the preliminary agreement entered into on 13 March 2006, Hera SpA and Enel Distribuzione SpA signed the final contract on 27 June 2006 for the purchase by Hera SpA of the entire equity investment in Hera Rete Modena Srl, a company which is involved in the distribution and sale of electricity in the territory of 18 Municipalities in the Province of Modena.

MEDEA SpA

The value of the shareholding has increased following the share capital increase approved by the extraordinary Shareholders' Meeting of 18 April 2006 called to reduce and then re-integrate said capital. The impairment test determined a write-down of the equity investment for a total of Euro 2,164 thousand.

METAENERGY Srl

On 9 May 2006 Hera SpA transferred the entire shareholding to Hera Comm Srl

META RETE GAS Srl

The company was placed in liquidation on 24 June 2005 and was deleted from the Register of Companies on 3 August 2006.

META SERVICE Srl

On 5 December 2006 Hera SpA transferred its 51% equity investment to Uniflotte Srl

RECUPERA Srl

With effect from 1 January 2006, Hera S.p.A transferred to Recupera Srl the composting plants of Cà Baldacci and Voltana Lugo increasing the value of the equity investment by Euro 11,266 thousand. Hence the interest held rose from 75.5% to 93.95%.

RIO D'ORZO Srl

The company was placed in liquidation on 7 April 2006 and was deleted from the Register of Companies on 5 September 2006.

TS DISTRIBUZIONE Srl

The company was placed in liquidation on 9 May 2006 and was deleted from the Register of Companies on 21 November 2006

TECNOMETANO Srl

The company was placed in liquidation on 10 May 2005 and was deleted from the Register of Companies on 27 July 2006

UNIFLOTTE Srl

On 5 December 2006 Hera SpA sold 2% of its equity investment in Ecologia Soluzione Ambiente SpA (the percentage drops from 99% to 97%).

VIVISERVIZI S.c.a r.l.

With effect from 1 January 2006 Viviservizi passed a resolution to reduce the share capital releasing

shareholders from paying in the tenths subscribed but not yet paid as well as to reduce the share capital to cover losses with subsequent re-integration.

Equity investments in associated companies

Equity investments in associated companies	%	final balance 31/12/2005	increase GDG	changes in the year				final balance 31/12/2006
				incre.s	dispos	wr-up (wr-dw)	other ch.s	
4 Italy Energy&Environment SpA	50%	63			(63)			0
Acantho SpA	47%	7,745			(496)			7,249
Agea Reti Srl	40%	7,783						7,783
Agess Scarl	21%	28						28
A.Se.R. Srl	25%	0		113	(113)			0
AV2 Ecosistema SpA	20%	24			(24)			0
Azimut Srl	29%	15			(1)	(14)		0
Consorzio Frullo	50%	1		1				1
Consorzio Rizzoli Energia	27%	3						3
Energica SpA	-	0						0
Estense Global Service Scarl	23%	2						2
Italcic Srl	33%	30						30
Modena Network SpA	30%	600		300				900
Refri Srl	20%	1,706						1,706
Sat SpA	47%	0		34,518				34,518
Seia SpA in liquidazione	35%	20					(20)	0
Serviceimola Srl	40%	4						4
Set SpA	39%	23,363		7,059				30,422
Sinergie Ambientali Srl	50%	50						50
Yele SpA	35%	284			(284)			0
Total equity investments in associated companies		41,720		41,990	(980)	(14)	(20)	82,697

The most important movements that occurred during the year are listed below:

4 ITALY ENERGY & ENVIRONMENT SpA

On 27 June 2006 Hera SpA transferred its equity investment to two third party companies.

ACANTHO SpA

On 4 April 2006 Hera SpA sold to Infracomm 496,000 shares of Acantho SpA. Hera SpA's interest passes from 47.16% to 47.46%.

A.S.E.R. Srl

On 9 June 2006 the company A.S.E.R. was set up and an equity investment equal to 25% was subscribed by Hera SpA. On 11 December 2006 Hera S.p.A transferred to entire interest held to a third party company.

MODENA NETWORK SpA

Following resolution to increase share capital from Euro 2,000 thousand to Euro 3,000 thousand on the part of Modena Network SpA, Hera SpA subscribed and paid in its share (30%).

SAT SpA

On 18 October 2006, Hera SpA acquired 46.50% of SAT SpA's share capital, a company which is involved in the provision of waste management, gas distribution and integrated water cycle services in the municipal areas of Sassuolo, Formigine, Fiorano Modenese, Maranello and Serramazzoni.

SET SpA

During 2006 Hera SpA paid in Euro 7,059 thousand towards future share capital increases.

YELE SpA

On 28 December 2006 Hera SpA sold its equity investment in YELE SpA to a third party company.

Equity investments in other companies

			increase GDG				
	%	final balance 31/12/2005	increase	disposal	reval. (wr. dn)	other chge.	final balance 31/12/2006
Acef Srl	10%	1					1
Ambiente Mare SpA	15%	300					300
Asm Brescia SpA	0%	137		(137)			0
Aess	36%	41	13				54
Bonifica e Ambiente In Liquidazione (Unica)	-	2					2
Calenia Energia SpA	15%	2,835	3,670				6,505
Centuria Srl	2%	5					5
Consorzio Italiano Compostatori	3%	10					10
Comitato Romandiola 2000	-	8				(8)	0
Consenergy 2000 - Consorzio per l'energia	1%	0					0
Consorzio C.A.R.A.	0%	3				(3)	0
Consorzio C.U.R.A.	0%	1				(1)	0
Consorzio Ferrara Ricerche	0%	2					2
Consorzio Polieco	0%	1					1
Consorzio V.E.R.A. Energia	3%	0					0
Cpl Nupi Pipe Cina Srl In Liquidazione	10%	0					0
Delta.Web SpA	6%	15	152				166
Democenter- Sipe Scarl	4%	41					41
Energia Italiana SpA	11%	24,695					24,695
Fondazione Flaminia Ravenna	4%	3					3
Iipse 2000 SpA	-	0					0
Isgas Energit Multiutilities Scarl	5%	100					100
Modena Formazione Srl	7%	54					54
Prog.Este. SpA	0%	0	5				5
Ravenna Gateway Scarl	16%	8				(8)	0
Risorsacqua Scarl In Liquidazione	7%	34					34
Seas Lavori E Servizi Scarl In Liquidazione	6%	2					2
Torricelli Srl	2%	14					14
Valdisieve Scarl	0%	1					1
Total equity investments in other companies		28,313	3,839	(137)		(20)	31,996

The most important movements that occurred during the year are listed below:

ASM BRESCIA SpA

Hera SpA sold its shares in ASM BRESCIA SpA on 4 August 2006.

CALENIA ENERGIA SpA

During 2006 Hera SpA paid in Euro 3,670 thousand towards future share capital increases.

DELTA WEB SpA

On 12 September 2006 the Shareholders' Meeting of the Company Delta Web SpA passed a resolution to increase the share capital subscribed by the shareholders including Hera SpA through waiver of part of the receivable for loans.

20. Financial assets

	31/12/2006	31/12/2005	Changes
Other securities		2	(2)
Receivables for loans to subsidiary companies	4,886	5,576	(690)
Receivables for loans to associated companies	19,239	18,723	516
Receivables for loans to others	276	34,250	(33,974)
<i>of which receivables for guarantee deposits</i>		33,325	(33,325)
<i>of which receivables for mortgages to be collected</i>	134	925	(791)
<i>of which other receivables</i>	142		142
Total	24,401	58,551	(34,150)

The most important movements that occurred during the year are listed below:

	changes in the year				
	final balance 31/12/2005	incr.s	disp.ls	wr-up (wr- dw)	other mov.
Other securities					
Variable income credit instruments	2		(2)		
	2		(2)		
Receivables for loans to subsidiary companies (non-current)					
Other current receivables from subsidiaries	747	1			(748)
Recuper srl-mortgage loan (exp. 30.06.2014)			(98)		700
					602
Fee srt - non-interest bearing loan	4,284				
					4,284
IAS non-current financial accrued income due from subsidiaries	45				(45)
Rio d'Orzo - non interest bearing loan	500				(500)
	5,576	1	(98)		(593)
					4,886
Receivables for loans to associated companies (non-current)					
Set - interest bearing loan	18,447	792			
					19,239
4 - non-interest bearing loan	277				(277)
	18,723	792			(277)
					19,239
Receivables for loans to others (non-current)					
Financial guarantee deposits	33,325	4,708	(7,997)		(30,036)
Other investee companies - loans					61
					61
Receivables for hedged mortgages	479		(282)		(64)
					134
Receivables for mortgages to be collected	446				(446)
IAS non-current financial accrued income		81			
					81
	34,250	4,789	(8,278)		(30,484)
					276
Total	58,551	5,582	(8,378)		(31,353)
					24,401

The items record loans granted to subsidiary and associated companies regulated at arm's length rates.

The receivable due from Set equal to Euro 19,239 thousand refers to an interest-bearing loan disbursed by Hera SpA (principal and interest); said receivable will be reimbursed as at 31 December 2014.

The decrease recorded in financial guarantee deposits mainly relates to the clearing in 2006 of guarantee deposits created in favour of the Provinces of Forlì, Cesena and Ravenna as security for the post-closure management of the landfills.

21. Deferred tax assets

	31/12/2006	31/12/2005	Changes
Receivables for pre-paid taxes IRPEG/IRES	23,307	19,961	3,346
Receivables for pre-paid taxes IRAP	2,000	1,440	560
Receivables for pre-paid non-current IAS taxes	7,140	10,752	(3,612)
Total	32,447	32,153	295

As at 31 December 2006 this item amounts to Euro 32,447 thousand (Euro 32,153 thousand as at 31 December 2005). Amounts receivable for advance taxes are generated by the timing differences between the net profit recorded in the financial statements and the taxable income and by the differences arising further to the application of the IAS/IFRS. The latter chiefly relate to the application of IAS 38, IAS 19 and IAS 39 with regard to derivative financial instruments.

Amounts receivable for prepaid taxes relate to the same items reported in the table provided in the notes to income taxes.

22. Financial instruments - Derivatives

Type of transaction	Hedged underlying instruments	no. contracts	Notional value	Fair Value (€/000)		
				Positive	Negative	Net
A) Interest-rate hedging derivatives						
- Interest rate Swap	Mortgages	18	621 mln	7,803		7,803
- Interest rate Swap	Mortgages	12	277 mln		(4,722)	(4,722)
TOTAL				7,803	(4,722)	3,081

The derivative financial instruments classified under non-current assets total Euro 7,803 thousand, recording an increase of Euro 6,617 compared to 31 December 2005. As at 31 December 2005 they amounted to Euro 1,186 thousand.

The derivative financial instruments classified under non-current liabilities total Euro 4,722 thousand, recording a considerable decrease compared to Euro 5,005 thousand, compared to the previous year. As at 31 December 2005 the derivatives classified under non-current liabilities amounted to Euro 9,727 thousand

Hera SpA is exposed to risk pertaining to interest rates and, in particular the risk that a possible rise in the interest rates may generate greater future financial charges against the sources of medium/long-term lending at floating rates. Therefore, with the aim of mitigating this risk, over the last few accounting periods Hera SpA has stipulated a number of derivative instruments against part of its current and future financial liabilities. More specifically, it stipulated 6 interest rate swap agreements for a notional amount as of the year end date totalling Euro 343.4 million against variable rate mortgage loans for the same amount. The value of these agreements is positive by Euro 2.9 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 554.2 million, the value of which is positive by Euro 0.2 million as at year end date.

All the hedging relationships between the afore-mentioned derivative contracts and the related underlying liabilities qualify as Cash Flow Hedges in accordance with the International Accounting Standards; a specific positive equity reserve totalling Euro 0.6 million has been provided for the same. 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.

All the derivative contracts have been stipulated with institutional counterparties free of credit risk.

23. Inventories

	31/12/2006	31/12/2005	Changes
Raw materials and stock	2,465	5,469	(3,004)
Work in progress and semi-finished goods	12	20	(7)
Finished products	-	-	-
Advance payments	20	55	(36)
Total	2,497	5,544	(3,047)

Inventories chiefly consist of raw materials and stock and, namely, spare parts and equipment used for the maintenance and running of operating plant. They are valued on the basis of the mobile average cost.

As at 31 December 2006 inventories are stated net of a reserve for slow-moving inventory equal to Euro 150 thousand (Euro 399 thousand as at 31 December 2005), set up to cover stock in hand that is obsolete or slow-moving.

The table below provides a breakdown of the movements in the reserve for slow-moving inventory:

	31/12/2005	Adv.s	Util.ns	Other changes	31/12/2006
	399	0	0	(249)	151
Total reserve for slow-moving inventory	399			(249)	151

24. Trade receivables

The table below provides a breakdown of trade receivables.

	31/12/2006	31/12/2005	Changes
Current receivables due from customers	330,912	340,904	(9,992)
<i>of which due from customers</i>	148,319	159,329	(11,010)
<i>of which due from customers for invoices to be issued</i>	41,789	34,863	6,926
<i>of which due from customers for non metered consumption</i>	140,804	146,712	(5,908)
Current receivables due from subsidiary companies	642,755	724,300	(81,545)
<i>of which due from subsidiaries</i>	394,987	450,440	(55,453)
<i>of which due from subsidiaried for invoices to be issued</i>	230,782	238,963	(8,180)
<i>of which due from subsidiaries for non metered consumption</i>	16,987	34,898	(17,911)
Current receivables due from associated companies	19,580	16,379	3,201
<i>of which due from associated companies</i>	18,245	14,899	3,346
<i>of which due from associated companies invoices to be issued</i>	1,327	1,479	(153)
<i>of which due from associated companies for non metered consumption</i>	8		8
Current receivables due from related parties	197,582	31,434	166,149
<i>of which due from related parties</i>	136,879	27,011	109,868
<i>of which due from related parties for invoices to be issued</i>	60,410	3,977	56,434
<i>of which due from related parties for non metered consumption</i>	293	446	(153)
Trade receivables (former current)	1,190,830	1,113,016	77,813
Non-current receivables from customers	1,299	1,268	31
Non-current receivables from related parties	712		712
Trade receivables (former non-current)	2,011	1,268	743
TOTAL	1,192,841	1,114,285	78,556

Trade receivables as at 31 December 2006 total Euro 330,912 thousand (Euro 340,904 thousand as at 31 December 2005) and include estimated consumption, for the portion pertaining to the period, relating to bills and invoices to be issued after 31 December 2006.

Receivables are stated net of a bad debt provision of Euro 13,519 thousand, deemed fair and prudent in relation to the estimated realisable value of said receivables.

The changes occurring in the fund during the year are provided below:

Bad debt provision	Balance 31/12/2005	Acquisition by merger Geat Distribuzione Gas	Allocations	Utilis.n	Other changes	Balance 31/12/2006
Bad debt provision	14,364	4	1,964	(2,814)	2	13,519
Total	14,364	4	1,964	(2,814)	2	13,519

The recording of the provision 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).

Receivables due from subsidiaries equal to Euro 642,755 thousand (Euro 724,300 thousand as at 31 December 2005) refer to trade receivables and financial receivables.

Trade receivables chiefly refer to performance of services that Hera has charged to subsidiaries governed on the basis of specific service contracts collectable within the following year.

Financial receivables for infragroup current accounts refer to the centralised treasury service performed by Hera SpA. The current account relationship is governed by a contract subscribed between the parties.

The considerable decrease compared to the previous year is due to the receivables due from Metaenergy, subsidiary as at 31 December 2005 and classified under related parties (the equity investment was sold by Hera SpA to Hera Comm Srl on 9 May 2006).

The table below provides a breakdown of the receivables due from subsidiary companies which as at 31 December 2005 totalled Euro 724,300 thousand:

Current receivables from subsidiary companies	balance as at 31/12/2006
A.S.A SpA	155
Akron SpA	8,284
Ambiente 3000 Srl	53
Ares S.p.A. Consortile	161
CGS Trasn. Idea Metropoli cgs Srl	8
Ecologia Ambiente Srl	(2,855)
Ecosfera SpA	417
Famula On-line SpA	4,358
Frunlo Energia Ambiente Srl	1,916
Gal.A. Spa	58
Hera AMI (Imola-Faenza) Srl	31,035
Hera Bologna Srl	74,032
Hera Comm Mediterranea Srl (ex Cales)	(8)
Hera Comm Srl	272,922
Hera Ferrara srl	12,498
Hera Forli-Cesena Srl	56,260
Hera Gas Tre SpA	1
Hera Luce Srl	372
Hera Modena Srl	70,635
Hera Ravenna Srl	27,659
Hera Rete Modena Srl	306
Hera Rimini Srl	28,960
Hera Servizi Funerari Srl	68
Hera Trading Srl	44,128
Herasocrem SpA	18
Ingenia Srl	2
Medea SpA	501
Nuova Geovis SpA	241
Recupera Srl	4,348
Romagna Compost Srl	102
Sotris SpA	4,875
Uniflotte srl	1,167
Viviservizi Srl Consortile	77
Other minor interests	2
Total	642,755

The table below provides a breakdown of the receivables due from associated companies which as at 31 December 2005 totalled Euro 16,379 thousand:

	balance as at 31/12/2006
Acantho SpA	18,323
Agea reti Srl	16
Agess Scarl	37
Consorzio Frullo	3
Estense Global Service Scarl	11
Modena Network SpA	430
Sat SpA	412
Other	348
Total	19,580

The table below provides a breakdown of the receivables due from related companies which as at 31 December 2005 totalled Euro 31,434 thousand. The increase arises from the receivables due from Metaenergy.

	balance as at 31/12/2006
Adriatica Acque Srl	11
AMF - assets	4
AMIR - assets	410
AREA - assets	549
AttivaBologna Srl consort.	67
Calorpiù Italia Scarl	41
Calorpiù Modena Scarl	31
Comune di Bologna	16,453
Comune di Modena	5,340
CON.AMI	6,033
Consorzio energia servizi Bologna	53
DYNA GREEN Srl	2
Eris scrI Ener. Ris. Svil.	845
GAS RICCIONE SpA	515
Hera Energia Bologna Srl	10
Meta Service Srl	119
Metaenergy Srl	166,053
Oikothen	6
Romagna Acque SpA	31
SGR Servizi SpA	1
Sinergia Srl	29
SIS SpA - SOCIETA' ITALIANA SERVIZ	119
TEAM - assets	483
Unica reti - assets	377
Total	197,582

Non-current receivables due from customers equal to Euro 1,299 thousand (1,268 as at 31 December 2005) chiefly refer to receivables of a commercial nature.

Non-current receivables due from the related company (CON.AMI) amount to Euro 712 thousand.

balance as at 31/12/2006	
CON.AMI	712
Total	712

25. Long-term contracts

	31/12/2006	31/12/2005	Changes
Long-term contracts	1,710	2,116	(406)
Total	1,710	2,116	(406)

As at 31 December 2006 long-term contracts feature a balance of Euro 1,710 thousand (as at 31 December 2005 the balance totalled Euro 2,116 thousand).

26. Financial assets

Financial assets break down as follows:

	31/12/2006	31/12/2005	Changes
Current receivables due from subsidiary companies	6,201	5,652	549
Current receivables due from associated companies			
Current receivables due from others	6,143	4,179	1,964
of which for mortgages to be collected	468	1,303	-
of which for loans granted to others	2,900	2,871	-
of which for others	2,775	5	
Equity investments in associated companies	-	465	(465)
Other securities	1,462	1,440	22
Total	13,806	11,736	2,071

The table below provides a breakdown of the changes in current receivables due from subsidiary companies.

Financial assets	changes in the year						final balance 31/12/2006
	final balance 31/12/2005	increases	increases from mergers	disposals	reval/ wr- dws	other changes	
Current receivables due from subsidiaries							
Ideametropoli CGS - loan	31					-	31
Other receivables from subsidiaries	3,860		1,009	(4,869)		-	
Medea Spa - interest/non-interest bearing loan	492	2,500				(2,500)	492
Ares Spa - non-interest bearing loan	1,269	27				-	1,296
Hera network Modena - interest-bearing loan		830		(830)		-	
Receivables for dividends from subsidiaries		4,382	-	-	-	-	4,382
Total current financial assets	5,652	7,739	1,009	(5,699)		(2,500)	6,201

Financial assets consist of receivables from subsidiary companies (Euro 6,201 thousand), receivables for loans granted mainly to municipalities (Euro 2,900 thousand), receivables for mortgages to be collected (Euro 468 thousand), portfolio securities (Euro 1,462 thousand).

27 Other current assets

Other current assets comprise:

	31/12/2006	31/12/2005	Changes
Current receivables from subsidiary companies	20,620	2,396	18,224
<i>of which advances</i>	1,532	2,167	(635)
<i>of which tax receivables</i>	19,075		19,075
<i>of which other receivables</i>	13	229	(216)
Current receivables from associated companies		559	(559)
<i>of which sundry advances</i>		559	(559)
Current receivables from others	35,902	53,072	(17,170)
<i>of which direct and indirect taxes</i>	970	3,849	(2,879)
<i>of which IRES/IRAP advances</i>	2,741	11,178	(8,436)
<i>of which sundry tax receivables</i>	760	472	288
<i>of which contributions</i>	5,477	2,381	3,096
<i>of which advances to suppliers/employees</i>	3,167	2,234	933
<i>of which due from social security institutions</i>	275	216	59
<i>of which insurance reimbursements</i>		91	(90)
<i>of which other receivables</i>	22,511	32,651	(10,139)
Current receivables from related parties	2,022	85	1,937
<i>of which sundry advances</i>	787	4	782
<i>of which sundry tax receivables</i>	1,235	80	1,155
Non-current receivables from others	29,719	6,888	22,831
<i>of which guarantee deposits</i>	13,981	1,629	12,352
<i>of which direct and indirect taxes</i>	723	722	
<i>of which IRES/IRAP advances</i>	88	647	(559)
<i>of which withholding on interest</i>	40	37	3
<i>of which other receivables</i>	14,889	3,853	11,035
Total	88,262	62,999	25,263

Receivables due from subsidiary companies relate to sundry advances and tax-related receivables (receivables for tax consolidation).

A breakdown by company is provided below:

	balance as at 31/12/2006
A.S.A SpA	(49)
Akron SpA	241
Ambiente 3000 Srl	137
Ecologia Ambiente Srl	1,049
Ecosfera SpA	4
Famula On-line SpA	472
Frullo Energia Ambiente Srl	4,838
Hera AMI (Imola-Faenza) Srl	(267)
Hera Bologna Srl	4,549
Hera Comm Srl	(2,811)
Hera Ferrara Srl	2,511
Hera Forlì-Cesena Srl	(65)
Hera Gas Tre SpA	(1)
Hera Luce Srl	942
Hera Modena Srl	8,253
Hera Ravenna Srl	(411)
Hera Rimini Srl	880
Hera Trading Srl	(62)
Medea SpA	(275)
Nuova Geovis SpA	175
Recupera Srl	203
SBI Srl	(31)
Sotris SpA	189
Uniflotte Srl	150
Total	20,620

Current receivables due from others

Amounts receivable for direct and indirect taxes for Euro 970 thousand chiefly refer to stamp duty on contracts and to VAT/IRES receivables following liquidation of Group companies.

Receivables for IRES/IRAP advances for Euro 2,741 thousand relate exclusively to the IRAP receivable due following the advances paid by Hera SpA in excess of the total liability. The considerable change compared to the previous year relates to the Group IRES receivable within the scope of the procedure for “tax consolidation”.

Sundry tax receivables equal to Euro 760 thousand mainly relate District Heating tax receivables and to receivables for investments in underprivileged areas pursuant to Law 388/200.

Receivables for contributions equal to Euro 5,477 thousand chiefly relate to grants disbursed by various entities. The increase compared to the previous year is due to accounting on an accruals basis (with respect to a cash basis in the previous year). The change in the criteria did not have any effect on the income statement for the year.

Receivables for advances to suppliers/employees are equal to Euro 3,167 thousand.

Receivables due from social security institutions are equal to Euro 275 thousand.

Other receivables equal to Euro 22,511 thousand chiefly relate to receivables due from the Electricity Equalisation Fund, receivables due from asset companies, receivables for substitute tax on mortgages and substitute tax paid by the company to be able to deduct amortisation of the share swap deficit (short-term portion) for tax purposes, receivables due from insurance companies.

Receivables from related companies relate to sundry advances.

As at 31 December 2006 the item breaks down as follows:

balance as at 31/12/2006	
Metaenergy Srl	787
Total	787

Non-current receivables due from others, amounting to Euro 29,719 thousand chiefly relate to guarantee deposits (Acosea Impianti S.r.l), to receivables for substitute tax paid by the company to be able to deduct amortisation of the share swap deficit (long-term portion) for tax purposes.

Geographical distribution of receivables

All receivables due to the company are owed by Italian customers and investee companies.

28. *Cash and cash equivalents*

	31/12/2006	31/12/2005	Changes
Bank and postal deposits	120,013	86,599	33,414
Cash on hand	40	64	(24)
Total	120,053	86,663	33,390

As at 31 December 2006 cash and cash equivalents total Euro 120,053 thousand (Euro 33,390 thousand as at 31 December 2005) and include cash, cash equivalents existing at the central and decentralised accounts, deposits held at banks and credit institutions in general available for current operations as well as postal current accounts.

29. *Share capital and reserves*

The statement of changes in shareholders' equity is shown in paragraph 3.03 of these parent company financial statements.

The information to be provided pursuant to Article 2427, no. 7 bis, which prescribes that the individual items making up shareholders' equity be analysed, setting forth their specification of availability, origin and utilisation in previous years, is stated below.

	Amount	Possibility of utilisation	Available portion
CAPITAL	1,016,752		
reserve for own shares at par value	(115)		
CAPITAL RESERVE:			
Share premium reserve	12,253	A,B	12,253
Revaluation reserve	2,885	A,B,C	2,885
Capital account reserves	5,400	A,B,C	5,400
Reserve for difference between purchase value and par value of own shares	(237)		
Reserve for share swap surplus	120,556	A,B,C	120,556
Reserve for contribution	48	A,B,C	48
TOTAL CAPITAL RESERVES	140,905		
PROFIT RESERVES:			
Legal reserve	13,955	B	
Extraordinary reserve	13,544	A,B,C	13,544
TOTAL PROFIT RESERVES	27,499		
IAS/IFRS RESERVES			
Reserve IAS/IFRS effects	50,155	available	50,155
Reserve IAS/IFRS effects	20,532	unavailable	
Dividends	(48,858) *		
Reserve for IAS 3	149,790	available	149,790
TOTAL IAS/IFRS RESERVES	171,619		
GRAND TOTAL	1,356,660		354,631
NON-DISTRIBUTABLE PORTION			16,353
DISTRIBUTABLE PORTION			338,278

legend: A :for share capital increase;B: to cover losses; C: for distribution to shareholders

* This negative equity reserve will be covered by allocation of a corresponding portion of profit for the year 2006

** relating to the share premium reserve (unavailable until the legal reserve has reached the legal limit) and to constraint arising from incorporation of Meta SpA relating to the tax moratorium (Euro 4,100 thousand)

Share capital

The share capital as at 31 December 2006 amounts to Euro 1,016,752,029, is fully paid in and is represented by 1,016,752,029 ordinary shares with a par value of Euro 1 each.

Reserves for own shares

The item Reserves for own shares includes the “reserve for own shares at par value” with a negative value equal to Euro 115 thousand and the “reserve for own shares exceeding par value” with a

negative value equal to Euro 237 thousand. These reserves, set up in compliance with the IAS/IFRS standards, cover the number of own shares held in the portfolio at year-end date. The change during the year generated gains amounting to Euro 411 thousand, attributed directly to shareholders' equity reserves.

Reserves

The item Reserves equal to Euro 339,612 thousand includes the following reserves:

- legal for Euro 13,955 thousand
- extraordinary for Euro 13,544 thousand
- revaluation for Euro 2,885 thousand
- capital account payments for Euro 5,400 thousand
- share premium reserve for Euro 12,253 thousand
- others for Euro 49 thousand.
- share swap surplus for Euro 120,556 thousand
- IAS/IFRS for Euro 20,769 thousand
- capital gains own shares for Euro 411 thousand
- IFRS 3 for Euro 149,790 thousand

Reserves for derivative instruments measured at fair value

As at 31 December 2006 this reserve totalled Euro 648 thousand following changes determined by fair value valuation of hedging derivatives.

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

As at 31 December 2006 medium/long term loans total Euro 816,705 thousand (Euro 404,473 thousand as at 31 December 2005) and are represented by the bond loan and by the mortgages and loans raised by Hera SpA

On 16 February 2006, Hera SpA issued a Euro 500,000 thousand 10-year eurobond repayable in full on maturity. The loan is regulated by 4.125% fixed rate annual warrants.

As at 31 December 2006 short-term loans totalled Euro 421,353 thousand (Euro 636,086 thousand as at 31 December 2005) and include payables to banks for Euro 317,998 thousand, payables for current portions of loans to banks for Euro 81,507 thousand, payables to others for current portions of loans for Euro 3,663 thousand and financial payables for interest expense relating to the bond issue for Euro 17,969 thousand.

Existing loans at the balance sheet date are not provided with real security. It is also noted that there are no debt positions requiring the application of financial covenants; the bond loan agreement contains a negative pledge clause, in line with international market practices.

A list of the mortgage loans outstanding as at 31 December 2006 is provided in the table below.

	Residual 31/12/2006	Portion within 2007	Portion after 2007	Portion within 5th year	Portion after 5th year
Various banks					
Banca delle Marche	870	176	694	870	
Banca Intesa	94,039	21,556	72,483	90,175	3,863
Banca Nazionale del lavoro	258	258		258	
Banca Opi	65,825	13,509	52,316	54,536	11,289
Banca Popolare di Ravenna	253	81	172	253	
Banco di Sicilia	341	224	117	341	
Cassa di Risparmio di Bologna	6,223	774	5,449	4,355	1,868
Cassa di Risparmio di Cento	1,041	402	638	1,041	
Cassa di Risparmio di Cesena	6,886	2,279	4,607	5,461	1,425
Cassa di Risparmio di Ravenna	1,978	88	1,890	484	1,494
Crediop Spa	593	593		593	
Fon Spa	5,124	540	4,585	2,972	2,152
Interbanca Spa	6,417	2,298	4,119	6,417	
Istituto San Paolo di Torino	2,164	257	1,907	2,164	
Mcc Spa	41,093		41,093	16,026	25,067
Mediocredito	60,000	15,000	45,000	60,000	
Monte dei Paschi di Siena	21,658	4,975	16,683	21,658	
Unicredit Banca	8,523	5,497	3,025	8,375	148
Unipol	52,000	13,000	39,000	52,000	
Total	375,286	81,507	293,779	327,981	47,305
Cassa depositi e prestiti					
Cassa depositi e prestiti	29,031	3,663	25,369	16,530	12,502
Total	29,031	3,663	25,369	16,530	12,502
General total	404,317	85,170	319,147	344,510	59,807

31. *Provision for employee leaving indemnities and other similar benefits*

The changes in the employee leaving indemnities are as follows:

	31/12/2005	Service Cost	Financial charges	Utilisations and other changes	31/12/2006
Provision for employee leaving indemnity	28,487	1,633	506	(16,553)	14,073
Gas discount	3,394	6	87		3,487
Premungas fund	1,882	97	98	(737)	1,340
Total	33,763	1,736	691	(17,290)	18,900

This item represents the provisions made in favour of staff for the leaving indemnity, 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 (on the basis of statistical assumptions and 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.

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.

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

Rates	2005	2006
Average discounting back rate	3.60%	4.43%
Average cost of labour increase rate	2.80%	3.04%

32. Provisions for risks and charges

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

	31/12/2005	Allocations	Utilisations and other changes	Other changes	31/12/2006
Pensions and similar commitments	36				36
Staff disputes and legal costs	5,925	3,435	(900)	(726)	7,734
Landfill closure and post-closure costs	35,323	4,289	723		40,335
Provision for restoration of third-party assets	35,819	12,771	(640)	163	48,113
Provision for risks and charges	16,854	3,684	(2,318)	(829)	17,391
<i>Provision for sundry risks</i>	5,993	1,825	(366)	(1,086)	6,366
<i>Provision for provisional plans (piani stralcio)</i>	8,592		(1,143)		7,449
<i>Provision for future costs for disbursements</i>	2,269	1,860	(809)	257	3,576
Provision for tariff reductions	3,569	113	(370)	(86)	3,226
Total	97,526	24,292	(3,505)	(1,478)	116,835

The provision for staff disputes and legal costs amounting to Euro 7,734 thousand, reflects the assessments of the outcome of lawsuits and disputes brought by employees.

The provisions also include Euro 4,346 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, Hera SpA believes that it is not obliged to pay this contribution by virtue of specific contractual clauses which, limiting the employer's power to withdraw, in fact ensures the stability of the employment relationship with the employees. Requests for exemption from this contribution have been submitted. 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 appears 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 Hera SpA 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, Hera SpA 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, Hera SpA considered it appropriate to pay the sickness contribution as from 1 January 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 be 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 8.1 million. This provision is to be considered fair, bearing in mind the foreseeable evolution of the dispute and the opinion of the legal counsel.

The **landfill closure and post-closure costs provision** equal to Euro 40,335 thousand represents the amount set aside by the company 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 year.

The **provision for the restoration of third party assets equal to Euro 48,113 thousand** includes the provisions made in relation to the legal and contractual restrictions encumbering the company 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 year, 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** equal to Euro 17,391 thousand carries allocations made against various types of risks.

Specifically, a provision equal to Euro 3,576 thousand has been recorded for self-certification of electricity tariffs deriving from estimates of “surplus” revenues pertaining to the closing year, calculated in compliance with the provisions of Resolution no. 204/99 and thereafter of the Authority for Electricity and Gas. This resolution provides that each operator, with regard to each type of user, must submit self certification of the amount of the “surplus” revenues pertaining to the year, using a calculation procedure that will be determined by 31 July of the next year, and must then provide for reimbursement to users.

A provision for provisional plans (piani stralcio) has also been allocated, amounting to Euro 7,749 thousand set up in past years to finance investments in sewerage and purification in the water service.

The remaining portion relates to the provisions set up for waste storage and for costs for restoration of freely transferable assets of the Rosola aqueduct system under concession

The **tariff reduction provision**, totalling Euro 3,226 thousand, has been set up to cover the charges deriving from the acknowledgement to retired electricity division staff of tariff concessions for electricity consumption.

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

33. Deferred tax liabilities

As at 31 December 2006 deferred tax liabilities total Euro 119,892 thousand (Euro 85,540 thousand as at 31 December 2005). The provision for deferred taxes comprises the timing differences between the net profit and the taxable income and those which emerged following the application of the IAS/IFRS. These liabilities are collectable when the differences which generated them reverse to the income statement.

34. Financial leasing payables

As at 31 December 2006 financial leasing payables total Euro 12,954 thousand (Euro 17,524 thousand as at 31 December 2005)

	31/12/2006	31/12/2005	Changes
Current financial leasing payables	4,158	4,321	(163)
Non-current financial leasing payables	8,796	12,933	(4,137)
Total	12,954	17,254	(4,300)

This item represents the recording of payables arising from the accounting of leasing transactions using the financial method.

35. Trade payables

	31/12/2006	31/12/2005	Changes
Current advances	424	1,140	(717)
Current payables due to suppliers	141,199	132,642	8,557
of which due to suppliers	58,884	73,078	(14,194)
of which due to suppliers for invoices to be received	82,315	59,564	22,751
Current payables due to subsidiary companies	657,019	605,421	51,598
Current payables due to associated companies	5,932	7,162	(1,230)
Current payables due to related parties	152,840	30,910	121,930
Other current payables	954	143	811
Non-current payables due to related parties	556	615	(59)
Total	958,924	778,033	180,891

Advances equal to Euro 424 thousand refer to advances received from customers for works to be performed.

Payables to suppliers, all of a commercial nature and inclusive of sums set aside to cover invoices due, total Euro 141,199 thousand as at 31 December 2006 (Euro 132,642 thousand as at 31 December 2005). The increase in the item relates to the increase in and the different breakdown of business turnover. Payables to suppliers also include payables to foreign suppliers within Europe for Euro 914 thousand. Payables to suppliers are all collectible within the next year.

Payables to subsidiary companies equal to Euro 657,019 thousand relate to payables arising from application of service contracts (waste disposal, IT services, telephony, equipped premises, fleets, etc).

The table below provides a breakdown of payables due to subsidiary companies:

	balance as at 31/12/2006
A.S.A S.p.A.	1,338
Akron SpA	4,401
Ares S.p.A. Consortile	12
CGS Trasn. Idea Metropoli cgs srl	(1)
Ecologia Ambiente Srl	2,707
Ecosfera spa	792
Famula On-line SpA	19,948
Frullo Energia Ambiente S.r.l.	3,114
Gal.A. Spa	1,459
Hera AMI (Imola-Faenza) Srl	33,564
Hera Bologna Srl	101,616
Hera Comm Srl	154,908
Hera Ferrara srl	34,596
Hera Forlì-Cesena Srl	67,902
Hera Luce S.r.l.	4,909
Hera Modena Srl	112,414
Hera Ravenna Srl	45,739
Hera Rete Modena S.r.L	500
Hera Rimini Srl	54,606
Hera Servizi Funerari S.r.L	1
Hera Trading s.r.l.	887
Herasocrem S.p.A.	138
Ingenia Srl	150
Nuova Geovis SpA	1,620
Recupera S.r.l.	1,581
Romagna Compost Srl	582
SBI Srl	62
Sotris SpA	2,583
Uniflotte srl	4,892
Total	657,019

The table below provides a breakdown of payables due to associated companies, all governed at arm's length conditions.

	balance as at 31/12/2006
Acantho S.p.a.	4,563
Agess S.c.a.r.l.	10
Estense Global Service Soc.Cons. a r.l.	707
Italcic S.C.A.R.L.	490
Service Imola srl (AMI)	107
Sinergie Ambientali S.r.l.	35
Other	19
Total	5,932

Payables to related companies equal to Euro 152,840 thousand are governed at arm's length conditions. The considerable increase compared to the previous year is due to the payables due to Metaenergy, subsidiary as at 31 December 2005 and related as at 31 December 2006 (the equity investment was sold by Hera SpA to Hera Comm S.r.l. on 9 May 2006).

The table below provides a breakdown of payables due to related companies:

balance as at 31/12/2006	
Adriatica Acque S.r.l.	
AMIR - assets	1,876
AREA - assets	1,441
AttivaBologna SRL consort.	892
Calorpiù Italia S.C.A.R.L.	3,944
Calorpiù Modena S.C.A.R.L.	80
Comune di Bologna	4,949
Comune di Modena	14,312
CON.AMI	3,099
Eris srl Ener. Ris. Svil.	958
GAS RICCIONE SpA	3
Hera Energia Bologna srl	367
Meta Service Srl	3,301
Metaenergy Srl	107,718
Romagna Acque spa	188
SGR Servizi SpA	89
Sinergia Srl	3,427
SIS SPA - SOCIETA' ITALIANA SERVIZ	791
TEAM - assets	693
Unica reti - assets	4,712
Total	152,840

The item other payables, amounting to Euro 954 thousand, represents further trade payables.

Non-current payables to related parties due to CON. AMI are equal to Euro 556 thousand.

balance as at 31/12/2006	
CON.AMI	556
Total	556

36. *Income taxes payable*

As at 31 December 2006 tax liabilities total Euro 28,316 thousand (Euro 14,061 thousand as at 31 December 2005). They can be broken down as follows.

	31/12/2006	31/12/2005	Changes
Current tax liabilities:	28,317	14,061	14,256
income taxes (IRES and IRAP)	3,749	-	3,749
tax on consumption and regional surtax	2,508	3,391	(883)
withholding on employees	1,864	2,358	(494)
VAT	12,176	-	12,176
sewerage charges	4,606	5,199	(593)
other landfill tax liabilities	-	3,048	(3,048)
other tax liabilities	3,415	65	3,350
Total	28,317	14,061	14,256

The item income taxes due (IRES and IRAP) equal to Euro 3,748 thousand relate to the Group IRES payable (for the difference compared to the previous year, please refer to the notes on the item other current assets “receivables for IRES/IRAP advances”).

The increase in the (Group) VAT payable, equal to Euro 12,176 thousand, relates to the amounts invoiced in the last quarter 2006 by a Group Company (Hera Comm S.r.l.); during the last quarter 2005 the billing process slowed down due to implementation of the new IT system.

The items “landfill tax liabilities” and “other tax liabilities” both relate to the payable for ecotax relating to the last quarter 2006 paid in 2007.

Tax liabilities are payable within the next year.

37. Other current liabilities

As at 31 December 2006 other current liabilities total Euro 92,094 thousand (Euro 125,654 as at 31 December 2005) and break down as follows:

	31/12/2006	31/12/2005	Changes
Other current liabilities:	92,094	125,653	(33,560)
INPS Social Security Institutions	932	822	111
INPAP Social Security Institutions	1,283	1,214	68
INAIL Social Security Institutions	1	21	(20)
Other Social Security Institutions	1,233	3,209	(1,976)
personnel	4,871	6,191	(1,320)
Diectors and Statutory Auditors	44	49	(5)
guarantee deposits	24,170	23,693	477
customers	967	2,327	(1,360)
provisional plans (piani stralcio)	4,485	12,288	(7,803)
contributions towards inlets/outlets and pipelines	635	584	51
other payables	53,473	75,256	(21,784)
TOTAL	92,094	125,653	(33,560)

Payables due to social security institutions relate to contributions due to the social security and welfare institutions for the month of December. Said payables are collectible within the next year.

Payables due to personnel relate to holidays accrued and not taken, productivity bonuses and wages and salaries.

Payables for guarantee deposits to customers amount to Euro 24,170 thousand.

Payables for the provisional plans (piani stralcio) equal to Euro 4,485 thousand are composed of payables due to municipalities for domestic use purification/sewerage tariffs (this item will terminate with the adjustment billing as the provision relating to the provisional plans was applied until the year 2004).

The item other payables equal to Euro 53,473 thousand chiefly consists of payables to municipalities for environmental inconvenience, payables to the Electricity Equalisation Fund, payables for the provisional plans referred to income of future years proportional to the amortisation of the relative fixed assets and payables for grants relating to unfinished works.

38. Guarantees provided

	31/12/2006	31/12/2005	Changes
Sureties provided in the interest:			
- of third parties	304,168	156,325	147,843
Total	304,168	156,325	147,843
Other unsecured guarantees provided in the interest:			
- of subsidiary companies	268,958	139,696	129,262
- of associated companies	146,267	127,992	18,275
Total	415,225	267,688	147,537
Total	719,393	424,013	295,380

In the sureties provided to third parties, the change compared to 2005, equal to Euro 147,843 thousand, is partly due to the stipulation of new guarantees to secure the post-closure costs of the landfills as replacement of the guarantee deposits for Euro 18,035 thousand and to new guarantees issued to secure mortgages for Euro 10,692 thousand.

The surety issued by Unicredit Banca d'Impresa SpA, for a total of Euro 27,681 thousand, in favour of the Municipality of Pesaro in its capacity as representative of the public shareholders of Aspes Multiservizi SpA, to guarantee performance of the obligations to be met by Hera following stipulation of the transfer contract, was brought to Euro 5,000 thousand following Hera SpA's purchase of further shares in the company Aspes Multiservizi SpA. It is reminded that on 19 September 2002 Hera SpA stipulated a transfer contract by virtue of which it purchased a 24% equity investment in the share capital of Aspes Multiservizi SpA. In 2004 Hera SpA increased its equity investment to 26.87% having undertaken to acquire, on request of the public shareholders of Aspes Multiservizi SpA, further holdings up to a maximum amount of 65% of the share capital. Thereafter, during 2006, Hera SpA once again increased its equity investment, bringing it up to 49.79%.

The unsecured guarantees, provided in the interest of subsidiary companies, include two letters of patronage for Euro 14,329 thousand issued in the interest of the subsidiary Gal.A, two letters of patronage issued in the interest of Medea for a total of Euro 16,779 thousand, guarantees provided for commodity swap contracts in the interest of Hera Trading for 17,000 thousand, guarantees provided for contractual obligations in favour of Hera Trading for Euro 58,941 thousand and in favour of Hera Comm for Euro 84,800 thousand, guarantees provided to Uniflotte on leasing contracts for Euro 4,253 thousand and lastly guarantees equal to Euro 62,077 thousand deriving from the incorporation of Meta SpA.

The unsecured guarantees, provided in the interest of associated companies, include guarantees relating to the acquisition of 39% of the company SET from RAETIA equal to a total of Euro 108,154 thousand of which Euro 51,000 thousand issued against the loan obtained from a pool of banks by said SET and approximately Euro 45,000 thousand against guarantees issued to the builder of the power station under construction. They also include guarantees for Euro 14,586 thousand provided for SET to the company ENI on the gas supply contract expiring on 31 January 2008 and for Euro 15,000 thousand referring to Acantho in relation to a non-binding letter of patronage against the non-recourse loan obtained by said Acantho from a pool of banking financiers. They also include a letter of patronage, for a countervalue of Euro 8,441 thousand, against financial leasing contracts stipulated by Acantho SpA.

With regard to the other commitments, the following is specified:

	31/12/2006	31/12/2005	Changes
Commitments			
Third party assets used by the company	1,472,439	1,390,667	81,772
Companies in usufruct	0	11,244	-11,244
Other	3,302	3,496	-194
Total	1,475,741	1,405,407	70,334

1) the third party assets used by Hera Spa consist in:

- water and gas cycle assets received under concession from the local authorities;
- leased assets of the asset companies again relating to the water and gas sectors

2) the usufruct contract for management of the landfills of the company Gal.A. SpA, which expired in early 2006, has been replaced by a landfill rent contract. Hence the value reported as at 31 December 2005, equal to Euro 11,244 thousand has been reclassified under third party assets under lease.

39 **Transactions with Related Parties**

Management of the services

As sole agency, the Hera SpA provides local public services of an economic nature and subject to license or franchise (distribution of natural gas via local pipelines, integrated water services and environmental services, including sweeping, collection, transportation and organization of waste treatment and disposal) to almost all related Municipal party areas. 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) to 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 exclusive rights under Italian regional law 25/1999 but subject to monitoring by the regional public services regulatory authority.

The above-mentioned regional law has appointed AATOs (Water and Waste Regulatory Authorities), as required under the national law, to organize and monitor integrated water services and urban hygiene service management, which were previously carried out by the licensing municipalities. In compliance with provisions of the regional law and most significant national law (particularly art. 113 of the Consolidated Local Authority Act), the Hera Group has signed special agreements with the AATOs, determining the implementation of technical planning and local tariffs.

Energy sector

In relation to the contracts in the Gas Area, management of the service is, as per normal practice, assigned exclusively to Hera SpA. Certain agreements stipulated prior to the enactment of industry regulations (the 'Letta' decree) involve the production and distribution of heat energy ("energy services").

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/EC) and subsequent reform of the energy markets (including the "Marzano law"). The residual duration of distribution agreements is not less than that foreseen in the Hera SpA 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. Gas distribution tariffs applied to the consumer are collected by Hera and established in accordance with current law and rulings of the Electrical and Gas Energy Authority (AEEG).

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.

In relation to the electricity area, the contracts relate to the distribution of energy, including management of the distribution network, decisions on maintenance work, planning and identification of the development interventions, operation of the plants and the carrying out of maintenance and development.

The most important agreement for the distribution of electricity was agreed with the Municipality of Imola, has a duration of thirty years with expiry on 31 December 2030 and is renewable based on the provisions of Article 2 of the Bersani Decree. A similar agreement exists for the management of networks previously assigned to META SpA, under Hera's responsibility as from 1 January 2006 following the merger of this former local government-run agency.

The Authority for Electricity and Gas may suspend or revoke the concession, based on a predetermined procedure, 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 to the users fixed tariffs in accordance with regulations in force and deliberations adopted by the Authority for Electricity and Gas .

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 SpA 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 water pipes 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.

Normally the 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 SpA, 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 SpA 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 SpA's dealings with users are governed and regulated by specific "Service Charters" that provide a detailed description of the services to be provided by the operator and the rights of users.

The fee received by Hera SpA for the management of the integrated water service consists of the payment of the tariffs in force determined, from 2004, on the basis of the standardised method introduced by the Galli law and subsequent legislation.

Waste management sector

The purpose of agreements signed by Hera SpA with the Water and Waste Regulatory Authorities is the exclusive management of waste collection services, road sweeping and cleaning and waste collection and disposal.

The duration of the Agreements is fixed by the regional regulations as ten years. The agreements govern the method for the operating the services, the amount payable to Hera SpA for the services performed (equal to the tariff, where implemented, in accordance with Italian Presidential Decree No. 158/1999), the reciprocal obligations of the parties and the cost of the concession rentals 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, Hera SpA has stipulated specific agreements with the Municipalities where the plants are located.

Management of the networks, plants and equipment

The infrastructures via which the local public services are carried out, or rather the gas networks and the water and sewerage networks, are in part owned by Hera SpA and in part owned by third parties (Municipalities, Consortiums of Municipalities, Asset Companies owned by local authorities). The dealings between the service operators and the owners of the operating assets are disciplined by specific agreements; 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 SpA 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 plans agreed with the Asset Companies.

Upon expiry of the contract, Hera SpA 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 Hera SpA 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 SpA up to the date of the return).

Integrated Water Cycle

For the period of the contract subsequent to December 31, 2006, the rental will be equal to a sum corresponding to the final value (that indicated in the rental contract of the business division) multiplied by the percentage established in the tariff as a percentage remuneration on the net capital invested, as determined by the application of the normalised method for the determination of the tariffs as per Regional Law No. 25/1999

Gas distribution

The rental contract of the business division relating to energy services does not indicate the amount of the rental for the periods after 31 December 2006.

Assets granted under rental contracts by CONAMI

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. This contract contains similar provisions to those contained in the contracts with the Asset Companies.

State property conceded in use to HERA together with the awarding of the services

The state properties utilised by Hera SpA for the carrying out of the operations are granted under use to Hera SpA together with the awarding of the relative public services.

Transactions between Hera and Romagna Acque

The Municipalities of Ravenna, Forlì, Cesena and Rimini, principal shareholders of Hera, are also the principal shareholders of Romagna Acque with whom AMF, AMIR, AREA, SIS, TEAM and UNICA, companies taking part in the integration, have agreed contracts for the procurement of water prior to the merger in Hera SpA. Following the spin-offs and mergers of business units relating to the aforementioned Company, 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 asset companies.

Taking into account the above, the following tables summarise only the most significant transactions with related parties.

The tables below show the percent weight of transactions with related parties on the income statement items for 2006 and 2005, and on the balance sheet as at 31 December 2006 and 31 December 2005.

2006

	Total	Absolute correlated value	%
Revenues	1,751,923	168,226	9.60%
Other operating income	50,419	1,656	3.28%
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	(173,880)	(4,379)	2.52%
Costs for services	(1,326,452)	(61,879)	4.67%
Other operating expenses	(25,585)	(1,175)	4.59%
Investee share of profit (loss)	51,546	700	1.36%
Financial charges	(66,749)	(3,208)	4.81%

2005

	Total	Absolute correlated value	%
Revenues	1,751,923	64,045	4.62%
Other operating income	50,419	428	1.33%
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)	(173,880)	(1,402)	1.53%
Costs for services	(1,326,452)	(44,497)	4.16%
Other operating expenses	(25,585)	(1,094)	4.54%
Investee share of profit (loss)	51,546	(54)	-
Financial charges	(66,749)	(12)	0.03%

31/12/2006	Total	Absolute correlated value	%
Current assets			
Trade receivables	1,192,841	197,582	16.56%
Other current assets	88,262	2,022	2.29%
Current liabilities			
Trade payables	958,924	152,840	15.94%
Other current liabilities	92,094	65	0.07%
31/12/2005	Total	Absolute correlated value	%
Current assets			
Trade receivables	1,114,285	31,434	2.82%
Other current assets	62,999	85	0.13%
Current liabilities			
Trade payables	778,033	30,910	3.97%
Other current liabilities	125,653	1,234	0.98%

The values shown in the table for 2006 regard the related parties listed below:

Adriatica Acque S.r.l.
 AMF -assets
 AMIR -assets
 AREA – assets
 Attiva Bologna Srl consortile
 Acosea Impianti S.r.l.
 Calorpiù Italia S.c.a r.l.
 Calorpiù Modena S.c.a r.l.
 Comune di Bologna
 Comune di Modena
 Consorzio energia servizi Bologna
 CON.AMI

DYNA GREEN S.r.l.
Eris S.c.a r.l.
FLAMEENERGY GMBH
Galsi SpA
Gas Riccione SpA
Hera Energia Bologna S.r.l.
Metaenergy S.r.l.
Meta Service S.r.l.
Oikothen
Romagna Acque S.p.A.
SGR Servizi SpA
Sinergia S.r.l.
SIS SpA – Società Italiana Servizi
Team – assets
Unica Reti- assets

The values shown in the table for 2005 regard the related parties listed below:

Adriatica Acque S.r.l.
AMF -assets
AMIR -assets
AREA – assets
Argile Gas
Attiva Bologna Srl consortile
Acosea Impianti S.r.l.
Comune di Bologna
CON.AMI
DYNA GREEN S.r.l.
Eris S.c.a r.l.
Gas Gas S.r.l.
Hera Energia Bologna S.r.l.
Oikothen
Romagna Acque S.p.A.
SGR Servizi SpA
Sinergia S.r.l.
Team – assets
TS Energia S.r.l.
Unica Reti- assets

The values regarding other related parties, such as subsidiaries and associated companies, are shown in the specific tables in the Balance Sheet and Income Statement.

40 Net financial position

NET FINANCIAL POSITION	31/12/2006	31/12/2005
(euro/m)		
Cash and cash equivalents	120.1	86.7
Other current loans	13.3	10.6
Current bank indebtedness	-317.5	-565.4
Current portion of non-current bank indebtedness	-99.7	-66.5
Other current loans	-3.7	-2.9
Financial liabilities from derivative instruments		
Financial leasing payables - expiring within the following year	-4.2	-4.3
Current financial indebtedness	-425.1	-639.1
Net current financial indebtedness	-291.7	-541.8
Non-current loans	24.3	57.4
Financial assets (liabilities) from derivative instruments	3.1	-8.5
Non-current bank indebtedness (long-term loans)+	-293.6	-372.5
Bonds issued	-497.6	0.0
Other non-current loans	-25.4	-31.1
Financial leasing payables - expiring beyond the following year	-8.8	-12.9
Non-current financial indebtedness	-825.4	-416.5
Net non-current financial indebtedness	-798.0	-367.6
Net financial indebtedness	-1089.7	-909.4

3.03 Statement of Changes in Shareholders' Equity

€/000	Share capital	Reserves	Reserves derivatives at fair value	Profit for the year	Shareholders' equity
Balance as at 31 December 2004	839,903	85,204		70,455	995,562
Effect application IAS 39		-2,010	-2,474		-4,484
Balance as at 1 January 2005	839,903	83,194	-2,474	70,455	991,078
merger Meta Group	176,849	222,829			399,678
fair value derivatives change in period		6	-1,711		-1,705
utilisation reserves		-762			-762
<u>Distribution of profit 2004:</u>					
dividends distributed				-50,394	-50,394
allocation to reserve		8,973		-8,973	0
economic effects IAS/IFRS		11,087		-11,087	0
Profit for the year				83,865	83,865
Balance as at 31 December 2005	1,016,752	325,327	-4,185	83,865	1,421,758
Balance as at 1 January 2006	1,016,752	325,328	-4,185	83,865	1,421,758
merger Geat Distribuzione Gas		323			323
own shares in portfolio	-115	175			60
fair value derivatives change in period		811	4,834		5,644
other changes		48			48
<u>Distribution of profit 2005:</u>					
dividends distributed		-19,406		-51,768	-71,174
allocation to reserve		4,240		-4,240	0
economic effects IAS/IFRS		27,857		-27,857	0
Profit for the year				68,068	68,068
Balance as at 31 December 2006	1,016,637	339,375	648	68,068	1,424,728

3.04 Cash Flow Statement

Rendiconto finanziario		
	31/12/2006	31/12/2005
Attività di gestione		
Cash flow		
Utile dell'esercizio	68,068,187	83,864,780
Ammortamento e svalutazione immobilizzazioni materiali	98,221,261	70,040,170
Ammortamento e svalutazione attività immateriali	29,377,919	23,948,861
Totale cash flow	195,667,367	177,853,811
Variazione imposte anticipate e differite	34,057,832	33,440,812
Trattamento di fine rapporto e altri benefici:		
Accantonamenti / (utilizzi)	-14,862,860	7,103,385
Fondi per rischi ed oneri:		
Accantonamenti / (utilizzi)	19,309,383	28,791,364
Totale cash flow prima delle variazioni del capitale circolante netto	234,171,722	247,189,372
Capitale circolante		
Variazione crediti commerciali	-78,556,184	-377,997,493
Variazioni rimanenze	3,452,985	-117,968
Variazione altre attività correnti	-25,263,019	12,258,265
Variazione debiti commerciali	180,891,121	142,688,790
Variazione debiti tributari	14,255,824	-14,822,146
Variazione altre passività correnti	-33,559,832	25,065,911
Variazione capitale circolante	61,220,896	-212,924,642
Disponibilità generate dall'attività di gestione	295,392,617	34,264,731 a)
Attività di investimento		
Disinvestimento/(investimento) in immobilizzazioni materiali al netto degli investimenti/disinvestimenti	-189,861,032	-626,303,930
Disinvestimento/(investimento) in attività immateriali al netto degli investimenti/disinvestimenti	-45,889,915	-27,621,232
Avviamento	-11,960,846	-102,431,745
Investimenti in partecipazioni al netto dei disinvestimenti	-162,849,191	-29,140,680
(Incremento) / decremento di altre attività di investimento	32,079,235	-5,695,533
Disponibilità generate/(assorbite) dall'attività di investimento	- 378,481,749	- 791,193,120 b)
Attività di finanziamento		
Finanziamenti a medio/lungo termine	412,231,643	37,841,497
Variazione delle voci di patrimonio netto	6,074,546	397,209,712
Variazione di indebitamento bancario a breve termine	-214,732,870	370,413,383
Dividendi distribuiti	-71,172,642	-50,394,233
Variazione dei debiti per locazioni finanziarie	-4,299,844	-2,000,535
Variazioni strumenti finanziari - derivati	-11,621,600	4,326,041
Disponibilità generate/(assorbite) dall'attività di finanziamento	116,479,233	757,395,865 c)
	33,390,102 (a+b+c)	467,476 (a+b+c)
Variazione nelle disponibilità liquide e mezzi equivalenti		
Disponibilità liquide e mezzi equivalenti all'inizio dell'esercizio	86,663,014	86,195,538
Disponibilità liquide e mezzi equivalenti alla fine dell'esercizio	120,053,116	86,663,014
	33,390,102	467,476

3.05 Report by the Board of Statutory Auditors

Company Registry No. 04245520376

HERA S.P.A.

Head office at Viale C.BERTI PICCHAT 2/4 - BOLOGNA (BO)

Share capital € 1,016,752,029.00 fully paid

Report of the Board of Statutory Auditors

pursuant to Article no. 2429 of the Italian Civil Code

Dear Shareholders of HERA S.P.A.,

1. The company engaged the auditing company Price Waterhouse Coopers, registered with the roll of the Ministry of Justice, to carry out the audit of the company and, as a result, the accounting records have been verified pursuant to Article no. 2409-bis and ff. of the Civil Code by the auditing company appointed by the Shareholders' Meeting.

In particular, pursuant to the provisions of Article no. 2429 of the Civil Code, Article no. 153 of Legislative Decree no.58/1998 as amended by Article no. 3, paragraph 1 of Legislative Decree no. 3 of 6 February 2004 and in accordance with Consob Communication of 6 April 2001, the Board of Statutory Auditors reports to the Shareholders' Meeting convened to approve the Financial Statements at 31 December 2005.

2. During the financial year ended on 31 December 2006 we have carried out the supervisory duties prescribed by law. By obtaining information from the departmental heads, the examination of the documentation provided to us and the examination of the auditing book we have gathered knowledge and verified, as far as it fell within our competence, the adequacy of the company's organizational structure, the internal control system, the administrative and accounting system and its reliability in providing an accurate representation of business operations.
3. During the financial year we have attended 14 meetings of the Board of Directors, 15 meetings of the Board of Statutory Auditors and 1 Shareholders' Meeting and, in compliance with the provisions of the Articles of Association, we have been periodically informed by the Directors on the company's performance. In particular, the most significant economic, financial and asset-based transactions carried out by the Company during the accounting year, in compliance with the law and the memorandum of Association, are as follows:
 - acquisition of the new office in Rimini;
 - sale of the building located at Via Dario Campana in Rimini and of some premises used as warehouses in Bologna;
 - sale of the composting plant located in Cà Baldacci and Voltana to the

company Recupera Srl;

- AGEA ONE Srl: the company was placed into liquidation on 19 April 2005 was struck off the Register of Companies on 29 June 2006 ;
- ASPES MULTISERVIZI SpA: on 27 July 2006 Hera SpA acquired no. 2,512,488 shares of ASPES MULTISERVIZI SpA from the Municipality of Pesaro. As a result of the above the shareholding increased from 26.87% to 49.79%;
- BIO ENERGY Srl: the company was placed into liquidation on 21 April 2006 and was struck off the Register of Companies on 29 December 2006;
- FORMULA ON LINE SpA: the increase registered in the year of € 629 thousand relates to the share capital increase of Euro 1,048 thousand subscribed and paid by Hera SpA;
- GAS RICCIONE SpA: the stake acquired following the merger by incorporation of Geat Distribuzione Gas SpA in Hera SpA was sold on 18 July 2006 to Hera Comm Srl;
- HERA CLION Srl: the company was placed into liquidation on 3 October 2005 and was struck off the Register of Companies on 7 September 2006;
- HERA IMMOBILIARE Srl: on 17 January 2006 Hera Immobiliare Srl resolved to reduce its share capital due to company losses and to subsequently reinstate it. On 12 June 2006 the Shareholders' Meeting resolved for the voluntary winding up of the company. The company was struck off the Register of Companies on 6 September 2006;
- HERA LUCE Srl: in January 2006 Hera SpA acquired the stake held by Gemmo SpA: the shareholding therefore increased from 69.3% at 31 December 2005 to 87.3%;
- HERA MODENA Srl: with effect from 1 January 2006 Hera SpA transferred its network management business unit to Modena's locally-operating company (*Società Operativa Territoriale*) with the resulting share capital increase from Euro 10 thousand to Euro 990 thousand;
- HERA RETE MODENA Srl: on 27 June 2006, upon execution of the preliminary agreement underwritten on 13 March 2006, Hera SpA and Enel Distribuzione SpA signed the final contract for the acquisition by Hera SpA of the entire shareholding in Hera Rete Modena Srl, a company whose activity is the sale and distribution of electricity on the territory of 18 Municipalities of the Province of Modena;
- MEDEA SpA: through Extraordinary Shareholders' Meeting of 18 April 2006, Medea SpA resolved to reduce its share capital to make up 2005 losses of Euro 2,164 thousand. Subsequently, the share capital was increased by the same amount and subscribed by the sole shareholder Hera SpA. The increase was not paid for but settled through the reduction of a loan due by Medea SpA to Hera SpA;
- METAENERGY Srl: on 9 May 2006 Hera SpA sold its entire shareholding to Hera Comm Srl

- META RETE GAS Srl: the company was placed into liquidation on 24 June 2005 and was struck off the Register of Companies on 3 August 2006;
- META SERVICE Srl: on 5 December 2006 Hera SpA sold its 51% shareholding to Uniflotte Srl;
- RECUPERA Srl: as of 1 January 2006 Hera S.p.A sold the composting plants of Cà Baldacci and Voltana Lugo to Recupera Srl thus increasing the value of the shareholding by Euro 11,266 thousand. The shareholding thus increased from 75.5% to 93.95%;
- RIO D'ORZO Srl: the company was placed into liquidation on 7 April 2006 and was struck off the Register of Companies on 5 September 2006;
- TS DISTRIBUZIONE Srl: the company was placed into liquidation on 9 May 2006 and was struck off the Register of Companies on 21 November 2006;
- TECNOMETANO Srl: the company was placed into liquidation on 10 May 2005 and was struck off the Register of Companies on 27 July 2006;
- UNIFLOTTE Srl: on 5 December 2006 Hera SpA sold 2% of its shareholding in Ecologia Soluzione Ambiente SpA (the percentage ownership increased from 99% to 97%);
- VIVISERVIZI S.c.a.r.l.: with effect from 1 January 2006 Viviservizi resolved both a share capital reduction, freeing the shareholders from the payment of the ten-tenths subscribed and not yet paid, and a share capital reduction to make up losses with subsequent reinstatement;
- 4ITALY ENERGY & ENVIRONMENT SpA: Hera SpA sold its shareholding on 27 June 2006 to two non-group companies;
- ACANTHO SpA: on 4 April 2006 Hera SpA sold no. 496,000 shares of Acantho SpA to Infracomm. Hera SpA's stake increased from 47.16% to 47.46%;
- A.S.E.R. Srl: on 9 June 2006 the company A.S.E.R. was set up and a 25% shareholding was subscribed by Hera SpA. On 11 December 2006 Hera SpA sold its entire shareholding to a third company;
- MODENA NETWORK SpA: following the resolution to increase the share capital from Euro 2,000 thousand to Euro 3,000 thousand by Modena Network SpA, Hera SpA subscribed and paid its own share (30%);
- SAT SpA: on 18 October 2006 Hera S.p.A. acquired 46.50% of the share capital of SAT SpA, a company whose object is the provision of environmental, gas distribution and integrated water cycle services in the territory of the Municipalities of Sassuolo, Formigine, Fiorano Modenese, Maranello e Serramazzoni;
- SET SpA: in 2006 Hera SpA paid € 7,059 thousand for future increases in share capital;
- YELE SpA: on 28 December 2006 Hera SpA sold its shareholding in YELE SpA to a third company;

-
- ASM BRESCIA SpA: Hera SpA sold its shares in ASM BRESCIA SpA on 4 August 2006;
 - CALENIA ENERGIA SpA: in 2006 Hera SpA paid € thousand for future share capital increases;
 - DELTAWEB SpA: on 12 September 2006 the Shareholders' Meeting of Delta Web SpA resolved the share capital increase subscribed by the shareholders, including Hera SpA, by waiving its right to part of the sums due to it for loans granted.
4. The Board of Statutory Auditors did not find any atypical/unusual transactions, including those carried out with related parties or group companies
 5. On 10 April 2007 the Auditing company issued its report pursuant to Article no. 2409-ter of the Civil Code which states that the financial statements as at 31 December 2006 give a true and fair view of the Company's financial position and its result for the year.
 6. The Board of Statutory Auditors did not receive any complaints under Article no. 2408 of the Civil Code.
 7. The Board of Statutory Auditors did not receive any complaints from third parties.
 8. During the financial year ended on 31 December 2006 your company did not engage the Auditing company to carry out assignments other than the audit prescribed by legal regulations.
 9. During the year the Board of Statutory Auditors issued the following opinions required by law:
 - Opinion on the Proposal to engage the Auditing company to carry out the audit of the financial statements, issued on 27 March 2006.
 - Opinion on the appointment of the Manager in charge of preparing the accounting documents, issued on 10 October 2006.
 10. The Board of Statutory Auditors verified, through direct checks and information obtained from the Auditing company, that legal regulations concerning the format and preparation of the Company's financial statements and the related Directors' Report had been complied with. Furthermore, the Board of Statutory Auditors examined the valuation criteria adopted in preparing the financial statements provided in order to establish that it complied with legal regulations as well as economic-business conditions.

The Board of Statutory Auditors confirms that the directors, in preparing the financial statements, did not depart from the legal provisions set out in Article no. 2423, fourth paragraph of the Civil Code.

10. The balance sheet shows a profit for the year of € 68,068,187 and can be summarised as follows:

Assets	Euro 4,015,424,805
Liabilities	Euro(2,590,696,395)
- Net equity (excluding profit for the year)	Euro 1,356,660,223
- Profit/(loss) for the year	Euro 68,068,187

Accounts, commitments, risks and other memorandum accounts Euro

The abridged Income statement is as follows:

	Note	2006
Revenues	3	1,751,922,579
Changes in inventories of goods, finished products and work-in-progress	4	(55,573)
Other operating income	5	50,419,191
Raw materials and consumables 6		(1.146.683)
(net of change in inventories of raw mat. and supplies)		(173,879,825)
Costs for services	7	(1,326,452,445)
Staff costs	8	(58,957,545)
Amortization, depreciation and allocations	9	(145,053,130)
Other operating costs	10	(25,555,221)
Capitalised costs	11	(7,220,410)
		<hr/>
EBIT		79,558,440
		<hr/>
Value reversal of tangible fixed assets 12		
Share of profit/(loss) of associated companies	13	51,545,484
Financial income	14	17,312,651
Financial charges	14	(66,749,183)
		<hr/>
Profit before tax		81,668,332
		<hr/>
Tax charge for the year	15	(13,600,205)
		<hr/>
Net profit for the year		68,068,187
		=====

12. Pursuant to Article no. 2426 of the Civil Code, point 6, the Board of Statutory Auditors approved the recognition of Goodwill in the financial statements of Euro 11,961 thousand.
13. The Board of Statutory Auditors was constantly in contact with the Auditing company, through meetings held at the Company's registered office during which no significant matters required specific in-depth examination; at the meetings and during the mutual exchange of information on the verifications carried out, no material and/or questionable facts were notified to us.
14. No significant matters were identified in the performance of our supervisory and control activity that deserve disclosure in this report.
15. Based on the above, the Board of Statutory Auditors states that there are no objections to the approval of the financial statements for the year ended on 31 December 2006 and to the resolution presented by the Board of Directors for the allocation of the profit for the year.

Bologna, 10 April 2007

The Board of Statutory Auditors

Chairman Antonio Venturini

Standing auditor

Fernando Lolli

Standing auditor

Sergio Santi

Report by the Independent Auditing Firm

PRICEWATERHOUSECOOPERS**Auditors' report pursuant to article no. 156 of Legislative Decree no.58 of 24 February 1998**

To the Shareholders of
Hera SpA

1. We have audited the financial statements which comprise of the balance sheet, income statement, statement of changes in shareholder's equity, statement of cash flows and Notes relating to the financial statements of Hera SpA as at 31 December 2006. Ultimate responsibility for the preparation of the financial statements rests with the management of Hera SpA. Our responsibility is to express an opinion on the financial statements based on our audit. The aforesaid financial statements have been prepared for the first time in compliance with the International Financial Reporting Standards (hereinafter "IFRS") adopted by the European Union.
2. We conducted our audit in accordance with the accepted auditing standards and criteria recommended by CONSOB. In compliance with the aforesaid standards and criteria, we planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements were free from material misstatement or error and that they were reliable. An audit includes the examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements as well as an assessment of whether the accounting policies are appropriate to the Company's circumstances and, of the significant estimates made by the directors in the preparation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include prior year's comparatives restated to comply with the same IFRS applied to the financial statements of the current year. Furthermore, the paragraph "Transition to International Accounting Standards" explains the effects of the transition to the IFRS adopted by the European Union and includes the information relating to the reconciliation statements provided for by IFRS 1, previously approved by the Board of Directors and published in the Appendix to the half-year report at 30 June 2006, audited by other independent auditors (please refer to their Audit report issued on 29 September 2006).

3. In our opinion the financial statements of Hera SpA at 31 December 2006 comply with the IFRS adopted by the European Union; therefore they have been properly prepared and give a true and fair view of the state of affairs, the statement of changes in shareholders' equity, the statement of cash flows and the profit of Hera SpA for the year then ended.

4. The company holds majority shareholdings, therefore it has drawn up (as prescribed by law) consolidated financial statements for the Group. The consolidated accounts integrate the Company's financial statements and therefore provide adequate information on the state of affairs, the statement of changes in shareholders' equity, the statement of cash flows and the profit of the Company and the Group. The consolidated financial statements have been examined by us and are presented, with our Report, along with the Company's financial statements.

Rome, 10 April 2007

PricewaterhouseCoopers SpA

Aurelio Fedele

(Independent Auditor)

3.07 Accounting Separation

Assets

	Electricity sector activities		Gas activities	Remaining activities	Shared operations	Joint services		Not assignable	Netting	Total
	Distribution of electrical energy	Metering of electrical energy				Joint services a)-d)	Joint services e)-k)			
Assets										
A) Subscribed capital unpaid								0		0
B) Fixed assets:										
I- Intangible fixed assets:										
1) start-up and expansion costs										0
2) research, development and advertising costs										0
3) patents and know-how	33,027		176,626	692,454		30,752	40,033,608			40,966,467
4) franchise, licenses, trademarks and similar rights			14,356,476	110,383,397		2,747,127	4,646,586			132,135,586
5) goodwill	25,427,033		61,182,527	158,980,542						245,590,102
6) work in progress and advance payments				6,144,246		1,139,149	21,219,077			28,502,472
7) other	1,210		83,355	367,658		2,929,101	39,011			3,420,335
Total intangible fixed assets	25,461,270	0	75,798,984	276,568,297	0	6,846,129	65,940,282	0	0	450,614,962
II- Tangible fixed assets:										
1) land and buildings	5,679,149		5,780,982	79,454,052		64,757	131,615,574			222,594,514
2) plant and machinery	104,234,552	3,433,080	310,047,865	757,181,150			10,224,352			1,185,120,999
3) fixtures and fittings, tools and other equipment	9,033		82,868	1,954,739			29,176,811			31,223,451
4) other assets	1,112		43,011	2,281,057		6,324	45,260,314			47,591,818
5) work in progress and advance payments	995,599		899,008	116,470,532			9,528,646	64,162		127,957,947
6) freely transferable assets										0
Total tangible fixed assets	110,919,445	3,433,080	316,853,734	957,341,530	0	71,081	225,805,697	64,162	0	1,614,488,729
III- Financial assets:										
1) equity investments in:										0
a) subsidiaries								317,362,754		317,362,754
b) associated companies								117,141,931		117,141,931
c) parent companies										0
d) other companies								31,995,589		31,995,589
2) loans:										0
a) to subsidiaries								6,704,706		6,704,706
b) to associated companies								19,239,110		19,239,110
c) to parent companies										0
d) to others	61		92,204	3,125,223		598,217	852,473	23,156,826		27,825,004
3) other securities								100		100
4) treasury shares										0
Total financial assets	61	0	92,204	3,125,223	0	598,217	852,473	515,601,016	0	520,269,194
Total fixed assets (B)	136,380,776	3,433,080	392,744,922	1,237,035,050	0	7,515,427	292,598,452	515,665,178	0	2,585,372,885
C) Current assets:										0
I- Inventories:										0
1) raw materials and consumables	1,232		43,870	2,079,604		64,818	275,046			2,464,570
2) work in progress and semi-finished products	6		221	10,473		327	1,385			12,412
3) long-term contracts	7,471		65,479	1,636,633						1,709,583
4) finished goods and goods for resale										0
5) prepayments	10		353	16,738		522	2,213			19,836
Total Inventories	8,719	0	109,923	3,743,448	0	65,667	278,644	0	0	4,206,401
II- Loans:										0
1) to customers	126,633,031		44,113,739	348,395,817		9,064,509	3,084,608	1,234,955		532,526,660
2) to subsidiaries	99,692,485	1,413,154	143,452,056	139,888,554		194,788,614	65,064,723	23,457,275		667,756,861
3) to associated companies			11,289	13,141,161		593,125	5,834,570			19,580,145
4) to parent companies										0
4bis) tax receivables	12,696	-1,278	35,022	2,198,607		53,172	39,283	2,895,274		5,232,776
4ter) prepaid taxes								32,447,461		32,447,461
5) to others	8,128,458	3,301	997,557	15,678,617		4,045,050	1,128,525	16,804,756		46,786,264
Total Loans	234,466,670	1,415,177	188,609,663	519,302,756	0	208,544,470	75,151,710	76,839,721	0	1,304,330,167
III- Short-term financial investments										0
1) equity investments in subsidiaries										0
2) equity investments in associated companies										0
3) equity investments in parent companies										0
4) other equity investments										0
5) treasury shares										0
6) other securities								1,462,236		1,462,236
Total current financial assets	0	0	0	0	0	0	0	1,462,236	0	1,462,236
IV - Cash and cash equivalents:										0
1) banks and postal current accounts								120,013,423		120,013,423
2) cheques										0
3) cash on hand								39,693		39,693
Total cash and cash equivalents	0	0	0	0	0	0	0	120,053,116	0	120,053,116
Total current assets	234,475,389	1,415,177	188,719,586	523,046,204	0	208,610,137	75,430,354	198,355,073	0	1,430,051,920
D) Accrued income and prepayments										0
Total Assets	370,856,165	4,848,257	581,464,508	1,760,081,254	0	216,125,564	368,028,806	714,020,251	0	4,015,424,805

Liabilities

	Electricity sector activities		Gas activities	Remaining activities	Shared operations	Joint services		Not assignable	Netting	Total
	Distribution of	Metering of				Joint services a)-	Joint services e)-			
	electrical energy	electrical energy				d)	k)			
Liabilities										
A) Shareholders' equity										
I - Share capital								1,016,637,201		1,016,637,201
II - Share premium reserve								265,354,921		265,354,921
III - Revaluation reserve								2,885,106		2,885,106
IV - Legal reserve								13,954,550		13,954,550
V - Reserve for treasury stock owned										0
VI - Reserves required by the articles of association										0
VII - Other reserves, specifically indicated										0
- Extraordinary reserve								35,184,644		35,184,644
- Reserves for capital account payments								5,399,887		5,399,887
- Merger surplus reserve								17,243,914		17,243,914
- Reserve for accelerated amortisation/depreciation										0
VII - Retained earnings (losses)										0
IX - Profit (loss) for the year								68,068,187		68,068,187
Total Shareholders' Equity	0	0	0	0	0	0	0	1,424,728,410	0	1,424,728,410
B) Provisions for risks and charges										
for pensions and similar commitments for taxes	25		142	19,635		13,043	3,436			36,281
other	5,571,677	145,620	30,508,903	74,654,318		4,875,514	1,042,863	119,892,249		116,798,895
Provisions for risks and charges	5,571,702	145,620	30,509,045	74,673,953	0	4,888,557	1,046,299	119,892,249	0	236,727,425
C) Employee leaving indemnity	13,230		73,712	10,228,916		6,794,706	1,789,871			18,900,435
D) Payables										
1) bonds								497,557,429		497,557,429
2) convertible bonds										0
3) due to banks								693,283,999		693,283,999
4) other loans								41,985,283		41,985,283
5) prepayments	3,346		13,468	406,704						423,518
6) due to suppliers	43,866,307	56,301	79,192,128	119,267,471		26,738,032	24,000,131	2,429,178		295,549,548
7) bills [of exchange]										0
8) due to subsidiaries	30,433,883	2,224,834	68,141,607	505,136,272		20,552,244	30,530,408			657,019,248
9) due to associated companies				1,269,860		161,741	4,500,243			5,931,844
10) due to parent companies										0
11) tax liabilities	545,458	-54,792	1,550,529	17,626,511		3,055,668	1,844,735	3,748,521		28,316,630
12) due to social security	2,414		13,451	1,866,621		1,239,930	326,624			3,449,040
13) other payables	2,398,587	3,764	980,405	79,314,906		2,918,465	1,928,623	24,007,246		111,551,996
Total payables	77,249,995	2,230,107	149,891,588	724,888,345	0	54,666,080	63,130,764	1,263,011,656	0	2,335,068,535
E) Accrued liabilities and deferred income										0
Total liabilities	82,834,927	2,375,727	180,474,345	809,791,214	0	66,349,343	65,966,934	2,807,632,315	0	4,015,424,805

Income Statement

	Electricity sector activities		Gas activities	Remaining activities	Shared operations	Joint services		Not assignable	Netting	Total
	Distribution of electrical energy	Metering of electrical energy				Joint services a)-d)	Joint services e)-h)			
A) Value of production:										
1) revenues from sales and services:	139,557,003	1,562,725	203,131,269	1,219,200,725		101,401,002	111,576,790		-1,859,611	1,751,922,578
of which for internal re-invoicing				5,349,347		9,720,934	11,298,270		26,368,551	
2) change in stock of finished goods and work in progress						-7,095				-7,095
3) long-term contracts	-13,044		-20,583	-24,851						-58,478
4) increases for internally-constructed fixed assets	39,878		65,061	6,369,496		1,547	745,428			7,220,410
5) other revenues and income	1,465,967		1,814,829	29,897,385		6,432,206	11,008,801			50,419,191
Total value of production	141,049,804	1,562,725	204,990,576	1,255,241,762		107,827,660	123,333,019	-	24,508,940	1,809,496,606
(B) Cost of production:										
6) for raw mat. and consumables	78,520,815		1,618,388	82,094,357		2,385,814	10,114,702			173,106,365
of which for internal re-invoicing				1,627,711					1,627,711	
7) for services	48,066,363	2,817,321	145,755,628	957,203,540		49,960,856	60,188,900			1,239,251,768
of which for internal re-invoicing				15,852,725		3,878,117	5,009,997		24,740,840	
8) for use of third party assets	2,049,404		20,853,317	51,410,658		1,133,140	11,754,159			87,200,678
9) for personnel expenses	40,051		229,458	31,908,248		21,196,743	5,583,044			58,957,544
wages and salaries										
social security costs										
employee leaving indemnity										
pensions and similar commitments										
other costs										
10) amortisation, depreciation and write-downs:	5,524,804	275,750	19,027,731	67,342,414		3,591,157	33,801,123			129,562,979
a) amortisation of intang. assets	13,077		2,210,378	12,677,420		1,556,685	15,256,053			31,713,613
b) depreciation of tangible assets	5,511,727	275,750	16,817,353	54,664,994		70,674	18,545,070			95,885,568
c) other amounts written off fixed assets										
d) write-downs of loans included under current assets and cash						1,963,798				1,963,798
11) change in stock of raw materials, consumables and goods for resale							773,460			773,460
12) allocations to provisions for risks	456,000			383,180		3,434,920			-1,859,611	6,133,711
13) other allocations to provisions	324,659	30,881	5,799,557	3,143,505			67,838			9,366,440
14) other operating expenses	93,421		2,766,977	17,485,920		2,787,848	2,441,055			25,585,221
Total cost of production	135,075,517	3,123,952	196,051,056	1,210,971,822		84,500,478	124,724,281	-	24,508,940	1,729,938,166
Difference between value and cost of production (A-B)	5,974,287	-1,561,227	8,939,520	44,269,940		23,327,183	-1,391,263	-		79,558,440
C) Financial income and charges:										
15) income from equity investments								55,807,650		55,807,650
16) other financial income:								17,312,651		17,312,651
a) from long-term loans								1,141,151		1,141,151
b) from long-term securities								130		130
c) from short-term securities								24,992		24,992
d) other income:								16,146,378		16,146,378
14/ interest payable and other financial charges:								-68,573,776		-68,573,776
Total financial income (charges)								4,546,525		4,546,525
D) Value adjustments to financial assets:										
18) revaluation								250		250
19) write-downs								-2,436,823		-2,436,823
of equity investments										
Total value adjustments (18-19)								-2,436,573		-2,436,573
E) Extraordinary income and charges										
20) income										
21) charges										
Total extraordinary items (20-21)								-		-
Pre-tax profit								2,109,952		81,668,392
22) income taxes for the year:								-13,600,205		-13,600,205
Profit (loss) for the year								-11,490,253		68,068,187

3.08 ATTACHMENTS

3.08.01 Statement of equity investments: comparison between the book value and the equity value

figures in €/000

	Share capital	Sh.equity excluding profit 2006	Profit (loss) 2006	Total shareh. equity	% owned	Interest in sh. equity	Book value 31.12.06	Differences compared to sh. Equity
Subsidiary companies								
AKRON SPA	1,153	3,948	1,402	5,350	58.00	3,103	2,513	590
AMBIENTE 3000 SRL	100	107	174	281	51.00	143	77	67
ARES SPA	1,125	761	-138	623	100.00	623	1,013	-390
ASA SPA	1,820	2,396	129	2,526	51.00	1,288	4,184	-2,896
ASPES MULTISERVIZI	10,967	11,899	1,927	13,826	50	6,913	34,445	-27,532
ECOLOGIA AMBIENTE SRL	20,000	49,096	3,357	52,453	100.00	52,453	49,017	3,436
ECOSFERA SPA	1,000	1,268	56	1,324	51.00	675	510	165
HERA TRADING SRL	2,600	2,997	148	3,145	100.00	3,145	2,711	434
FAMULA ON LINE SPA	4,364	10,924	2	10,926	60.00	6,556	6,055	501
FRULLO ENERGIA AMBIENTE SRL	17,139	18,602	12,147	30,749	51.00	15,682	8,740	6,942
GAL. A. SPA	300	360	30	390	60.00	234	207	27
HERA IMOLA-FAENZA SRL	750	1,520	3,889	5,409	100.00	5,409	1,370	4,039
HERA BOLOGNA SRL	1,250	1,865	23,062	24,927	100.00	24,927	1,250	23,677
HERA COMM SRL	88,592	75,817	-6,602	69,215	100.00	69,215	88,592	-19,377
HERA COMM MEDITERRANEA Srl (già Cales Srl)	50	170	-216	-46	50.00	-23	138	-161
HERA FERRARA SRL	810	978	8,241	9,219	100.00	9,219	810	8,409
HERA FORLI'-CESENA SRL	650	820	272	1,092	100.00	1,092	650	442
HERA GAS TRE S.p.A.	120	119	-1	119	100.00	119	705	-586
HERA LUCE SRL	217	555	3,865	4,420	87.00	3,845	3,485	360
HERA MODENA S.r.l.	1,000	991	12,572	13,563	100.00	13,563	1,000	12,563
HERA RAVENNA SRL	850	1,246	5,566	6,812	100.00	6,812	850	5,962
HERA RETE MODENA Srl	22,222	22,222	1,585	23,807	100.00	23,807	106,344	-82,537
HERA RIMINI SRL	1,050	1,260	991	2,251	100.00	2,251	1,050	1,201
HERA SERVIZI FUNERARI S.r.l.	10	10	48	58	100.00	58	10	48
HERASOCREM SPA	2,218	2,234	161	2,395	51.00	1,221	1,131	90
INGENIA SRL **	52	120	20	140	74.00	104	63	41
MEDEA SPA	4,500	4,500	-695	3,805	100.00	3,805	11,988	-8,183
NUOVA GEOVIS SPA	2,205	3,356	46	3,401	51.00	1,735	4,856	-3,121
RECUPERA SRL	1,673	12,142	409	12,551	94.00	11,798	11,603	195
ROMAGNA COMPOST SRL	310	551	133	684	60.00	410	186	224
SBI SRL	100	76	-44	32	51.00	16	51	-35
SOTRIS SPA	59	43	-9	34	70.00	24	2,362	-2,338
UNIFLOTTE SRL	2,254	2,293	615	2,908	99.00	2,879	3,567	-688
VIVISERVIZI SRL	250	253	42	295	80.76	238	277	-39
Total subsidiary companies	191,760			308,683		273,339	351,808	
Associated companies								
ACANTHO S.p.A. (**)	14,663	14,666	-3,587	11,079	47	5,207	7,249	-2,042
AGEA RETI S.r.l.	19,000	19,485	49	19,534	40	7,759	7,783	-24
AGESS SCRL	80	55	16	71	21	15	28	-13
CONSORZIO FRULLO	2	1	1	2	50	1	1	-0
CONSORZIO RIZZOLI ENERGIA	10	20	0	20	27	6	3	3
ESTENSE GLOBAL SERVICE SCRL	10	10	0	10	23	2	2	0
SERVICEIMOLA	10	18	33	51	40	20	4	16
ITALCIC (*)	90			0	33	0	30	-30
MO.NET S.p.A.	2,000	2,386	24	2,410	30	723	900	-177
REFRI S.r.l.	2,800	2,204	-256	1,948	20	390	1,706	-1,316
SAT SpA	27,753	32,753	2,743	35,496	47	16,683	34,518	-17,835
SET S.p.A.	120	58,700	-1,932	56,768	39	22,140	30,422	-8,282
SINERGIE AMBIENTALI S.r.l.	100	66	-10	56	50	28	50	-22
Total associated companies	66,638			127,445		52,973	82,697	

* Figures not available and in any case not significant

** Figures relating to share capital, shareholders' equity and profit (loss) of the last available financial statements

3.08.02 Transition to the international accounting standards

Content

- Introduction
- Statement of reconciliation of the IAS/IFRS Balance Sheet as at 1 January 2005 and as at 31 December 2005
- Statement of reconciliation of the IAS/IFRS Income Statement as at 31 December 2005
- Accompanying notes to the main IAS/IFRS adjustments made to the IAS/IFRS Balance Sheet items as at 1 January 2005 and as at 31 December 2005 and to the Income Statement items as at 31 December 2005
- Statement of reconciliation of the Shareholders' Equity as at 1 January 2005 and as at 31 December 2005.

Introduction

Hera has adopted the International Financial Reporting Standards, in drawing up the consolidated financial statements as from the 2005 accounting period, with date of changeover to the IFRS 1 January 2004. The last set of consolidated financial statements drawn up in accordance with Italian accounting principles refer to the accounting period ended 31 December 2004.

In application of the national laws concerning the implementation of EU Regulation no. 1606 of 19 July 2002, the financial statements of the Parent Company Hera SpA will be drawn up in accordance with the IFRS standards starting from 2006. Accordingly, the Company prepared the figures related to the first half 2006, with comparison for the same period of the previous year, by applying the IFRS. The last financial statements drawn up according to the Italian accounting principles were those for the financial year ended 31 December 2005.

Pursuant to Article 81 of Issuers Regulations no. 11971/1999 adopted by CONSOB with Resolution no. 14990 of 14 April 2005 sub-section 3:

“For issuers required to draw up consolidated financial statements the half year report will also include the accounting statements of the Parent Company and, where essential for the purposes of correct public disclosure, the related notes, drawn up according to the principles used for the financial statements”

and as required by IFRS 1 – First-time adoption of the International Reporting Standards, this Appendix provides the statements of reconciliation of the opening balance sheet as at 1 January 2005 and as at 31 December 2005 and the income statement for the financial year ended 31 December 2005 of the values previously reported according to the Italian accounting standards and those redetermined according to the IFRS, accompanied by notes on the adjustments.

These statements have been drawn up solely for the purposes of the changeover project for the drawing up of the first set of complete separate financial statements pursuant to the IFRS approved by the European Commission, and do not include the comparative figures and the necessary explanatory notes which would have been required for the complete view of the equity-financial standing and economic result of Hera SpA in compliance with the IFRS standards.

Shareholders are also informed that they have been prepared in accordance with the International Financial Reporting Standards (IFRS) currently in force, inclusive of the IFRS recently adopted by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC). These standards are those which it is assumed will be in force as at 31 December 2006. However, these standards may not coincide with those in force as at 31 December 2006 as a result of both the new stances of the European Commission regarding their approval, and the issue of new standards or interpretations by the competent authorities and, therefore, the figures presented could undergo changes for the purposes of their use as comparative data of the first set of complete separate financial statements drawn up in compliance with the IFRS.

The most important accounting standards and policies used in drawing up the statements of

reconciliation are those set forth below.

In adopting the international accounting standards, the Company has applied the provisions of IFRS 1 – First-time adoption of the International Financial Reporting Standards, availing itself of the following exemptions:

- Business combinations: the Company has not applied IFRS 3 retrospectively to the business combination transactions which took place before the date of changeover to the IFRS;
- Valuation of real estate property, plant and machinery at revalued cost as the replacement of the cost for certain categories of assets chosen selectively;
- Employee benefits: the Company has decided to record all the cumulative actuarial gains and losses existing as at 1 January 2004, despite having chosen to use the corridor method for the subsequent actuarial gains and losses;
- Classification and valuation of the financial instruments: IFRS 1 permits application of IAS 39 as from the financial statements for the periods starting as at 1 January 2005. The Company has therefore decided to avail of this exemption, applying IAS 39 for the valuation and recording of the derivative instruments.

Furthermore, in compliance with the matters established by CONSOB Communication DEM 5025723 dated 15 April 2005, these statements of reconciliation and the related notes have been audited by Deloitte & Touche SpA and the related auditors' report will be made available shortly after the approval of this interim report by Hera S.p.A.'s Board of Directors.

ACCOUNTING STANDARDS AND POLICIES

In order to comply with the provisions of paragraph 25 of IFRS 1, in the separate financial statements the assets (with the exception of the equity investments in subsidiary companies, as specified below) and the liabilities are recorded, at the IFRS conversion date (1 January 2005) at the same values at which they were recorded in the consolidated financial statements. It is specified, as mentioned above, that the IFRS conversion date for the drawing up of the consolidated financial statements is 1 January 2004: the effects arising from said conversion are set forth in the Appendix published with the Consolidated Half Year Report as at 30 June 2005.

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, capitalised financial charges up to the moment the asset enters into service. Cost also comprises the costs for reclamation of the site on which the tangible fixed asset exists, if complying with the provisions of IAS 37.

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

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

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

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

General services	min %	max %
Land	0	0
Buildings	1.5	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 networks	1.43	2.86
- votive lighting	1.66	3.33
Electricity 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

Gas and district heating services	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 stati	5.00	10.00
User transformers - Specific plant	4.00	8.00
Distribution network in steel	2.22	8.00
Distribution network in cast iron or spheroidal cast iron	2.00	8.00
Distribution network in PE or PVC	2.86	8.00
Outlets/intakes	2.50	8.00
Meters	4.00	10.00
Cathodic protection	4.00	8.00
Electricity substations - Specific plant	3.50	7.00
Cogeneration and district heating		
Generation - Buildings	2.50	5.50
Generation - General plant	4.50	9.00
Generation - 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 tank	1.66	3.33
Pumping stations		
- Electricity substations	2.00	4.00
- Generators	2.75	4.55
- Pumps	3.33	6.67
- Electricity substations	3.50	7.00
Equipment	5.00	10.00

Water service	min %	Max %
Land	0	0
Buildings/civil works	1.75	3.5
Wells		
Buildings/civil works	1.75	3.5
General and specific plant	1.25	2.5
Disinfection plant	2.5	5
Pumps	5	10
Civil works	1.43	2.86
Abstraction - Building/civil works	1.25	2.5
Lifting and fresh water stations		
Buildings/civil works	1.75	3.5
General plant	7.5	15
Specific plant	6	12
Fresh water plant	4	8
Disinfection plant	2.5	5
Transformers	2	4
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
Civil works	1.43	2.86
Reservoirs	2	4
Disinfection plant	2.5	5
Civil works	1.11	2.22
Pipelines and distribution network	2.5	5
Distribution network in cast iron and sph. cast iron	1	2
Distribution network in reinforced cement - PE-PVC	1.43	2.86
Outlets/intakes and connections	2.22	5
Meters	4	10
Electricity substations - Specific plant	3.5	7
Vehicles	10	20

Electricity generation 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 services	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 civil works	1.66	3.33
- electricity generation plant	2.00	4.00
- general plant	2.50	5.00
- WTE post-combustion furnace boiler and fume recovery line	2.50	5.00
- WTE heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity generation	2.50	5.00
- WTE line control systems	5.00	10.00
Specific BIOGAS plant, storage and 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 civil 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 civil 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
- dioxidation / organic treatment plant	3.33	6.67
- second maturing	5.00	10.00
- cumulus turning and internal handling equipment	4.16	8.33
Vehicles and internal means of transport	10.00	20.00
Waste containers and equipment	5.00	10.00
General equipment	5.00	10.00
Snow service equipment	5.00	10.00
Sanitary equipment	5.00	10.00
Light construction	5.00	10.00
Automobiles	12.50	25.00
Controlled landfills		

Land is not depreciated. 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 assets at their fair value as of the date of acquisition, or, if lower, at the current value of the minimum payments due for the leasing; they are depreciated on the basis of their estimated useful life on a consistent basis with the assets owned. The corresponding liability vis-à-vis the lessor is recorded in the balance sheet. The payments for lease instalments are divided up into the principal portion and the interest portion and the financial charges are booked directly to the income statement for the year. All the other leases are considered to be operating leases and the related costs for the lease instalments are recorded on the basis of the conditions anticipated in the agreement.

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

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

The advertising expenses are charged directly to the income statement.

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

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

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

Business combinations - IFRS 3 is applicable to the business combinations which have come about as from 31 March 2004. The Company has applied this policy for the acquisitions of the Agea Group and the Meta 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 assets given, the liabilities incurred or undertaken and the financial instruments issued by the Company 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 to the interest held in the current values of the identifiable assets, liabilities and potential liabilities recorded. If, after the re-determination of these values, the interest held in 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 by the IFRS, the Company 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 the acquisition of an investee company is included in the book value of said company.

Losses in value (Impairment) - As of each balance sheet date and when events or situation changes indicate that the book value cannot be recovered, the Company considers 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 Company estimates the recoverable value of the unit generating the financial flows to which said asset belongs. Future cash flows are discounted back to a discount rate (net of taxation) which reflects the current valuation of the market and takes into account the risks associated with the specific business activities.

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

Treasury shares

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

Equity investments and securities – Equity investments and securities refer to long-term investments.

A subsidiary is an enterprise in which the Company is able to exercise control. Control means the power to determine an entity's financial and management policies in order to obtain benefits from its activities.

An associated company is an enterprise over which the Company is able to exercise significant influence, (but not control, or joint control), by participating in the decisions on the financial and operating policies of the investee company.

Equity investments in subsidiary and associated companies are recorded at cost adjusted by impairments to reflect the relative recoverable value, in accordance with IAS 36 – Impairment of assets. When the impairment ceases to exist or is reduced, the book value is increased to the estimated recoverable value, which cannot however exceed the original cost. The write-back is charged to the income statement. In this respect it is stated that, in accordance with Italian accounting standards, Hera S.p.A. valued equity investments in subsidiary and associated companies at cost adjusted by any permanent impairments. In view of the procedures for creation and/or acquisition of the equity investments and of their performance recorded over the last years, upon first-time IFRS adoption the write-downs and impairments entered in the financial statements drawn up according to the Italian accounting standards were deemed to be in line with those that would have been recorded pursuant to the IFRS.

If the Company's interest in the losses of the investee company exceeds the book value of the equity investment, the value of the investment will be written off and the interest in the further losses will be recorded as liability provision if the Company is to be held liable.

Dividends received are recorded in the income statement, at the time the right to receive payment is established, only if they derive from distribution of profit arising after acquisition of the investee. If, instead, they derive from distribution of the investee's reserves existing prior to acquisition, said dividends are entered as reduction in the cost of said equity investment.

The other equity investments and securities belong to the category provided by IAS 39 "financial assets available for sale". They comprise instruments representative of shareholders' equity and are stated at fair value. When the market price or fair value cannot be calculated, they are assessed at cost and can be adjusted in application of IAS 36.

If the reasons for the write-down cease to exist, the investments carried at cost are revalued within the limits of the write downs made and the effect is booked to the income statement, or to shareholders' equity if the investments are held as assets available for sale. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations vis-à-vis the investee company or in any event cover its losses.

Financial assets which the Company intends or is able to maintain until maturity, are stated at cost represented by the *fair value* of the initial payment made in exchange, increased by the transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method.

Equity investments in other minor companies for which the fair value is not available are recorded at cost written down by any impairments.

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

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

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

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

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

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

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

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

Financial assets – Financial assets are recorded and reversed from the financial statements 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 Company intends and is able to hold until maturity are recorded at cost, amortised/depreciated on the basis of the effective interest rate method, net of the writedowns made in order to reflect any

losses in value. Financial assets other than those held until maturity, are classified as held for trading purposes or available for sale and are valued at fair value at each period end, with recognition to the income statement or shareholders' equity.

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

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

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

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

Trade payables – These concern commercial supply transactions.

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

Derivative financial instruments – The Company holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate fluctuations.

In line with the chosen strategy, the Company does not enter into derivative transactions for speculative purposes.

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

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

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

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

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

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

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

In further detail:

- the revenues from energy, gas and water sales are recognised and recorded at the moment of the provision of the service and include the services provided, but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels),
- revenues from services rendered are recognised on the basis of services provided and in compliance with the relevant contracts,
- revenues from the sale of goods are recognised at the time the Company 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 – Within the current half-year situation, income taxes of each company that is consolidated using the line-by-line method (or the equity method) were estimated, in most cases, by using the average tax rate for the period. Deferred and prepaid taxes were also calculated on the differences which are generated by the application of the international accounting standards

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

IAS/IFRS Balance Sheet as at 1 January 2005 and as at 31 December 2005
IAS/IFRS Income Statement as at 31 December 2005

The reconciliation statements of the balance sheet as at 1 January 2005 and as at 31 December 2005 and the income statement for 2005 are presented below, indicating:

- the balances in accordance with the Italian accounting principles reclassified in accordance with the IAS/IFRS formats;
- the adjustment for adaptation to the IAS/IFRS standards.

The figures are expressed in thousands of Euro.

It is specified that the accounting statements as at 31 December 2005 provided hereunder will constitute the values that will be published for comparative purposes in the financial statements as at 31 December 2006 of the Parent Company Hera SpA; said values could be subject to the changes that may prove necessary if any of the international accounting standards were reviewed or amended during 2006. It is possible that new versions or interpretations of the IFRS will be issued before publication of the financial statements of Hera SpA as at 31 December 2006, even with retroactive effects. If this should occur, it could affect the balance sheet and the income statement 2005 restated according to the IFRS presented hereunder.

The opening balance sheet as at 1 January 2005 reflects the following differences in treatments compared to the financial statements as at 31 December 2004, drawn up according to the Italian accounting standards:

- all the assets and liabilities that must be recorded according to the IFRS, including those not required pursuant to the Italian accounting standards, have been recorded and valued according to the IFRS;
- all the assets and liabilities that must be recorded according to the Italian accounting standards, but not admitted pursuant to the IFRS, have been eliminated;
- some balance-sheet items have been reclassified according to the provisions of the IFRS (the notes provide a description of said reclassifications):

The effects of these adjustments have been carried directly in the opening shareholders' equity at the date of first-time adoption of IFRS (1 January 2005).

With regard to the new formats, the Parent Company Hera SpA has adopted the balance sheet format that distinguishes between "current/non-current" as method for representation of the assets and liabilities, leading to the reclassification of the previous balance sheets drawn up according to the formats provided by Legislative Decree no.127 of 9 April 1991 and subsequent amendments (see notes); while for the income statement, the classification of costs according to their nature has been maintained.

Statement of reconciliation of the Balance Sheet as at 1 January 2005

	Note	IAS reclassified Italian accounting standards	IAS/IFRS adjustments/rec lassifications	IAS/IFRS
Assets				
Non-current assets				
Tangible fixed assets	1	820,814	145,771	966,585
Intangible fixed assets	2	232,044	-47,204	184,840
Goodwill	3	102,262	28,936	131,198
Equity investments and securities		274,511	-1	274,510
Financial assets		20,827		20,827
Deferred tax assets	4	9,868	17,026	26,894
Derivative financial assets	9		545	545
Other non-current assets	1	101,229	-68,782	32,447
		1,561,555	76,291	1,637,846
Current assets				
Inventories		7,176		7,176
Trade receivables	20	780,871	-44,584	736,287
Long-term contracts		366		366
Financial assets		43,757	6	43,764
Other current assets		42,811		42,811
Cash and cash equivalents		86,196		86,196
		961,177	-44,578	916,599
Total assets		2,522,732	31,713	2,554,445

	Note	IAS reclassified Italian accounting standards	IAS/IFRS adjustments/rec lassifications	IAS/IFRS
Shareholders' equity and liabilities				
Share capital and reserves				
Share capital		839,904		839,904
Reserves		65,828	17,365	83,193
Reserves for derivative instruments at fair value			-2,474	-2,474
Retained earnings (losses)				0
Profit (loss) for the period		59,368	11,087	70,455
Total shareholders' equity	24	965,100	25,978	991,078
Non-current liabilities				
Loans - maturing beyond the next year		366,632		366,632
Employee leaving indemnity and other benefits	5	23,706	2,954	26,660
Provisions for risks and charges	6	135,367	-66,633	68,734
Deferred tax liabilities	7	1,439	45,401	46,840
Financial leasing payables - maturing beyond the next year	8		11,340	11,340
Derivative financial instruments	9		4,759	4,759
Other non-current liabilities		72,624		72,624
		599,768	-2,179	597,589
Current liabilities				
Banks and loans - maturing within the next year		265,673		265,673
Financial leasing payables - maturing within the next year	8		7,914	7,914
Trade payables		635,344		635,344
Tax liabilities		28,883		28,883
Other current liabilities		27,964		27,964
		957,864	7,914	965,778
Total liabilities		1,557,632	5,735	1,563,367
Total		2,522,732	31,713	2,554,445

Statement of reconciliation of the Balance Sheet as at as at 31 December 2005

	Note	IAS reclassified Italian accounting standards	IAS/IFRS adjustments/rec lassifications	IAS/IFRS
Assets				
Non-current assets				
Tangible fixed assets	1	1,247,342	275,508	1,522,850
Intangible fixed assets	2	238,546	-50,033	188,513
Goodwill	3	120,434	113,195	233,629
Equity investments and securities		303,570	83	303,653
Financial assets		58,549	0	58,549
Deferred tax assets	4	20,562	11,591	32,153
Derivative financial assets	9	0	1,186	1,186
Other non-current assets	1	137,830	-117,669	20,161
		2,126,833	233,861	2,360,694
Current assets				
Inventories		5,544		5,544
Trade receivables	20	1,161,805	-48,858	1,112,947
Long-term contracts		2,116		2,116
Financial assets		11,733	3	11,736
Other current assets		44,176		44,176
Cash and cash equivalents		86,921		86,921
		1,312,295	-48,855	1,263,440
Total assets		3,439,128	185,006	3,624,134

	Note	IAS reclassified Italian accounting standards	IAS/IFRS adjustments/rec lassifications	IAS/IFRS
Shareholders' equity and liabilities				
Share capital and reserves				
Share capital		1,016,752		1,016,752
Reserves		164,353	160,975	325,328
Reserves for derivative instruments at fair value		0	-4,185	-4,185
Retained earnings (losses)		0	0	0
Profit (loss) for the period		75,413	8,449	83,862
Total shareholders' equity	24	1,256,518	165,239	1,421,758
Non-current liabilities				
Loans - maturing beyond the next year		404,473		404,473
Employee leaving indemnity and other benefits	5	32,735	1,028	33,763
Provisions for risks and charges	6	182,587	-85,062	97,525
Deferred tax liabilities	7	8,720	76,819	85,539
Financial leasing payables - maturing beyond the next year	8	0	12,933	12,933
Derivative financial instruments	9	0	9,727	9,727
Other non-current liabilities		99,719		99,719
		728,234	15,445	743,679
Current liabilities				
Banks and loans - maturing within the next year		636,344		636,344
Financial leasing payables - maturing within the next year	8	0	4,321	4,321
Trade receivables		758,033		758,033
Tax liabilities		14,061		14,061
Other current liabilities		45,938		45,938
		1,454,376	4,321	1,458,697
Total liabilities		2,182,610	19,766	2,202,376
Total Shareholders' Equity and liabilities		3,439,128	185,005	3,624,134

Statement of reconciliation of the Income Statement as at 31 December 2005

	Note	IAS reclassified Italian accounting standards	IAS/IFRS adjustments/r eclassification s	IAS/IFRS
Operating assets				
Revenues	10	1,546,093	-161,105	1,384,988
Change in inventories of finished goods and work in progress	11	-1,072	275	-797
Other operating revenues	12	42,100	-9,834	32,266
Use of raw materials and consumables (net of the change in inventories of raw materials and stock)	13	-103,006	11,581	-91,425
Costs for services	14	-1,033,190	42,370	-990,820
Personnel costs	15	-88,428	40,346	-48,082
Amortisation and depreciation and allocations	16	-171,949	64,609	-107,340
Other operating expenses	17	-124,165	21,407	-102,758
Capitalised costs	18	9,162	-5,324	3,838
Operating profit		75,545	4,325	79,870
Value adjustments to fixed assets	19		15,518	15,518
Income (charges) from investees	20	50,076	-5,499	44,577
Financial income	21	2,782	2,821	5,603
Financial charges	22	-29,014	-10,630	-39,644
Pre-tax profit		99,389	6,535	105,924
Taxes for the period	23	-23,976	1,914	-22,062
Net profit for the year		75,413	8,449	83,862
Profit per share				
base		0.09	0.01	0.10
diluted		0.09	0.01	0.10

Notes on the main IAS adjustments made to the items in the Balance Sheet as at 1 January and as at 31 December 2005

The main adjustments are presented below, together with the related notes.

Balance sheet items – Assets

- 1) **Tangible fixed assets** (+ Euro 145.8 million as at 1 January 2005 and + Euro 275.5 million as at 31 December 2005); the adjustments refer to the following:
- The Company has adopted the criteria of fair value as a replacement for cost (fair value as deemed cost) for the tangible fixed assets, selectively applying it to certain categories of assets; the additional value emerging has been credited directly to reserves. The adoption of the fair value took place on the basis of an estimate made by an independent expert which made it possible to identify the individual elements of plant and machinery which have a significant value and a different useful life, in accordance with the approach by components as anticipated by IAS 16. The overall net effect deriving from the application of these standards involves an increase in tangible fixed assets equal to approximately Euro 44.8 million as at 1 January 2005 and Euro 110.8 million as at 31 December 2005.
 - the IFRS require that the charges for restoring waste storage sites, to be incurred on conclusion of the activities, are estimated and recorded at their current value among the tangible fixed assets and subject to depreciation. Correspondingly, these charges must be stated under the provisions for risks and charges, annually adjusting the current value for the financial element. Steps were therefore taken to re-determine the book values since the Italian accounting principles do not envisage either the discounting back of the provisions or the capitalization of the charge anticipated. The effect of this adjustment on the item tangible fixed assets as at 1 January 2005 and 31 December 2005 came, respectively, to approximately Euro 4.8 million and Euro 6.5 million;
 - pursuant to IAS 37 the Company has reclassified the receivables for improvements to third party assets, relating to assets leased with the business division and subject to the obligation of recording a provision for restoration of said assets, under tangible fixed assets. The effect of this reclassification on the item tangible fixed assets as at 1 January 2005 and 31 December 2005 came, respectively, to approximately Euro 64.9 million and Euro 109.5 million;
 - application of IAS 17 to the assets under financial leasing has led to their entry under tangible fixed assets. The effect of this adjustment on the item tangible fixed assets as at 1 January 2005 and 31 December 2005 came, respectively, to approximately Euro 21.2 million and Euro 20.8 million;

- application of IAS 16 has led to the reclassification of maintenance to improve third party assets from intangible fixed assets to tangible fixed assets. The effect of this adjustment on the item tangible fixed assets as at 1 January 2005 and 31 December 2005 came, respectively, to approximately Euro 25.3 million and Euro 27.9 million;
- the IFRS require the performance of an impairment test which involves a review of the book value of the fixed assets in order to determine if there is any indication that these assets have undergone reductions in value. If such indications exist, the recoverable amount of these assets is estimated so as to calculate the amount of the writedown. When it is not possible to estimate the recoverable value of the assets individually, the Company makes an estimate of the recoverable value of the unit generating the financial flows to which the asset belongs. After said test had been performed, the Company made an adjustment to the value of tangible assets for the TLC sector, equal, as at 1 January 2005, to Euro 15.5 million. As at 31 December 2005, in view of the synergies generated by integration of the Modena company, the prospect of extending some strategic contracts and a review of the discounting back rate taking into account the intrinsic risk relating to transactions outstanding with associated companies and public entities, it proved necessary to restore the writedown.

2) Intangible fixed assets (- Euro 47.2 million as at 1 January 2005 and Euro 50 million as at 31 December 2005); the adjustments refer to:

- start-up and expansion costs. In accordance with the Italian accounting principles, the costs for extraordinary corporate transactions and the formation and share capital increase costs can be charged to the balance sheet assets, while the IFRS envisage their booking to the income statement. The application of the standard led to the reversal of start-up and expansion costs totalling Euro 13.2 million as at 1 January 2005 and Euro 9.1 million as at 31 December 2005.
- research, development and advertising costs and other deferred charges. In accordance with the Italian accounting principles, deferred charges under specific circumstances can be capitalised. The application of the standard led to the reversal of research, development and advertising costs and other deferred charges totalling around Euro 8.6 million as at 1 January 2005 and around Euro 13 million as at 31 December 2005;
- application of IAS 16 has led the reclassification of maintenance to improve third party assets from intangible fixed assets to tangible fixed assets. The effect of this reclassification on the item tangible fixed assets as at 1 January 2005 and 31 December 2005 came, respectively, to approximately Euro 25.3 million and Euro 27.9 million;

3) Goodwill – (Euro 28.9 million as at 1 January 2005 and Euro 113.2 million as at 31 December 2005);

According to the IAS/IFRS standards, these items are not longer amortised systematically but subject to valuation for the purposes of identifying impairments.

Application of the standard has led to reinstatement of the item goodwill for approximately Euro 10.2 million equal to the portion of amortisation for the year 2004. As at 31 December 2005 the reinstatement of the item goodwill was equal to the entire portion of amortisation for 2005, equal to approximately Euro 12.5 million. As at 31 December 2005 the total effect on the item goodwill is equal to Euro 22.7 million.

Business combinations - IFRS 3 is applicable to the business combinations whose purchase contract date took place after 31 March 2004. The Company has applied this standard for the acquisition of AGEA SpA. and for the acquisition of the Meta Group

IFRS 3 envisages that the business aggregations be recorded in accordance with the acquisition method. The acquisition cost is determined by the sum total of the current values, as of the exchange date, of the assets provided, the liabilities incurred or undertaken, and the financial instruments issued by the Company in exchange for control over the company acquired, plus the costs directly attributable to the combination with the exception of the non-current assets which are classified as held for sale in accordance with IFRS 5, which are recorded and valued at current values less 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 interest held in the current values of the identifiable assets, liabilities and potential liabilities recorded. If, after the re-determination of these values, the interest held in the current values of the identifiable assets, liabilities and potential liabilities exceeds the acquisition cost, the surplus is recorded via the income statement.

Availing itself of the faculty envisaged by IFRS 1, the Company has not retroactively applied IFRS 3 to the business combination transactions which took place prior to the date of changeover to the IAS/IFRS standards; they have therefore been recorded at the same values determined on the basis of the previous accounting principles.

The application of IFRS 3 to the merger with Agea S.p.A. led to the registration of additional goodwill of approximately Euro 18.7 million.

The application of IFRS 3 to the merger with Meta S.p.A. led to the registration of additional goodwill of approximately Euro 71.8 million, which breaks down as follows

- the recording of the fair value of the Hera shares involved in the share swap as at the swap date and the accessory charges for integration considered as combination costs have led to a higher goodwill for Euro 94.1 million.
- the merged company Meta SpA with retroactive effect according to the Italian accounting standards as at 1 January 2005 and with effect from 31 December 2005 according to the IAS/IFRS standards, the date at which control was taken and the swap took place, has led

to a lower goodwill due to the positive economic effect equal to Euro 22.3 million (revenues and costs net of the taxes of Meta SpA recorded according to the IAS/IFRS standards).

- 4) **Deferred tax assets** (+ Euro 17 million as at 1 January 2005 and + Euro 11.6 million as at 31 December 2005); these reflect the matching balance sheet asset balance of the tax effects on adjustments to the shareholders' equity.
- 5) **Employee benefits** – In accordance with the Italian accounting principles, the benefits subsequent to the employment relationship are recorded on an accruals basis during the employment period, in compliance with legislation and applicable labour agreements. According to the IFRS, the benefits subsequent to the employment relationship (e.g. pensions, life assurance and healthcare, etc) are defined on the basis of plans, even if not yet formalised, which in relation to their features are classified as “defined contribution” plans and “defined benefit” plans. In the defined contribution plans, the company's obligation is limited to the payments of the contributions to the State or to a trust or a legally separate entity. The defined benefit plans are social security, insurance and welfare plans which anticipate the obligation, implied or otherwise, for the company to grant the unformalised benefits in favour of former employees. Considering the uncertainties relating to the moment that it will be disbursed, the employee leaving indemnity (TFR) is classified as a defined benefit plan. The related charges, determined on the basis of actuarial hypothesis, are provided for on an accruals basis in relation to the employment period necessary for obtaining the benefits. The amendment of the principle led to a reduction in the employee leaving indemnity provision of around Euro 2.8 million as at 1 January 2005 and around Euro 4.2 million as at 31 December 2005, as well as the recording of a “gas discount” and “Premungas Fund” provision totalling Euro 5.8 million as at 1 January 2005 and Euro 5.3 million as at 31 December 2005. The rate adopted in the discounting back procedure averaged 4.7%.
- 6) **Discounting back of provisions for risks and charges** – in accordance with the matters envisaged by IAS 37, if the liability refers to outlays deferred over time, the liability itself is subject to discounting back to a rate, gross of taxation, capable of reflecting the current market values of the actual value of money and the specific risks associated with the liability. The provision increases in each accounting period in order to reflect the passage of time determining the recording of financial charges on an accruals basis. Within HERA, this standard has been applied to the provision for the restoration of third party assets and the landfill closure and post-closure provision. The application of the standard led to the reversal of said provisions for a total of Euro 67 million as at 1 January 2005 and a total of Euro 85 million as at 31 December 2005.

- 7) **Deferred tax liabilities** (+ Euro 45.4 million as at 1 January 2005 and + Euro 76.8 million as at 31 December 2005); these reflect the matching balance sheet liability balance of the tax effects on adjustments to the shareholders' equity.
- 8) **Financial leasing payables** (+ Euro 19.3 million as at 1 January 2005 and + Euro 17.3 million as at 31 December 2005; said payables refer to application of IAS 17 to assets under financial lease.
- 9) **Effects deriving from the application of IAS 32 and IAS 39 as at 1 January 2005**
As described in the previous section, international accounting standards IAS 32 and IAS 39 adopted by the European Commission have been applied as from January 1, 2005; the application of these standards has led to the recording of liabilities for a total of Euro 4.8 million, assets for a total of Euro 0.6 million, a reduction in intangible fixed assets of Euro 1.5 million, amounts receivable for prepaid taxes of Euro 2.2 million, a deferred taxation provision for Euro 0.9 million and a corresponding decrease in the shareholders' equity of around Euro 4.4 million.

The reconciliation of the shareholders' equity as at January 1, 2005 deriving from the application of IAS 32 and 39 is as follows:

€/m	
IFRS Shareholders' equity as at 1 January 2005	995.50
Fair value valuation of derivative financial instruments	-4.40
Total Shareholders' Equity adjusted as at 1 January 2005	991.10

Effects deriving from the application of IAS 32 and IAS 39 as at 31 December 2005

Application of IAS 32 and 39 led to the recording of liabilities for Euro 9.7 million, assets for Euro 1.2 million, reduction of intangible assets for Euro 1.2 million, receivables for prepaid taxes of Euro 3.7 million, deferred tax provisions for 0.9 million and a corresponding reduction in shareholders' equity of approximately Euro 6.9 million.

Notes to the main IAS adjustments made to the items of the Income Statement as at 31 December 2005

- 10) Revenues from sales and services** – the adjustment equal to approximately Euro 161.1 million (lower revenues) refers to application of IFRS 3 to the merger with Meta SpA.
As control was obtained as at 31 December 2005 the income statement pertaining to the former Meta SpA was only included from said date
- 11) Change in inventories of finished products and work in progress** - the adjustment equal to approximately Euro 0.3 million (lower costs) refers to the application of IFRS 3 to the merger with Meta SpA.
- 12) Other operating revenues** - the adjustment equal to approximately Euro 9.9 million (lower revenues) refers to the application of IFRS 3 to the merger with Meta SpA.
- 13) Costs for purchases of raw materials** - the adjustment equal to approximately Euro 11.6 million refers by approximately Euro 12.1 million to the application of IFRS 3 to the merger with Meta SpA (lower costs) and by Euro 0.5 million (higher costs) to application of IFRIC 1 to the changes in the estimates of expected costs relating to the post-closure charges.
- 14) Costs for services** (- Euro 42.4 million) – the adjustment refers by approximately Euro 44.9 million to the application of IFRS 3 to the merger with Meta SpA (lower costs) and by approximately Euro 2.5 million (higher costs) to recording in the income statement of the capitalised costs under the item intangible fixed assets in the year 2005 for which application of the IFRS provides for direct recording in the income statement.
- 15) Personnel costs** (- Euro 40.3 million) – the adjustment refers by approximately Euro 39.1 million to the application of IFRS 3 to the merger with Meta SpA (lower costs) and by approximately Euro 1.2 million to the different accounting method (financial-actuarial) used to record employee benefits (leaving indemnity, supplementary in-house welfare and gas discount).
- 16) Amortisation, depreciation and allocations** (- Euro 64.6 million) – the adjustment refers by approximately Euro 31.7 million to the application of IFRS 3 to the merger with Meta SpA (lower costs); the remaining adjustments are summarised in the table below:

€/m	
Amortisation of goodwill	-12.50
Amortisation of intangible assets	-6.50
Depreciation of tangible assets (IAS 16, IAS 37)	6.50
Total	-12.50

The afore-mentioned adjustments reflect:

- a decrease, for Euro 12.5 million, attributable to the reversal of the amortisation of goodwill;
- a decrease, for Euro 6.5 million, attributable to the reversal of the amortisation of intangible fixed assets no longer envisaged by the IAS/IFRS;
- an increase, for Euro 6.5 million, due to the effect of the definition for certain categories of tangible fixed assets of the fair value as a replacement for cost and of the consequent definition (and recalculation) of the significant components for the asset categories concerned, as a result of application of IAS 17 and as a result of the amortisation of reclamation costs for the site on which the tangible fixed asset stands since it complies with the provisions of IAS 37.

The adjustment to the item “allocations” totalling - Euro 20.4 million concerns the reversal of the allocations to the landfill post-closure provisions amounting to Euro 5.8 million and to the provision for the restoration of third party assets totalling Euro 22.7 million, as well as the recording of the discounted back allocation to the provision for the restoration of third party assets amounting to Euro 8.1 million.

- 17) **Other operating costs** – (- Euro 21.4 million) the adjustment refers by approximately Euro 16.2 million (lower costs) to the application of IFRS 3 to the merger with Meta SpA and by Euro 5.2 million to the application of IAS 17.
- 18) **Capitalised costs** - the adjustment equal to approximately Euro 5.3 million refers by approximately Euro 5.8 million to the application of IFRS 3 to the merger with Meta SpA (lower revenues) and by Euro 0.5 million (higher revenues) to the application of IAS 16 in relation to the interest expenses capitalised on assets in process of formation.
- 19) **Write-back on tangible fixed assets** - the adjustment equal to approximately Euro 15.5 million relates to the value write-back on tangible fixed assets pertaining to the telecommunications sector. This write-back has proved necessary following an accurate assessment of the forecast cash flows in light of the synergies generated by the integration of the Modena company, the prospects of extending a number of strategic contracts and a review of the discounting back rate taking into account the intrinsic risk relating to transactions outstanding with associated companies and public authorities.
- 20) **Income (charges) from investee companies** - the adjustment equal to approximately Euro 1.2 million refers to the application of IFRS 3 to the merger with Meta SpA (lower income). Further adjustments equal to approximately Euro 4.3 (lower dividends) refer to the reversal of the dividends recorded for the year 2005 for Euro 48.9 million and to the cash recording of the dividends relating to the year 2004 equal to approximately Euro 44.6 million. In the balance sheet the adjustment is reflected in the items making up the trade receivables and is equal to Euro 44.6 million and Euro 48.9 million as at 1 January 2005 and as at 31 December 2005 respectively.

- 21) Financial income** - the adjustment equal to approximately Euro 2.8 million refers by approximately Euro 0.2 million to the application of IFRS 3 to the merger with Meta SpA (lower income) and by Euro 3.0 million (higher income) to the application of IAS 39.
- 22) Financial charges** (+ Euro 10.6 million) – the adjustment mainly comprises:
- Euro 3.6 million as a result of the discounting back of the landfill post-closure provisions;
 - Euro 0.4 million as a result of the discounting back of the employee benefits;
 - Euro 2.7 million as a result of the discounting back of the provision for the recovery of third party assets.
 - Euro 4.4 million as a result of application of IAS 39;
 - Euro 1.0 million as a result of the application of IAS 17;
 - Euro -1.5 million as a result of the application of IFRS 3 to the merger with Meta SpA
- 23) Taxes** (+ Euro 1.9 million) – said amount reflects the tax effects of the income statement adjustments inclusive of the application of IFRS 3 to the merger with Meta S.p.A equal to approximately Euro 12.9 million (lower taxes).
- 24) Statement of reconciliation of the shareholders' equity.**

By way of supplementing the statements of reconciliation of the balance sheet and income statement shown above, the statement of reconciliation of the shareholders' equity as at 1 January 2005 and 31 December 2005 and the net profit for 2005 is presented as follows.

	Note	Shareholders' equity 1 January 2005	Shareholders' equity 31 December 2005	Income Statement 2005
Italian accounting standards		965.10	1.256.5	75.40
Adjustments:				
Adoption IAS 16, IAS 17, IAS 37 on item Tangible Fixed Assets	1	161.30	275.50	-6.10
Adoption IAS 36 impairment test on item Tangible Fixed Assets	1	-15.50	0	15.50
Adoption IAS 38, IAS 39 on item Intangible Assets	2	-47.20	-50	4.30
Adoption IAS 38 for writeback amortisation on item Goodwill	3	10.20	22.70	12.50
Application IFRS 3 on item Goodwill	3	18.70	90.50	
Application IFRS 3 on income statement***				-32.30
Application IAS 37 on item Other Non-Current Assets	1	-68.80	-117.70	
Application IAS 19 on item Employee Leaving Indemnity and Employee Benefits	5	-2.90	-1.00	0.80
Application IAS 37 on item Provisions for Risks and Charges	6	66.60	85.10	13.40
Application IAS 39 on item Financial Assets and Liabilities from Derivatives	9	-4.20	-8.50	-1.40
Application IAS 17 on item Financial Leasing Payables	8	-19.30	-17.30	4.20
Cash dividends recorded	20	-44.60	-48.90	-4.30
Tax effect of adjustments	4 – 7	-28.30	-65.20	1.90
Effect of IAS adjustments		26.00	165.20	8.50
IAS/IFRS accounting standards		991.10	1.421.7	83.90

***The economic effect equal to Euro 32.3 million refers to the elimination of revenues and costs (recorded pursuant to the Italian accounting standards and gross of the tax effects) deriving from the merged company Meta SpA with retroactive effect according to the Italian accounting standards as at 1 January 2005 and with effect from 31 December 2005 according to the IAS/IFRS, the date in which control was taken and the share swap occurred.

Reclassification of the balance sheet and income statement items

The main reclassifications made to the balance sheet as at 1 January 2005 and 31 December 2005, and to the 2005 income statement are described below, as already included in the column “IAS reclassified Italian accounting principles”.

Balance SheetAccrued income and prepayments and accrued liabilities and deferred income

Other assets and/or other liabilities are recorded in the related items.

Income StatementExtraordinary income and charges

The international accounting standards expressly establish the restriction on separately indicating the item extraordinary income/expense in the income statement. Therefore, as from the income statement for 2005, these items have been reclassified under current items.

3.08.03 Statement of assets and liabilities of Geat Distribuzione Gas SpA as at 31 December 2005 and experts' report

GEAT DISTRIBUZIONE GAS

STATO PATRIMONIALE - ATTIVO		31/12/2005
A) CREDITI V/ SOCI PER VERSAMENTI ANCORA DOVUTI:		
- Parte richiamata		
- Parte non richiamata		
Totale crediti v/ soci per versamenti ancora dovuti		-
B) IMMOBILIZZAZIONI:		
I Immobilizzazioni immateriali:		
1) costi di impianto e di ampliamento		5,754
2) costi di ricerca, di sviluppo e di pubblicità		
3) diritti di brevetto industriale e diritti di utilizzazione delle opere dell'ingegno		
4) concessioni, licenze, marchi e diritti simili		462
5) avviamento		
6) immobilizzazioni in corso e acconti		
7) altre		139,547
Totale		145,763
II Immobilizzazioni materiali:		
1) terreni e fabbricati		
2) impianti e macchinario		105,898
3) attrezzature industriali e commerciali		15,403
4) automezzi e veicoli speciali		12,159
5) mobili e arredi		3,635
6) macchine ordinarie d'ufficio		1,817
10) anticipi ed acconti per acq. Immob. materiali		
Totale		138,911
STATO PATRIMONIALE - Attivo		31/12/2005
III Immobilizzazioni finanziarie:		
1) Partecipazioni in:		
a) imprese controllate		3,550,122
b) imprese collegate		
c) imprese controllanti		
d) altre imprese		2,128
2) Crediti:		
a) verso imprese controllate		
b) verso imprese collegate		
c) verso controllanti		
d) verso altri		
3) altri titoli		
4) azioni proprie		
Totale		3,552,249
Totale immobilizzazioni		3,836,924
STATO PATRIMONIALE - Attivo		31/12/2005
C) ATTIVO CIRCOLANTE		
I Rimanenze:		
1) materie prime, sussidiarie e di consumo		26,830
2) prodotti in corso di lavoraz. e semilavorati		
3) lavori in corso su ordinazione		
4) prodotti finiti e merci		52,907
5) acconti		
Totale		79,737
II Crediti:		
1) verso clienti		
-entro 12 mesi		1,077
-oltre 12 mesi		
2) verso imprese controllate		
-entro 12 mesi		1,009,223
-oltre 12 mesi		
3) verso imprese collegate		
-entro 12 mesi		
-oltre 12 mesi		
4) verso controllanti		
-entro 12 mesi		
-oltre 12 mesi		
4-bis) crediti tributari		4,133
4-ter) imposte anticipate		1,537
5) verso altri		
-entro 12 mesi		6,269
-oltre 12 mesi		
Totale		1,022,239
STATO PATRIMONIALE - Attivo		31/12/2005
III Attività finanziarie, che non costituiscono immobilizzazioni:		
1) partecipazioni in imprese controllate		
2) partecipazioni in imprese collegate		
3) partecipazioni in imprese controllanti		
4) altre partecipazioni		
5) azioni proprie		
6) altri titoli		
Totale		
IV Disponibilita' liquide:		
1) depositi bancari e postali		1,012,780
2) assegni		
3) danaro e valori in cassa		310
Totale		1,013,090
Totale attivo circolante		2,115,066
D) RATEI E RISCONTI:		
ratei e risconti attivi		6,564
disaggio sui prestiti		
Totale ratei e risconti		6,564
TOTALE ATTIVO		5,958,554

STATO PATRIMONIALE - PASSIVO		31/12/2005
A) PATRIMONIO NETTO:		
I	Capitale sociale	452.546
II	Riserva sovrapprezzo azioni	
III	Riserve di rivalutazione	
IV	Riserva legale	
V	Riserva azioni proprie in portafoglio	
VI	Riserve statutarie	
VII	Altre riserve:	
-	Riserva straordinaria	
-	Riserva per contributi in conto capitale	
-	Riserva per versamenti in conto copertura perdite	
-	Riserva per avanzo di fusione	
-	Riserva per contributi in conto capitale	
-	Riserva ammortamenti anticipati	
-	Utili indivisi controllate e altre riserve	
-	Riserva sovrapprezzo azioni	
-	Riserva di consolidamento	
-	Altre riserve	
VIII	Utili (perdite) portati a nuovo	694.046
IX	Utile (perdita) del periodo	
Totale patrimonio netto		1.146.592
B) FONDI PER RISCHI E ONERI:		
1)	per trattamento quiescenza e obblighi simili	
2)	per imposte, anche differite	
3)	altri	16.000
Totale fondi per rischi e oneri		16.000
C) TRATTAMENTO FINE RAPPORTO DI LAVORO SUBORDINATO		81.405
STATO PATRIMONIALE - Passivo		
D) DEBITI:		
1)	obbligazioni	
2)	obbligazioni convertibili	
3)	debiti verso soci per finanziamenti	
4)	debiti verso banche	
-	-entro 12 mesi	363.914
-	-oltre 12 mesi	1.982.322
5)	debiti verso altri finanziatori	
6)	acconti	
7)	debiti verso fornitori	
-	-entro 12 mesi	614.536
-	-oltre 12 mesi	
8)	debiti rappresentati da titoli di credito	
9)	debiti verso imprese controllate	
-	-entro 12 mesi	5.818
-	-oltre 12 mesi	
10)	debiti verso imprese collegate	
-	-entro 12 mesi	
-	-oltre 12 mesi	
11)	debiti verso controllanti	
-	-entro 12 mesi	
-	-oltre 12 mesi	
12)	debiti tributari	
-	-entro 12 mesi	298.782
-	-oltre 12 mesi	
13)	debiti v/ istituti previd. e sicurezza sociale	
-	-entro 12 mesi	18.922
-	-oltre 12 mesi	
14)	altri debiti	
-	-entro 12 mesi	1.250.407
-	-oltre 12 mesi	
Totale debiti		4.534.702
E) RATEI E RISCONTI		
	ratei e risconti passivi	179.856
	aggio sui prestiti	
Totale ratei e risconti		179.856
TOTALE PASSIVO		5.958.554
CONTI D'ORDINE		31/12/2005
A) GARANZIE PRESTATE:		
1)	a terzi:	
a)	fidejussioni	
b)	avalli	
c)	altre garanzie personali	
d)	garanzie in proprio per cessione crediti pro-soluto	
Totale		
2)	a imprese controllate:	
a)	fidejussioni	
b)	avalli	
c)	altre garanzie personali	
d)	garanzie reali	
Totale		
3)	a imprese collegate:	
a)	fidejussioni	
b)	avalli	
c)	altre garanzie personali	
d)	garanzie reali	
Totale		
4)	a imprese controllanti e altre del gruppo:	
a)	fidejussioni	
b)	avalli	
c)	altre garanzie personali	
d)	garanzie reali	
Totale		
Totale garanzie prestate		
CONTI D'ORDINE		
B) ALTRI CONTI D'ORDINE		
-	Altri conti d'ordine Materie prime e prodotti finiti presso terzi	
-	Beni di terzi non conferibili, in concessione ed in affitto	
-	Altri conti d'ordine	
Totale altri conti d'ordine		
C) GARANZIE RICEVUTE:		
1)	da terzi e da imprese del gruppo:	
a)	fidejussioni	
b)	avalli	
c)	altre garanzie personali	
d)	garanzie reali	
Totale garanzie ricevute		
TOTALE CONTI D'ORDINE		-

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HERA S.P.A.
Prot N. 0006513/06
del 07/02/2006
Posizione 1.A.2

RELAZIONE DELLA SOCIETÀ DI REVISIONE SUL RAPPORTO DI CAMBIO DELLE AZIONI AI SENSI DELL'ART. 2501 SEXIES DEL CODICE CIVILE

**Agli Azionisti di
HERA S.p.A. e GEAT DISTRIBUZIONE GAS S.p.A.**

1. MOTIVO, OGGETTO E NATURA DELL'INCARICO

Abbiamo ricevuto dal Tribunale di Bologna, in data 25 gennaio 2006, l'incarico di redigere, ai sensi dell'art. 2501 *sexies* del Codice Civile, in qualità di esperto comune, la relazione sul rapporto di cambio relativo al progetto di fusione per incorporazione di GEAT DISTRIBUZIONE GAS S.p.A. (di seguito anche "GDG" ovvero la "Società Incorporata") in HERA S.p.A. (di seguito anche "HERA" ovvero la "Società Incorporante" nonché, congiuntamente a GDG, le "Società").

Ai fini dell'incarico di cui alla presente relazione, abbiamo ricevuto dagli Amministratori di HERA e di GDG (di seguito rispettivamente gli "Amministratori di HERA" e gli "Amministratori di GDG" e, congiuntamente, gli "Amministratori delle Società") il progetto di fusione (di seguito il "Progetto di Fusione", intendendosi con tale definizione il documento congiunto predisposto dagli Amministratori delle Società interessate alla complessiva operazione di fusione sopra descritta), corredato delle apposite relazioni degli Amministratori delle Società (di seguito le "Relazioni degli Amministratori" e, singolarmente, la "Relazione degli Amministratori") che, ai sensi dell'art. 2501 *quinquies* del Codice Civile e dell'art. 70, 2° comma, del Regolamento approvato con deliberazione CONSOB n. 11971 del 14 maggio 1999 e successive modifiche (di seguito il "Regolamento Emittenti"), indicano, illustrano e giustificano nel contesto dell'intera operazione il rapporto di cambio tra le azioni GDG e le azioni HERA al servizio dell'operazione di fusione sopra descritta.

Inoltre, abbiamo ricevuto dagli Amministratori delle Società, quali situazioni patrimoniali di riferimento ai fini dell'operazione di fusione in oggetto, le situazioni patrimoniali ed i conti economici delle Società al 30 settembre 2005, così come previsto dall'art. 2501 *quater* del Codice Civile.

Il Progetto di Fusione sarà sottoposto all'approvazione delle assemblee straordinarie degli azionisti delle Società, che verranno convocate in data da definirsi e, comunque, entro il 30 aprile 2006.

La presente relazione è emessa in data odierna, anticipatamente rispetto ai termini previsti dalle vigenti disposizioni di legge, su espressa richiesta delle Società, per agevolare lo svolgimento degli *iter* autorizzativi riguardanti l'operazione in oggetto.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma
Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano
Capitale Sociale: sottoscritto e versato Euro 10.327.940,00 - deliberato Euro 10.850.000,00
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239

Member of
Deloitte Touche Tohmatsu

2. SINTESI DELL'OPERAZIONE

Come illustrato dagli Amministratori delle Società, l'operazione oggetto della presente relazione (di seguito anche la "Fusione" o l'"Operazione") consiste nella fusione per incorporazione di GDG in HERA ai sensi degli articoli 2501 e seguenti del Codice Civile. La Fusione, peraltro, concernendo anche una società emittente strumenti finanziari quotati in un mercato regolamentato italiano, è altresì soggetta alle disposizioni del Decreto Legislativo n. 58 del 24 febbraio 1998 (di seguito "TUIF") e del Regolamento Emittenti.

Come indicato nelle Relazioni degli Amministratori e nel Progetto di Fusione, HERA S.p.A., con sede in Bologna, Via Berti Pichat n. 2/4, capitale sociale € 1.016.752.029 i.v., è un primario operatore nazionale nella gestione e nello sviluppo di servizi di pubblica utilità in Italia. È quotata sul Mercato Telematico Azionario organizzato e gestito da Borsa Italiana S.p.A. da giugno 2003. Attualmente HERA ha una presenza capillare in oltre 180 Comuni della regione Emilia Romagna appartenenti alle province di Bologna, Modena, Ferrara, Forlì-Cesena, Ravenna e Rimini.

Gli Amministratori delle Società evidenziano che HERA, a differenza dei principali operatori del settore, ha un *portfolio business* che garantisce un'ottimale diversificazione del rischio regolamentare poiché include sia servizi regolamentati e gestiti in "regime concessorio" (come quelli del ciclo idrico integrato, della raccolta e smaltimento rifiuti urbani, della distribuzione di energia elettrica e gas metano) sia attività gestite in "situazione di libera concorrenza" (come la vendita di gas metano ed energia elettrica, lo smaltimento di rifiuti speciali e industriali ed altri *business*).

Come indicato nel Progetto di Fusione, GEAT DISTRIBUZIONE GAS S.p.A., con sede in Riccione (RN), Via Mantova n. 6, capitale sociale € 452.546,00 i.v., svolge l'attività di distribuzione, misurazione e vettoriamento del gas essenzialmente nel comune di Riccione (RN) e, tramite GAS RICCIONE S.p.A. (di seguito anche "GAS RICCIONE"), società di cui GDG detiene il 100% del capitale, copre anche l'attività di vendita di gas, calore ed energia in genere nella stessa area geografica, con vendite per circa 40 milioni di metri cubi ed oltre 20.000 clienti nel territorio di propria competenza.

Come segnalato nelle Relazioni degli Amministratori, l'Operazione si inserisce in un contesto di mercato ove la progressiva liberalizzazione della vendita di gas ed energia elettrica (principalmente alla luce dei Decreti Letta e Bersani) sta sottoponendo il settore delle *utilities* in Italia ad una forte pressione competitiva e sta ponendo l'esigenza di un'evoluzione complessiva del settore, anche in una regione tra le più avanzate in Europa, quale l'Emilia Romagna. La realizzazione dell'Operazione presenta, sempre secondo gli Amministratori, significativi elementi qualificanti per il raggiungimento degli obiettivi ritenuti prioritari e più ampiamente descritti nelle Relazioni degli Amministratori.

Al riguardo gli Amministratori evidenziano, inoltre, che nel settore in cui operano GDG e GAS RICCIONE, HERA ha perseguito nell'ultimo biennio una strategia volta a rafforzare la presenza all'interno del territorio di riferimento, creando un presidio quanto più possibile omogeneo, al fine di cogliere le sinergie derivanti dalla contiguità territoriale delle attività e dalla dimensione di impresa conseguita: in particolare, le diverse acquisizioni di piccoli operatori locali, l'acquisizione della partecipazione in SGR Servizi S.p.A. e le fusioni con Agea S.p.A. (Ferrara) e Meta S.p.A. (Modena), oltre ad offrire i vantaggi sopra indicati, hanno consentito, dal punto di vista strategico, di limitare la presenza dei principali concorrenti all'interno del territorio.

La Fusione si inserisce perfettamente nel contesto sopra illustrato, consentendo di creare assieme alla citata SGR Servizi S.p.A., un nucleo di presidio nella provincia di Rimini, con una importante valenza anche rispetto alla confinante provincia di Pesaro-Urbino, dove HERA opera attraverso la partecipata Aspes Multiservizi S.p.A.

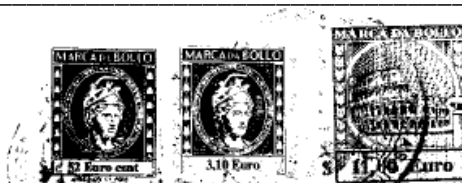
Come evidenziato dagli Amministratori delle Società, l'integrazione in oggetto sarà in grado di garantire buone opportunità sia commerciali sia sul fronte dei costi operativi, e potrà così essere perseguito il migliore soddisfacimento dei bisogni della collettività di riferimento, favorendo una gestione dei servizi pubblici locali ancor di più improntata a principi di efficienza ed economicità.

Al fine di dare avvio e portare a completamento la Fusione, HERA e GDG, unitamente al Comune di Riccione, nella sua veste di unico azionista di GDG, hanno sottoscritto in data 22 dicembre 2005 un apposito accordo quadro (di seguito anche l'“Accordo Quadro”) in cui sono stati disciplinati obbligazioni, tempi e modalità di esecuzione della Fusione.

In particolare, tale Accordo Quadro illustra in dettaglio gli specifici elementi valutativi, ai quali gli Amministratori delle Società hanno dovuto fare riferimento in sede di determinazione del rapporto di cambio ai fini della Fusione, nonché le modalità con cui gli eventuali scostamenti rispetto a questi parametri valutativi dovranno essere oggetto di conguaglio in denaro fra le parti.

Con riferimento alla Fusione, gli Amministratori delle Società evidenziano i seguenti aspetti di rilievo:

- la Fusione si realizzerà mediante l'assegnazione agli azionisti di GDG di azioni proprie non di nuova emissione, il cui acquisto sarà deliberato dall'assemblea degli azionisti di HERA in sede di approvazione del bilancio di esercizio chiuso al 31 dicembre 2005 e che HERA stessa acquisterà sul mercato prima della stipulazione dell'atto di fusione;
- ai fini della Fusione sono stati adottati, quali situazioni patrimoniali di riferimento, le situazioni patrimoniali ed i conti economici di HERA e GDG al 30 settembre 2005, così come previsto dall'art. 2501 *quater* del Codice Civile;
- è intenzione delle Società completare la Fusione il prima possibile e, segnatamente, far sì che l'efficacia della Fusione intervenga entro l'esercizio 2006;
- l'esecuzione della Fusione sarà subordinata al previo ottenimento dell'approvazione, autorizzazione o esenzione, senza imposizione di qualsivoglia condizione o riserva, da parte dell'Autorità Garante della Concorrenza e del Mercato ai sensi delle disposizioni applicabili della Legge del 10 ottobre 1990 n. 287;
- per effetto della Fusione, HERA subentrerà a GDG in tutti i rapporti giuridici attivi e passivi di quest'ultima, ivi compresi i rapporti di natura concessoria e, pertanto, la Società Incorporante gestirà, in regime di continuità, tutti i servizi pubblici già affidati dal Comune di Riccione a GDG;
- gli effetti della Fusione, ai sensi dell'art. 2504 *bis*, 2° comma, del Codice Civile, decorreranno dal giorno in cui verrà effettuata l'ultima delle iscrizioni dell'atto di fusione presso il competente Registro delle Imprese, ovvero dalla data successiva che sarà indicata nell'atto medesimo;



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- con riferimento a quanto previsto dall'art. 2501 del Codice Civile, le operazioni effettuate dalla Società Incorporata saranno imputate al bilancio della Società Incorporante a decorrere dal 1° gennaio dell'anno in cui la Fusione avrà efficacia e da tale data decorreranno anche gli effetti fiscali della Fusione ai sensi dell'art. 172, 9° comma, del D.P.R. 22 dicembre 1986 n. 917;
- il Comune di Riccione, unico azionista di GDG, con la sottoscrizione dell'Accordo Quadro si è impegnato a dar corso alla Fusione rinunciando all'esercizio del diritto di recesso, di cui all'art. 2437, lettera a), del Codice Civile;
- la Fusione non comporterà alcuna modifica dello Statuto di HERA né dei Patti Parasociali attualmente in essere;
- la Fusione non comporterà alcuna modifica sulla composizione dell'azionariato rilevante di HERA, né sull'assetto di controllo della medesima.

3. NATURA E PORTATA DELLA PRESENTE RELAZIONE

Al fine di fornire agli azionisti di HERA e di GDG idonee informazioni sul rapporto di cambio relativo alla Fusione, la presente relazione indica i metodi seguiti dagli Amministratori delle Società per la sua determinazione, i valori risultanti dall'applicazione dei suddetti metodi, nonché le difficoltà di valutazione incontrate dagli stessi Amministratori delle Società; essa contiene inoltre la nostra valutazione sull'adeguatezza nelle circostanze di tali metodi, sotto il profilo della loro ragionevolezza e non arbitrarietà, sull'importanza relativa attribuita dagli Amministratori delle Società a ciascuno di essi, nonché sulla loro corretta applicazione.

Nell'esaminare i metodi di valutazione adottati dagli Amministratori delle Società non abbiamo effettuato una valutazione economica delle Società stesse. Tale valutazione è stata svolta esclusivamente dagli Amministratori delle Società.

4. DOCUMENTAZIONE UTILIZZATA

Nello svolgimento del nostro lavoro abbiamo ottenuto direttamente da HERA e da GDG i documenti e le informazioni ritenuti utili nella fattispecie. A tal fine, abbiamo analizzato la documentazione messa a nostra disposizione ed in particolare:

- il Progetto di Fusione con relativi allegati, redatto e predisposto dagli Amministratori delle Società;
- le Relazioni degli Amministratori delle Società, indirizzate alle rispettive assemblee straordinarie, che propongono per la Fusione **un rapporto di cambio pari a n. 12,211097020612 azioni ordinarie di HERA del valore nominale di € 1 ciascuna per ogni azione ordinaria di GDG del valore nominale di € 1 ciascuna;**
- l'Istanza di nomina dell'esperto comune ai sensi dell'art. 2501 *sexies* del Codice Civile presentata in data 9 gennaio 2006 al Tribunale di Bologna e relativo provvedimento di nomina in data 25 gennaio 2006;
- l'Accordo Quadro relativo alla fusione per incorporazione in Hera S.p.A di Geat Distribuzione Gas S.p.A., sottoscritto in data 22 dicembre 2005 da HERA, GDG e Comune di Riccione;

- la seguente documentazione, utilizzata dagli Amministratori delle Società e, successivamente, anche da noi ai fini del nostro incarico:
 - bilancio d'esercizio di GEAT S.p.A. al 31 dicembre 2004, corredato della relazione degli Amministratori, del Collegio Sindacale e della società di revisione;
 - bilancio d'esercizio di GAS RICCIONE al 31 dicembre 2004, corredato della relazione degli Amministratori, del Collegio Sindacale e della società di revisione;
 - business Plan 2005-2010 redatto dagli Amministratori di GDG, che tiene conto dello sviluppo quinquennale dell'attività congiunta di GDG e della sua controllata GAS RICCIONE (di seguito il "Business Plan 2005-2010");
 - situazione patrimoniale e conto economico consolidati del semestre chiuso al 30 giugno 2005 di GDG e GAS RICCIONE;
 - situazione patrimoniale e conto economico consolidati del periodo chiuso al 30 settembre 2005 di GDG e GAS RICCIONE, con relativa relazione di revisione limitata emessa in data 21 dicembre 2005 dalla società di revisione Mazars & Guérard S.p.A.;
 - relazione trimestrale al 30 settembre 2005 di HERA;
 - "relazione di valutazione della società Geat Distribuzione Gas S.p.A. con consolidamento integrale della controllata Gas Riccione S.p.A.", datata 16 febbraio 2005, redatta dallo Studio Vitale-Novello di Milano;
 - prospetto "Il Titolo Hera negli ultimi 12 mesi", datato 4 gennaio 2006, predisposto da HERA a supporto dell'Operazione;
 - andamento dei prezzi di Borsa delle azioni HERA su archi temporali ritenuti significativi dagli Amministratori delle Società ai fini delle analisi e delle valutazioni oggetto delle Relazioni degli Amministratori delle Società ai sensi dell'art. 2501 *quinquies* del Codice Civile.

In aggiunta a quanto sopra, è stata da noi esaminata, per le finalità di cui alla presente relazione, la seguente ulteriore documentazione:

- informazioni di mercato (prezzi di mercato, volumi di scambio, stime di utili prospettici, ecc.) raccolte attraverso fonti pubbliche (Bloomberg, equity researches, ecc.);
- elementi contabili e statistici, nonché ogni altra informazione ritenuta utile ai fini della presente relazione.

Abbiamo, inoltre, ottenuto attestazione dalle Società che, per quanto a loro conoscenza, non sono intervenute modifiche significative ai dati ed alle informazioni presi in considerazione nello svolgimento delle nostre analisi.

5. METODI DI VALUTAZIONE ADOTTATI DAGLI AMMINISTRATORI PER LA DETERMINAZIONE DEL RAPPORTO DI CAMBIO

5.1 Premessa

In considerazione degli accordi intercorsi tra HERA, GDG ed il Comune di Riccione in occasione della trattativa che ha portato alla sottoscrizione dell'Accordo Quadro, gli Amministratori delle Società hanno condiviso i criteri di valutazione ritenuti più coerenti con le finalità dell'analisi, che consiste nella determinazione del rapporto di cambio tra le azioni di GDG e le azioni di HERA nell'ambito della Fusione.

In particolare, secondo quanto espressamente riportato nelle Relazioni degli Amministratori, la scelta delle metodologie adottate dagli Amministratori delle Società per la determinazione del rapporto di cambio proposto, si è basata sui seguenti presupposti:

- sono stati assunti i valori economici e patrimoniali della Società Incorporata consolidandoli con quelli della controllata GAS RICCIONE, in quanto l'interconnessione produttiva fra le due società è talmente evidente e rilevante che, sotto il profilo unicamente industriale, vanno considerate come un unico soggetto operativo;
- pur essendo entrambe le suddette società di recente costituzione, in quanto come soggetti giuridici autonomi GDG è operativa dal 1° gennaio 2005 e GAS RICCIONE dal 1° gennaio 2003, si è valutato l'iter storico delle attività distribuzione e vendita del gas che erano svolte all'interno di GEAT S.p.A e della sua controllata. Al riguardo si precisa che con atto di scissione del 28 dicembre 2004 è stata effettuata una scissione parziale di GEAT S.p.A., con trasferimento del ramo d'azienda afferente l'attività di distribuzione del gas e dell'intero pacchetto azionario della società GAS RICCIONE alla beneficiaria GDG.
- è stato preso in esame il Business Plan 2005-2010 redatto dagli organi amministrativi della Società Incorporata, che tiene conto dello sviluppo quinquennale dell'attività congiunta di GDG e di GAS RICCIONE;
- sono stati considerati i risultati della perizia effettuata nel recente passato (febbraio 2005) dallo Studio Vitale-Novello di Milano, che forniva una valutazione complessiva di GDG basata e sviluppata su diversi principi e metodi valutativi.

In aggiunta a quanto sopra, inoltre, gli Amministratori di HERA fanno rilevare come sia stato altresì preso in considerazione che le azioni di HERA sono quotate alla borsa valori di Milano, a differenza dei titoli rappresentativi del capitale sociale di GDG che non sono scambiati su alcun mercato regolamentato.

5.2 La scelta dell'approccio di valutazione effettuata dagli Amministratori delle Società

Alla luce di quanto precede, gli Amministratori delle Società hanno individuato e condiviso le seguenti metodologie di valutazione per le Società partecipanti alla Fusione:



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- per quanto attiene a GDG, considerato che la situazione del settore gas risulta fortemente influenzata nelle sue prospettive dalla liberalizzazione e da un complesso quadro normativo in costante evoluzione, non è stato ritenuto opportuno addentrarsi in valutazioni basate su metodi reddituali e/o finanziari (ad esempio DCF), essenzialmente legate nelle loro indicazioni alle assunzioni sui futuri risultati, ma è stato ritenuto più corretto assumere quale metodologia valutativa quella basata sui “Multipli”, che differentemente prende a riferimento la situazione consuntivata nell’ultimo esercizio;
- in merito al criterio di valutazione di HERA, gli Amministratori delle Società hanno ritenuto opportuno utilizzare il metodo delle “Quotazioni di Borsa” sulla base delle seguenti considerazioni:
 - si ritiene che tale metodo fornisca una misura di valore meno influenzabile da ipotesi di natura soggettiva rispetto ad altri metodi tipici utilizzati nella prassi finanziaria (tipicamente il metodo DCF), in quanto questi ultimi richiedono generalmente la formulazione di ipotesi in merito all’andamento futuro dei risultati economico-finanziari, la traduzione di tali ipotesi in proiezioni dei flussi di cassa, l’apprezzamento del profilo di rischio dell’impresa oggetto di valutazione e la conseguente stima del costo opportunità del capitale; il metodo in oggetto consente di prescindere da stime soggettive di questo genere, attribuendo al mercato l’apprezzamento dell’andamento economico-finanziario e del profilo di rischio/rendimento delle aziende quotate;
 - nella disciplina giuridica italiana, inoltre, la considerazione delle quotazioni di borsa appare essere un elemento rilevante: ai fini della determinazione del valore aziendale di società quotate, infatti, tale disciplina richiama spesso il riferimento ai prezzi di borsa (ad esempio, nel caso di recesso del socio, nelle operazioni di aumento di capitale con esclusione del diritto d’opzione, nelle offerte pubbliche di acquisto totalitarie, nel diritto di acquisto di cui all’art. 111 del Testo Unico);
 - la validità di tale metodo è ancor più convalidata dalla vastità delle informazioni pubblicamente disponibili sul mercato finanziario: nel caso specifico di HERA trattasi di società che pratica una continua informativa al mercato finanziario, mettendolo in condizione di valutare il *profilo* di rischio/rendimento della società, esprimendo così un prezzo di borsa quanto più possibile prossimo ad una valutazione intrinseca (*fair value*) della società.

5.3 Le metodologie di valutazione adottate dagli Amministratori delle Società

Nel seguito vengono descritti, in sintesi, gli aspetti generali dei metodi di valutazione prescelti dagli Amministratori delle Società.

5.3.1 Metodo dei Multipli

Tale metodo prevede che la determinazione del valore aziendale non avvenga attraverso l’impiego di un metodo specifico astratto di valutazione del capitale, bensì attraverso l’utilizzazione di valutazioni espresse dal mercato, cioè attraverso l’osservazione diretta dei prezzi espressi dal mercato per società simili (cosiddette comparables o guideline companies) o per transazioni su società simili.

In particolare, quando i prezzi sono determinati nell'ambito di un mercato regolamentato di borsa, l'approccio valutativo viene definito dei multipli o moltiplicatori di borsa (o delle società comparabili); quando invece i prezzi sono osservati nel mercato del controllo societario in generale, anche se non regolamentato (che idealmente rappresenta il mercato nel quale vengono trasferiti pacchetti societari), l'approccio valutativo viene definito dei multipli o moltiplicatori delle transazioni comparabili.

L'applicazione del metodo in parola avviene generalmente come segue:

- scelta di un campione di società/transazioni comparabili con la società oggetto di valutazione;
- scelta dell'indicatore economico (ad esempio, fatturato, risultato operativo, ecc.) con riferimento al quale calcolare il moltiplicatore;
- calcolo del multiplo rappresentativo del campione;
- applicazione di tale multiplo all'indicatore economico prescelto della società oggetto di valutazione;
- eventuale rettifica del risultato così ottenuto sulla base della posizione finanziaria netta della società oggetto di valutazione.

5.3.2 Metodo delle Quotazioni di Borsa

Secondo tale metodo, nel caso di società con titoli negoziati in un mercato mobiliare regolamentato, il valore della società viene stimato sulla base delle quotazioni di borsa rilevate in un periodo significativo che si conclude ad una data prossima a quella di elaborazione della stima.

Il prezzo di borsa, infatti, generalmente sintetizza la percezione del mercato rispetto alle prospettive di crescita della società oggetto di valutazione ed al valore ad esse attribuibile sulla base delle informazioni conosciute dagli investitori in un determinato momento.

5.4 Applicazione dei metodi di valutazione da parte degli Amministratori delle Società

Come espressamente riportato nelle Relazioni degli Amministratori, i Consigli di Amministrazione di HERA e GDG hanno definito e quindi condiviso i valori relativi delle Società, sulla base anche degli accordi intercorsi fra le parti in occasione della sottoscrizione dell'Accordo Quadro.

Di seguito è illustrato il procedimento valutativo seguito per ciascuna delle Società.

5.4.1 La valutazione di GDG secondo il Metodo dei Multipli

Innanzitutto, gli Amministratori delle Società hanno individuato i parametri fondamentali per poter procedere nell'utilizzo della metodologia valutativa prescelta, ed in particolare:

- l'EBITDA o Margine operativo lordo (di seguito "EBITDA");
- la Posizione Finanziaria Netta (di seguito "PFN").

Quindi, in considerazione della mancanza di dati storici della Società Incorporata (che esiste come soggetto giuridico autonomo solo dal 1° gennaio 2005 e, come tale, non ha ancora chiuso un proprio bilancio d'esercizio), gli Amministratori della Società hanno assunto, come dati rilevanti ai fini valutativi, i dati economici emergenti dal bilancio chiuso al 31 dicembre 2004 di GAS RICCIONE, a cui sono stati consolidati quelli, sempre del 2004, relativi al ramo aziendale della distribuzione gas, allora enucleati all'interno del bilancio di GEAT S.p.A., dati comunque rinvenuti anche nel Business Plan 2005-2010 redatto dagli Amministratori della Società Incorporata già nel novembre 2004.

Secondo quanto riportato nelle Relazioni degli Amministratori, tali dati sono stati verificati anche nella situazione semestrale consolidata della Società Incorporata, redatta al 30 giugno 2005, e sono apparsi in linea con quelli dell'esercizio precedente, per cui gli Amministratori della Società hanno convenzionalmente deciso, anche a fini di tutela e garanzia dell'operazione, che gli stessi dati non debbano subire sostanziali modifiche anche nel bilancio che si è chiuso al 31 dicembre 2005, come peraltro evidenziato anche dal Business Plan 2005-2010.

Alla luce di quanto sopra, i dati rilevanti, assunti dagli Amministratori della Società quali parametri valutativi per la determinazione del valore del capitale economico di GDG secondo il Metodo dei Multipli, sono i seguenti:

- EBITDA consolidato pari a € 1.500.000;
- PFN consolidata pari a zero.

Al sopra citato EBITDA, così come previsto dal metodo valutativo prescelto, è stato poi applicato un moltiplicatore o multiplo pari a 8,33 periodico.

Secondo quanto espressamente riportato nelle Relazioni degli Amministratori, tale moltiplicatore è stato assunto in sede negoziale tra le parti e risulta collocarsi in una posizione intermedia tra le attuali quotazioni borsistiche delle utilities locali (media pari a circa 8) e il valore medio di 8,8 (media tra il valore minimo di 6,5 e massimo di 11,1), che deriva dal campione di transazioni comparabili di riferimento considerate nel sopra citato lavoro peritale eseguito dallo Studio Vitale-Novello, di cui alle tabelle di seguito riportate.

EV/EBITDA LOCAL UTILITIES COMPARABILI

Peers	Mkt cap(1)	PFN 05E(2)	EV 05E	Ebitda 05 E (2)	EV/Ebitda (x) 05E
Acea	1812	995	2807	404	6,9
Acegas	424	251	675	98	6,9
Aem Mi (3)	3004	5753	8757	1185	7,4
Aem To	968	789	1757	170	10,3
Amga	577	221	798	97	8,2
Asm Bs	1984	689	2673	324	8,3
Hera (4)	2.257	843	3.100	391	7,9
Media (*)					8,0

(1) fonte il sole 24 ore
05/01/2006

(2) Stime IMI

(3) considera il consolidamento pro-quota di
Edison

(4) PFN IMI 743 mln aumentata di 100 mln per OPA su Meta

(*) rappresenta la media aritmetica dei valori contenuti nella colonna "EV/Ebitda"

TRANSAZIONI COMPARABILI NEL SETTORE GAS							
Anno	Target	Settore	Acquirente	% acquisto	Enterprise value (EV)	EBITDA	EV / EBITDA
2004	Italgas	Utilities	Enel	100,00%	32.000	3.400	9,4 X
2003	Sicilmetano	Utilities	Enel	100,00%	41.000	5.000	8,2 X
2003	Cige	Utilities	ASM Brescia	100,00%	35.000	3.150	11,1 X
2003	Arcellona	Utilities	ASM Brescia	100,00%	31.500	4.820	6,5 X

In conclusione, sulla base dei dati sopra evidenziati, gli Amministratori delle Società sono pervenuti ad una valutazione del capitale economico di GDG pari a € 12.500.000, corrispondente ad un valore per azione pari a € 27,622 (arrotondato al terzo decimale).

Al riguardo, si ritiene opportuno evidenziare che tale valore è significativamente influenzato dalle assunzioni di base effettuate dagli Amministratori delle Società, con riferimento alla stima dell'EBITDA e della PFN al 31 dicembre 2005, suscettibili di variazioni a consuntivo. Tali variazioni, secondo gli accordi intercorsi tra le parti, non avranno alcun effetto modificativo sul rapporto di concambio oggetto della presente relazione e daranno origine a conguagli in denaro, secondo le modalità indicate nell'Accordo Quadro.

In aggiunta a quanto precede, gli Amministratori delle Società sottolineano che la valutazione così determinata riconosce una valutazione per cliente pari a circa € 625, sulla base degli oltre 20.000 clienti serviti dalla Società Incorporata, valore che si colloca leggermente al di sotto dei valori riferiti a recenti analoghe transazioni, che peraltro, a differenza della operazione in oggetto, includevano anche la proprietà delle reti di distribuzione.

5.4.2 La valutazione di HERA secondo il Metodo delle Quotazioni di Borsa

Al fine di evitare eventuali anomalie e di neutralizzare le fluttuazioni di breve periodo che tipicamente caratterizzano i mercati finanziari, gli Amministratori delle Società hanno proceduto, secondo la comune prassi valutativa, ad estendere l'analisi delle quotazioni delle azioni di HERA ai dati medi storici espressi dal mercato in un arco temporale ampio.

In particolare, secondo gli accordi intervenuti tra le parti, è stato effettuato il calcolo della media dei prezzi ufficiali registrati alla Borsa Valori di Milano nel periodo compreso nei sei mesi antecedenti alla sottoscrizione dell'Accordo Quadro, avvenuta in data 22 dicembre 2005.

Come espressamente riportato nelle Relazioni degli Amministratori, il valore delle azioni HERA, che le parti hanno identificato ai fini della determinazione del rapporto di cambio, è pertanto pari a € 2,262.

Inoltre, a fini di riscontro, gli Amministratori delle Società hanno proceduto:

- all'analisi dello scostamento del predetto valore (utilizzato ai fini della determinazione del rapporto di cambio) rispetto al corso delle valutazioni recenti del titolo, nonché rispetto alla media tra il valore dell'ultimo mese e quello dell'ultimo anno antecedenti il 22 dicembre 2005;
- al confronto tra il multiplo di HERA e quello di società comparabili relativamente al 2005.

Al riguardo, nelle tabelle seguenti si riportano le medie dei prezzi ufficiali di borsa di HERA nei periodi oggetto di analisi.

MEDIA PREZZI UFFICIALI AL 21/12/2005

Media 1 mese	2,290
Media 6 mesi	2,262
Media 12 mesi	2,248
Media prezzo ufficiale dal 22/12/2005 al 11/01/2006	2,243

Ad esito delle analisi e dei confronti sopra illustrati, gli Amministratori delle Società evidenziano come il predetto valore di € 2,262 per azione non presenti scostamenti di rilievo rispetto:

- al valore medio registrato nel periodo tra il 22 dicembre 2005 e l'11 gennaio 2006 e pari a € 2,243 per azione;
- alla media tra il valore medio dell'ultimo mese e quello medio dell'ultimo anno, pari ad € 2,269 per azione.

In aggiunta, gli Amministratori delle Società rilevano che la sopra citata valutazione delle azioni HERA di € 2,262 determina un multiplo implicito dell'EBITDA che, se da un lato è coerente con il multiplo implicito sottostante l'attuale valorizzazione di Borsa della Società Incorporante (il multiplo di HERA, con riferimento all'EBITDA atteso per l'anno 2005, è pari a 7,9), dall'altro è allineato alla media dei multipli dell'EBITDA delle società comparabili. La media dei multipli dell'EBITDA delle società comparabili di settore è, infatti, pari a 8, laddove la mediana - che è un indice meno influenzato da valori anomali e, quindi, più solido - è pari ad 7,8, come riportato nella tabella che segue.

EV/EBITDA LOCAL UTILITIES COMPARABILI

Peers	Mkt cap(1)	PFN 05E(2)	EV 05E	Ebitda 05 E (2)	EV/Ebitda (x) 05E
Accea	1812	995	2807	404	6,9
Acegas	424	251	675	98	6,9
Acm Mi (3)	3004	5753	8757	1185	7,4
Aem To	968	789	1757	170	10,3
Amga	577	221	798	97	8,2
Asm Bs	1984	689	2673	324	8,3
Hera (4)	2.257	843	3.100	391	7,9
Media (*)					8,0
Mediana (**)					7,8

(1) fonte il sole 24 ore
05/01/2006

(2) Stime IMI pro-quota di Edison

(3) considera il consolidamento

(4) PFN IMI 743 mln aumentata di 100 mln per OPA su Meta

(*) rappresenta la media aritmetica dei valori contenuti nella colonna "EV/Ebitda"

(**) rappresenta la media aritmetica dei valori centrali del campione contenuto nella colonna "EV/Ebitda", ad esclusione di quello relativo ad HERA, e cioè 7,4 (Acm Mi) e 8,2 (Amga)

6. DIFFICOLTÀ DI VALUTAZIONE INCONTRATE DAGLI AMMINISTRATORI

Così come espressamente riportato nelle Relazioni degli Amministratori, nello svolgimento delle valutazioni ai fini della determinazione del rapporto di cambio, non sono state rilevate particolari difficoltà da parte degli Amministratori di HERA e di GDG.

Al riguardo gli Amministratori delle Società evidenziano che i metodi dei quali si sono avvalsi (Multipli per GDG, Quotazioni di Borsa per HERA) sono metodi fondati su dati oggettivi e riscontrabili, senza effettuare stime specifiche o congetture.

7. RISULTATI EMERSI DALLA VALUTAZIONE EFFETTUATA DAGLI AMMINISTRATORI DELLE SOCIETÀ

Alla luce e nel rispetto delle valutazioni condotte come precedentemente illustrato, i Consigli di Amministrazione di HERA e di GDG hanno definito e quindi condiviso i valori relativi delle Società, nonché le rispettive determinazioni in merito al rapporto di cambio relativo alla fusione per incorporazione di GDG in HERA.

Di seguito sono riportati i valori per azione, arrotondati al 3° decimale, assunti a riferimento per la determinazione del rapporto di cambio:

VALUTAZIONE PER CONCAMBI PER AZIONE HERA:	€ 2,262
VALUTAZIONE PER CONCAMBI PER AZIONE GDG:	€ 27,622 (*)

(*) tale valore arrotondato corrisponde a 27,621501460625

Il rapporto di cambio, determinato dagli Amministratori delle Società utilizzando, come concordato tra le parti, un numero di decimali tale da non determinare né resti né necessità di conguagli in denaro significativi, è il seguente:

RAPPORTO DI CAMBIO
12,211097020612

Pertanto, all'unico socio detentore delle n. 452.546 azioni GDG del valore nominale di € 1 cadauna, sulla base del predetto rapporto di cambio verranno assegnate n. 5.526.083 azioni HERA del valore nominale di € 1 cadauna.

Da ultimo, gli Amministratori delle Società evidenziano che, poiché il rapporto di cambio fra le azioni di HERA e quelle di GDG è stato determinato anche sulla base di specifici elementi valutativi di cui all'Accordo Quadro sottoscritto fra HERA, GDG ed il Comune di Riccione, gli scostamenti che dovessero emergere dal bilancio approvato al 31 dicembre 2005 nonché dalla situazione patrimoniale e dal conto economico consolidato alla data di efficacia della Fusione (così come definite nell'Accordo Quadro) rispetto a tali parametri valutativi, utilizzati dagli Amministratori delle Società ai fini della presente operazione, e fatte salve le franchigie pattuite, daranno origine a conguagli in denaro fra le parti, secondo le modalità previste nel citato Accordo Quadro.



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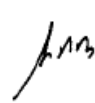
8. LAVORO SVOLTO

Nell'ambito dell'espletamento del nostro incarico di esperto comune ai sensi dell'art. 2501 *sexies* del Codice Civile per HERA e GDG, sulla base della documentazione utilizzata di cui al paragrafo 4 che precede, sono state effettuate le seguenti principali attività:

- abbiamo analizzato le Relazioni degli Amministratori delle Società redatte ai sensi dell'art. 2501 *quinquies* del Codice Civile, il Progetto di Fusione predisposto dai Consigli di Amministrazione delle Società, l'Accordo Quadro sottoscritto in data 22 dicembre da HERA, GDG e Comune di Riccione, nonché la restante documentazione messa a nostra disposizione dagli Amministratori delle Società. Al riguardo riteniamo opportuno precisare che la scrivente società di revisione Deloitte & Touche S.p.A. non ha avuto necessità di svolgere, per le finalità del presente incarico, ulteriori verifiche sui dati ed informazioni relative ai bilanci d'esercizio e consolidati di HERA, in quanto già in possesso di sufficienti elementi assunti nell'ambito dell'incarico di revisione contabile ai sensi dell'art. 156 del D.Lgs. 24 febbraio 1998 n. 58;
- abbiamo esaminato le carte del lavoro di revisione limitata effettuata dalla società Mazars & Guérard S.p.A sulla situazione patrimoniale ed il conto economico consolidati al 30 settembre 2005 di GDG e della controllata GAS RICCIONE ed effettuato un'analisi critica, basata essenzialmente su discussioni con il Management di GDG delle voci patrimoniali ed economiche più rappresentative e dei principi contabili utilizzati nonché degli scostamenti delle voci in oggetto rispetto ai dati di bilancio al 31 dicembre 2004;
- in merito agli elementi valutativi (EBITDA e PFN) di GDG utilizzati per la determinazione del concambio, abbiamo discusso con la società i criteri utilizzati per la loro determinazione nonché analizzato il Business Plan 2005-2010, limitatamente all'esercizio 2005, fermo restando le incertezze ed i limiti connessi ad ogni tipo di stato previsionale, al fine di trovare ragionevole conferma di tali elementi;
- abbiamo raccolto, attraverso discussione con le Società, informazioni circa gli eventi verificatisi dopo la data di chiusura delle situazioni patrimoniali ed economiche di riferimento al 30 settembre 2005.

In particolare, con riguardo ai metodi di valutazione ed alle modalità di determinazione del rapporto di cambio sono state svolte le seguenti principali attività:

- esame dei metodi di valutazione adottati dagli Amministratori delle Società nella determinazione del rapporto di cambio, sulla base degli elementi a noi forniti descritti nel paragrafo 4 che precede, onde riscontrarne nelle circostanze in oggetto il contenuto ragionevole, motivato e non arbitrario;
- verifica della coerenza dei dati utilizzati con le fonti di riferimento e, quindi, con la documentazione utilizzata descritta nel paragrafo 4 che precede;
- analisi della documentazione predisposta e/o fornitaci dagli Amministratori delle Società e discussione con i medesimi relativamente al lavoro da essi complessivamente svolto per la determinazione del rapporto di cambio;
- verifica della non contraddittorietà delle motivazioni degli Amministratori delle Società riguardanti i metodi valutativi da essi adottati;

- verifica in ordine alla completezza dei procedimenti ed all'uniformità nell'applicazione dei metodi di valutazione adottati dagli Amministratori delle Società nella determinazione del rapporto di cambio;
- confronto con fonti ufficiali dell'andamento, nei periodi presi a riferimento per la determinazione del rapporto di cambio, delle quotazioni sia delle azioni HERA sia delle azioni delle altre società quotate comprese nel panel di società comparabili utilizzato dagli Amministratori delle Società nell'applicazione delle metodologie valutative prescelte;
- verifica dei dati relativi al campione di transazioni analizzato dagli Amministratori delle Società ai fini dell'applicazione del Metodo dei Multipli relativamente a GDG;
- sviluppo di *sensitivity analysis* nell'ambito dei metodi di valutazione adottati, in particolare con l'obiettivo di verificare quanto il rapporto di cambio sia influenzabile da variazioni delle ipotesi e dei parametri utilizzati;
- verifica della correttezza matematica del calcolo del rapporto di cambio effettuato mediante l'applicazione dei metodi di valutazione adottati dagli Amministratori delle Società.

Abbiamo inoltre ottenuto un'attestazione delle Società che, per quanto a loro conoscenza, alla data della presente relazione non sono maturate circostanze modificative dei dati e dei contenuti della documentazione analizzata, né si sono verificati eventi tali da modificare le valutazioni espresse dai rispettivi Consigli di Amministrazione per la determinazione del rapporto di cambio.

9. COMMENTI SULL'ADEGUATEZZA DEI METODI E SULLA VALIDITÀ DELLE STIME PRODOTTE

Con riferimento al presente incarico, si sottolinea che l'espressione di un parere sull'adeguatezza dei metodi utilizzati, in quanto nelle circostanze ragionevoli e non arbitrari, e dei risultati che derivano dalla loro applicazione, impone di ricordare che lo scopo principale delle valutazioni effettuate dagli Amministratori delle Società, essendo finalizzate alla determinazione del rapporto di cambio, non è tanto la stima dei valori assoluti del capitale economico delle Società coinvolte nell'Operazione, quanto l'ottenimento di valori omogenei e raffrontabili ai fini della determinazione del rapporto di cambio stesso.

Di conseguenza, le valutazioni effettuate dagli Amministratori delle Società e illustrate nelle Relazioni degli Amministratori non possono essere utilizzate per finalità diverse.

Ciò premesso, le principali considerazioni sui metodi di valutazione adottati dagli Amministratori delle Società per la determinazione del rapporto di cambio fra le azioni di HERA e quelle di GDG sono riportate di seguito:

- i metodi adottati dagli Amministratori delle Società sono comunemente accettati ed utilizzati sia a livello nazionale che internazionale nell'ambito delle valutazioni di realtà operanti nel settore di riferimento;

- nella scelta dei metodi valutativi da utilizzare, gli Amministratori delle Società hanno tenuto conto delle differenti caratteristiche delle società oggetto di valutazione, ed in particolare del fatto che, a differenza di HERA, i titoli rappresentativi del capitale sociale di GDG non sono scambiati su alcun mercato regolamentato;
- i metodi di valutazione adottati, pur differenti (nella fattispecie, applicazione del Metodo dei Multipli per GDG ed utilizzo del Metodo delle Quotazioni di Borsa per HERA), possono essere ritenuti raffrontabili in quanto rientrano entrambi nella categoria dei Criteri di mercato;
- nell'applicazione di tali metodi gli Amministratori delle Società hanno considerato le caratteristiche ed i limiti impliciti in ciascuno di essi, sulla base della prassi valutativa professionale, nazionale ed internazionale, normalmente seguita anche nel settore dei servizi pubblici locali;
- l'adozione di un approccio valutativo differente da quello scelto, mediante il ricorso ad altri metodi tipici utilizzati nella prassi finanziaria (quali, ad esempio, il metodo DCF o del Discounted Cash Flow), non è stata giudicata opportuna dagli Amministratori delle Società in considerazione sia delle modalità di applicazione di tali metodologie valutative sia delle caratteristiche delle società oggetto di valutazione; tale scelta nelle circostanze appare ragionevole;
- l'adozione da parte degli Amministratori delle Società di un unico approccio valutativo non ha comportato la necessità di individuare criteri di importanza relativa;
- gli Amministratori delle Società non hanno ritenuto di dover applicare metodologie di controllo dei risultati ottenuti; al riguardo, a conferma della sostenibilità di tale scelta, va rilevato quanto segue: sia il Metodo delle Quotazioni di Borsa che il Metodo dei Multipli sono metodologie largamente diffuse e di consolidata applicazione nella prassi valutativa anche nel settore delle *public utilities* e, come tali, in grado di esprimere una valutazione attendibile e significativa delle Società; inoltre, gli Amministratori delle Società, nell'applicazione dei suddetti metodi, hanno comunque effettuato analisi e verifiche ulteriori (come precedentemente illustrato) a supporto e conferma della validità dei risultati ottenuti;
- le valutazioni sono state effettuate dagli Amministratori delle Società in ottica *stand alone*, ossia prescindendo da ogni considerazione concernente le possibili sinergie derivanti dalla prospettata integrazione delle attività operative delle Società. Tali sinergie, pur essendo suscettibili di generare valore incrementale, non influenzano la definizione del valore relativo delle Società ai fini della determinazione del rapporto di cambio;
- in linea con quanto sottolineato dalla miglior dottrina al riguardo, il rapporto di cambio definito dagli Amministratori delle Società e proposto alle rispettive assemblee tiene altresì conto del confronto negoziale intervenuto tra gli stessi;
- il metodo delle Quotazioni di Borsa utilizzato dagli Amministratori per la valutazione di HERA è idoneo ad esprimere il valore della società oggetto di valutazione sulla base dell'apprezzamento dell'andamento economico finanziario espresso dal mercato e risulta di consolidata applicazione nella prassi valutativa anche nel settore delle *public utilities*;



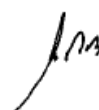
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- sempre con riferimento al metodo delle Quotazioni di Borsa, gli Amministratori della Società hanno fatto riferimento ad un arco temporale antecedente la data del 22 dicembre 2005, corrispondente alla data di sottoscrizione dell'Accordo Quadro da parte di HERA, GDG e Comune di Riccione. Tale scelta appare ragionevole nella finalità di neutralizzare eventi di carattere eccezionale, fluttuazioni di breve periodo e tensioni speculative, avendo peraltro riscontrato che nel periodo successivo alla stipula del succitato Accordo Quadro non si sono verificati scostamenti di rilievo;
- nell'applicazione del Metodo dei Multipli, gli Amministratori delle Società si sono basati, fra gli altri, su un campione ristretto di transazioni relative allo specifico settore in cui opera GDG, avvenute nel biennio 2003-2004: la scelta di limitare l'analisi ad un periodo temporale successivo all'emanazione del Decreto Letta di liberalizzazione del mercato del gas, appare nelle circostanze ragionevole.

10. CRITICITÀ E LIMITI SPECIFICI INCONTRATI DAL REVISORE NELL'ESPLETAMENTO DEL PRESENTE INCARICO

Per quanto attiene a specifiche criticità e limiti incontrati nello svolgimento dell'incarico, si evidenzia quanto segue:

- le Società, per quanto operanti entrambe nel settore dei servizi pubblici locali, presentano profili non del tutto coincidenti per quanto concerne le aree di attività e la struttura organizzativa e societaria;
- i processi di liberalizzazione in atto nel settore dei servizi pubblici locali influenzano il processo previsionale, essendo portatori di mutamenti di ordine strutturale all'interno del settore tanto con riferimento all'evoluzione tariffaria di medio termine quanto relativamente ai rapporti fra operatori nei processi di acquisto delle materie prime;
- ulteriori elementi di criticità sono rappresentati sia dall'attuale incertezza del quadro normativo per quanto riguarda il regime concessorio, a seguito dell'emanazione del D.L. 269/2003, sia dal differente grado di attuazione delle singole normative di settore nei territori in cui operano le Società;
- le quotazioni di borsa, pur rappresentando valori espressi dal mercato, sono peraltro soggette a fluttuazioni anche significative a causa della volatilità dei mercati finanziari e come, inoltre, ad influenzare l'andamento dei titoli possano anche intervenire pressioni speculative in un senso o nell'altro del tutto slegate dalle prospettive economiche e finanziarie delle singole società. Il ricorso al Metodo delle Quotazioni di Borsa può pertanto risentire di tali fenomeni;
- l'applicazione del Metodo dei Multipli si basa sul presupposto fondamentale che il valore di un'impresa si modifichi in misura direttamente proporzionale alle variazioni del parametro economico preso a riferimento e che le caratteristiche medie delle aziende prese a riferimento siano "perfettamente" assimilabili a quelle della società oggetto di valutazione;

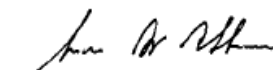



- gli amministratori delle società hanno posto come assunzione di base, nell'applicazione del Metodo dei Multipli per la valutazione di GDG, che l'ammontare dell'EBTDA e della PFN al 31 dicembre 2005 sia pari ai valori stimati rispettivamente di € 1.500.000 ed € zero; tale assunzione è determinante ai fini del concambio. Al riguardo si precisa che la mancanza, alla data della presente relazione, di dati consuntivi di GDG al 31 dicembre 2005 non consente di apprezzare, sempre nei limiti e per le finalità della presente relazione, i possibili effetti sulla determinazione del rapporto di cambio di eventuali variazioni intervenute con riferimento ai parametri valutativi sopra citati, fermo restando comunque, che, così come previsto dall'Accordo Quadro sottoscritto da HERA, GDG e Comune di Riccione, eventuali scostamenti rispetto a tali parametri valutativi daranno oggetto a conguaglio in denaro; conseguentemente, il parere espresso nella presente relazione non può tenere conto di detti possibili effetti.

11. CONCLUSIONI


Sulla base della documentazione esaminata e delle procedure sopra indicate, tenuto conto della natura e portata del nostro lavoro come illustrate nella presente relazione, nonché di quanto indicato nell'ultimo punto del precedente paragrafo 10, riteniamo che i metodi di valutazione adottati dagli Amministratori delle Società siano adeguati in quanto nella circostanza ragionevoli e non arbitrari, e che gli stessi siano stati correttamente applicati ai fini della determinazione del rapporto di cambio delle azioni contenuto nel Progetto di Fusione, **pai a n. 12,211097020612 azioni ordinarie di HERA del valore nominale di € 1 ciascuna per ogni azione ordinaria di GDG del valore nominale di € 1 ciascuna.**

DELOITTE & TOUCHE S.p.A.



Mauro Di Bartolomeo
Socio

Bologna, 2 febbraio 2006



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Repertorio n. 31667
 VERBALE DI ASSEVERAZIONE DI PERIZIA
 REPUBBLICA ITALIANA
 In Bologna, viale Carlo Berti Pichat n. 2/4.
 Questo giorno di giovedì due febbraio duemilasei, essendo le
 ore 12,10.

2 febbraio 2006
 Davanti a me dottor Federico Tassinari, notaio iscritto al
 Collegio Notarile del Distretto di Bologna con residenza in
 Imola, è presente il signor:
 - DI BARTOLOMEO MAURO, nato a Teramo (TE) il 6 luglio 1965,
 residente a Bologna (BO), via Val D'Aposa n. 9, c.f. DBR MRA
 65L06 L103P, in qualità di revisore contabile, socio e
 procuratore speciale della società "Deloitte & Touche
 S.p.A.", con sede in Milano (MI), via Tortona n. 25, con
 capitale sociale deliberato per euro 10.850.000
 (diecimilionitotococinquanta), sottoscritto e versato
 per euro 10.327.940
 (diecimilionitrecentoventisette milanovecentoquaranta),
 iscritta al Registro Imprese di Milano con codice fiscale
 03049560166, in forza dei poteri di cui alla procura
 autenticata nella firma dal notaio di Milano n. Domenico
 Acquarone in data 9 novembre 2005 n. 224152 di rep..
 Comparente cittadino italiano della cui identità personale io
 notaio sono certo, il quale mi presenta la relazione che
 precede, chiedendomi di asseverarla con giuramento, ai sensi
 dell'art. 1 R.D.L. 14 luglio 1937 n. 1666.
 Quindi deferisco il giuramento al comparente, previa seria
 ammonizione da me notaio effettuata allo stesso sulle
 conseguenze delle dichiarazioni mendaci o reticenti e
 sull'obbligo di dichiarare la verità.
 Il comparente presta quindi il giuramento, pronunciando le
 parole: "Giuro di aver bene e fedelmente adempiuto
 all'incarico ricevuto, e quindi redatto la perizia sopra
 riportata, al solo scopo di far conoscere la verità".
 Io notaio ho ricevuto quest'atto, dattiloscritto da persona
 di mia fiducia sopra una facciata di un foglio e da me letto
 al comparente, che lo ha approvato e confermato alle ore 12,15.



Federico Tassinari

