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Group Consolidated
Quarterly report as at 30 september 2006

1 – THE HERA GROUP

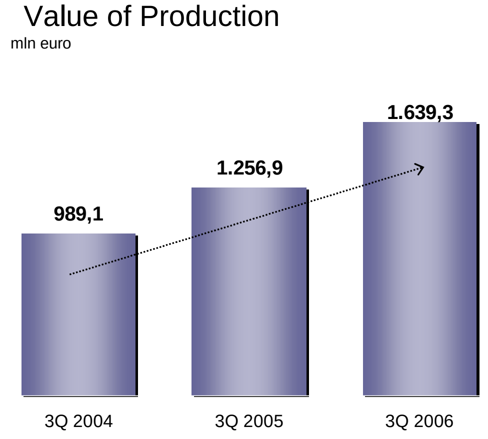
1.01 Mission

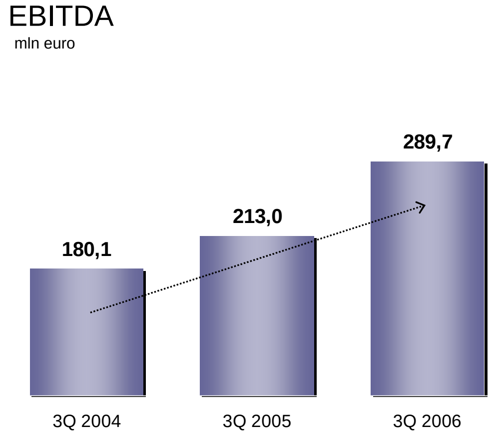
"Hera's goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by respecting the local environment".

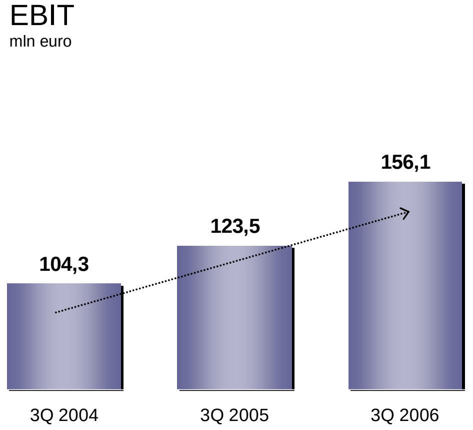
For Hera, being the best means inspiring the pride and trust of: ***customers,*** *who receive, thanks to Hera's responsiveness to their needs, quality services that satisfy their expectations;* ***the women and men who work at Hera,*** *whose skills, engagement and passion are the foundation of the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

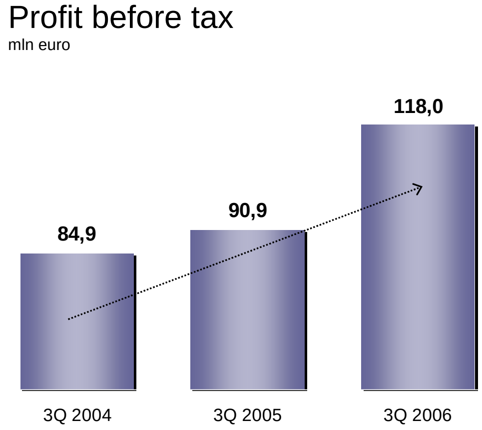
1.02 Summary results

€ Millions	3Q2004	%	3Q2005	%	3Q2006	%	CAGR 04-05 %
Value of production	**989.1**	***100.0%***	**1.256.9**	***100.0%***	**1.639.3**	***100.0%***	***28.7%***
Operating costs	(741.9)	*(75.0%)*	(948.2)	*(75.4%)*	(1.248.8)	*(76.2%)*	*29.7%*
Personnel costs	(143.7)	*(14.5%)*	(172.5)	*(13.7%)*	(208.6)	*(12.7%)*	*20.5%*
Capitalised costs	76.6	*7.7%*	76.8	*6.1%*	107.8	*6.6%*	*18.6%*
Ebitda	**180.1**	***18.2%***	**213.0**	***16.9%***	**289.7**	***17.7%***	***26.8%***
Depreciation, Amortisation and Provisions	(75.8)	*(7.7%)*	(89.5)	*(7.1%)*	(133.6)	*(8.1%)*	*32.8%*
Ebit	**104.3**	***10.5%***	**123.5**	***9.8%***	**156.1**	***9.5%***	***22.3%***
Charges/Income	(19.4)	*(2.0%)*	(32.6)	*(2.6%)*	(38.1)	*(2.3%)*	*40.1%*
Profit before tax	**84.9**	***8.6%***	**90.9**	***7.2%***	**118.0**	***7.2%***	***17.9%***









1.03 Company Officers

Board of Directors

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

Independent Audit Firm

PricewaterhouseCoopers

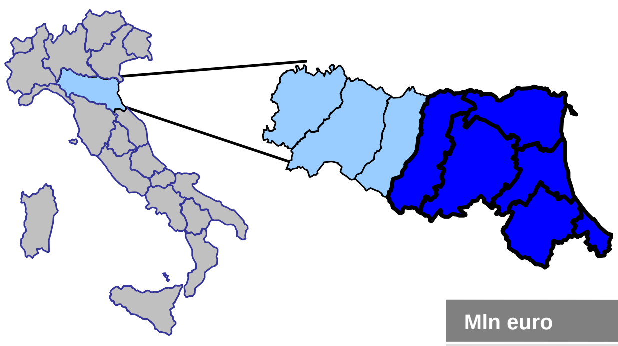
1.04 Strategy and the new industrial plan

Consolidation of the Italian multi-utility sector

In 2006, in the Italian local multi-utility sector, the pace of consolidation among operators increased, for the purpose of reaching sizes more suitable for effectively competing in the energy sectors dominated by large-scale national and international players. Furthermore, the ongoing consolidation process is subject to the announcement of renewed attention from the Italian government, which hopes for merger processes also through aggregation of the leading listed multi-utilities. Within this process, there are several players attempting to create local hubs of increased size.

Since its creation in 2002, Hera has based its Group strategy on increasing in size, so as to achieve sustainable, competitive positions in all its key businesses. This strategy has been followed by taking further opportunities for expansion, primarily represented by multi-utility companies in neighbouring areas (an important aspect in guaranteeing the creation of increased operating efficiency). These companies were aggregated according to the "total" merger model (merger and reorganisation of operations), capable of exploiting economies of scale and operating synergies.

The success of this strategy is evident from Hera's figures, which demonstrate a doubling of Ebidta in three years, as well as from the significant number of further mergers with multi-utility companies (3 merger operations over and above the 11 companies which formed the Hera Group in 2002).



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

Mln euro	2002	2003	2004*	2005 *§
Turnover	1,067	1,222	1,493	2,101
EBITDA	192	242	292	386

* IAS adjusted
§ Pro-forma

In 2006, Meta SpA was completely integrated, and the Group also acquired 46.5% of SAT (a multi-utility in Sassuolo, in the province of Modena, operating in water, environment and energy services), increased its shareholding in Aspes (a multi-utility in Pesaro in the Marche region, operating in water, environment and energy services, which will probably be a hub for aggregating other local enterprises in the neighbouring areas) to 49.79%, acquired the Enel distribution network in 18 municipalities in Modena Province (a 3,700 km network serving approximately 80,000 customers) and went ahead with the merger of Geat Distribuzione Gas with effect from 1 July 2006, thus confirming the capacity of its aggregation model.

Management also recently received mandate from the major reference shareholders to study the feasibility of negotiations with Enia, the multi-utility for Reggio Emilia, Parma and Piacenza.

Strengthening of the core businesses of energy and waste by "upstream integration"

With a view to strengthening the Group's competitive capacity in its core businesses, Hera follows a strategy of "upstream integration" of its gas and electricity sales and distribution businesses, as well as its special waste treatment business.

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

Hera is the third largest national operator in the gas sales and distribution sector. As regards "upstream integration", the Group has further diversified the procurement of methane gas, increasing its international shipping capacity with imports totalling 780 million cubic metres, also due to important supply contracts subscribed with the VNG Group (among the most important German companies in the sale of methane gas). In 2006, Hera and the VNG Group signed a strategic agreement for the sale of gas in Europe, and the expansion of research and development activities.

The Group control 9% of Galsi, a JV with Sonatrach, Edison, Enel, Wintershall and other companies in the Sardinia region, with the aim of laying a gas pipeline connecting Algeria directly to the Italian mainland via Sardinia. The Galsi project will increase diversification of the gas supply in Italy with a planned transport capacity of 8 billion cubic metres of methane gas per year.

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

Acquisitions in the gas sector	Activity	Investment
SAT	Distribution	46.5%
Geat Distribuzione Gas (Rimini)	Distribution	100%

Argile Gas (Bologna)	Sales	100%
Gasgas (Ferrara)	Sales	100%
Tecnometano (Ferrara)	Distribution	100%
TS Distribuzione (Bologna)	Distribution	100%
TS Energia (Bologna)	Sales	100%
SGR Servizi (Rimini)	Sales	20%

In response to the increased competitive pressure in energy product sales, the Hera Group has developed a Dual Fuel commercial strategy for its own Business customers (joint provision of methane gas and electricity), and has increased its customer care.

The upstream integration strategy pursued by the Group in the power generation sector aims to guarantee sufficient power to satisfy the potential demand of Business customers in the area. On the whole, Hera already provides these customers with water and environmental services, as well as sales and distribution of methane gas.

Initial implementation of the Upstream strategy for electricity distribution began with acquisition of the power grid in the city of Modena (via the merger with Meta), and continued in 2006 with the acquisition from Enel of the low and medium voltage distribution network covering the province of Modena and increasing the number of customers served to over 250,000.

Acquisitions in the electricity sector	**Activity (Capacity installed)**	**Investment**
Tirreno Power	Generation (2,600 MW)	5.5%
Calenia Energia	Generation (800 MW)	15.0%
SET	Generation (400 MW)	39.0%

In the environment business, Hera is the leading national operator in the collection and disposal of urban waste, and among the leading players in the treatment of special waste.

With the objective of strengthening its competitive position in the waste treatment sector, Hera has increased its plant capacity, through the acquisition of one of the most important WTE plants in Italy dedicated to the treatment of industrial waste, by acquiring 100% of the ecological hub in Ravenna from ENI. Plans now include the construction of 4 WTE plants with a total capacity of 400,000 tonnes per year and a power generation capacity of approximately 50 MW.

Innovation and rationalisation

Hera focuses particular attention on the industrial integration of the companies merged into the Group, through the reorganisation and development of operating activities, in order to improve the effectiveness and efficiency of the services provided, and benefit from the economies of scale, the synergies realised, and, lastly, to maximise the value of know-how obtained from the single enterprises by sharing it throughout the Group.

The integration process is carried out through the rationalisation of the Group structure, the operating business, IT management systems and company equity, and has significantly contributed to growth over the last 3 years (over 54% of Ebidta growth in the last 3 years regards achieved organisational growth and cost synergies).

In addition to actions focused on rationalisation, the Group follows a strategy of innovation of processes and information systems in order to modernise service management by increasing operating efficiency and improving the environmental impact of the services. These policies lead to increased satisfaction for the main stakeholders of the Group, and are in line with the objectives announced in the Group's mission.

Sustainable strategy over the long term and Hera governance

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

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

For this reason, Hera follows strategies balanced as regards economic aspects, reducing the impact on the environment, and increasing the quality of services provided.

Consequently, the Group's system of governance has been refined in the last two years to guarantee a sustainable approach, and to obtain the commitment of all personnel to the achievement of the strategic objective and respect of the principles and values promoted by the Group.

In May 2005, the **Corporate Social Responsibility** business unit was created, with the Managing Director's staff, in order to guarantee that the principles of Social Responsibility are an integral part of company planning and management. The CSR unit defines the Balanced Scorecard system, a target-based system of management remuneration, integrated with the sustainability strategies (the definition of strategic projects by department, assigning economic-financial and social objectives which are closely monitored during the year).

Hera has also adopted and **Ethical Code**, which expresses the ethical commitments and responsibilities it takes up in carrying out all activities aimed at reaching company objectives, respecting the interests of all stakeholders, in compliance with the law, and the principles of loyalty, professional correctness and economic efficiency.

Lastly, the Hera Group is committed to the continuous improvement in the **quality of services** provided, in order to prevent negative impacts on the environment and the health of citizens, and to increase customer loyalty. In 2005, the Group implemented an environment management system (SGA) to be certified according to the international standard ISO 14001. This process of certification, which involved formal verification of documents as well as preliminary inspections in 2005, will conclude within 2006. A further confirmation of Hera's strong commitment to environmental issues was provided by EMAS registration, over the 2006-20010 period, of the entire Environment Division for a total of 32 sites (corresponding to 53 waste treatment and disposal plants). Hera also approved the objective of obtaining the Occupational Health and Safety Certification OHSAS 18001 by 2007, thus completing the integrated Quality Safety Environment certification programme established in 2004 by obtaining ISO 9001 certification.

The Hera Group's social commitment is detailed in the Sustainability Report, which was published in its fourth edition last June, also on the Hera Group web site (www.gruppohera.it).

The 2006-2009 Industrial Plan

In September the new industrial plan containing economic, financial and sustainability strategies and objectives up to 2009 was submitted to Hera shareholders. The strategies of the new plan confirm the mission and guidelines pursued until now and especially focus on the "upstream integration" of energy business by enhancement of Group plants and greater diversification of supply sources.

The economic and financial objectives up to 2009 call for consistent growth rates associated with a financial policy to maintain asset solidity and guarantee increased returns on equity investments, as well as a constant growth in dividends.

The 2006-2009 plan does not include objectives involving the aggregation of further multi-utility companies which in the past have contributed significantly to results and synergies achieved by the Group.

The consolidation options available in this sector in Italy are nevertheless identified in qualitative terms. The identified paths for growth are "physiological aggregation" of small and medium sized local enterprises and the options of future mergers with mid-cap companies (almost all Italian listed companies in the sector are potentially interested, given their "territorial proximity" to the Hera Group).

1.05 Business Sectors

The Hera Group operates in the provision of public utility services in over 180 municipalities in the Emilia – Romagna region within the provinces of Bologna, Rimini, Ravenna, Forlì—Cesena, Ferrara and Modena, in a region with a GDP and per-capita consumption amongst the highest in Europe.

Hera has a multi-business portfolio that guarantees an optimal diversification of the typical regulation risk of the sector, which is equally divided between regulated services (such as the integrated water cycle, collection and treatment of urban waste, distribution of methane gas and electricity) and businesses managed under "free competition" (such as the sale of methane gas and electricity, the treatment of special and industrial waste, and the management of public lighting).

Regulated services	Urb. Waste	Water	Gas distrib.	Electricity Distr.
Authority	6 Local Authorities		AEEG	
Next tariff review	2008			
Expiry of Concessions	2012	2022	2010	2030

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

Regulated urban waste business

The Hera Group is a key player in the Italian sector of urban waste management (which includes waste collection and transport, urban hygiene and waste recovery and disposal).

Hera manages this service in 6 ATOs (corresponding to the 6 Provinces of the Emilia-Romagna region in which the Group operates), on the basis of concessions held until 2012 and covering a territory of approximately 7,500 square kilometres with about 2.3 million inhabitants, and handles the collection and disposal of approximately 1.6 million tonnes of urban waste. The tariffs were established by Local Authorities for the period 2005-2007.

The Group boasts one of Italy's most impressive plant structures, comprising 13 specifically dedicated plants and 28 for both private and business use (urban-industrial waste), which include selection plants, chemical-physical plants, intert. chemical plants, as well as landfills and waste-to-energy plants. The "integrated" management of a high number of plants spread throughout the area of reference enables efficient, evolved logistical waste management, also as regards environmental impact.

The Hera Group manages the service, placing specific attention on the environmental impact of the activity. In 2005, over 60% of the waste managed underwent treatment and recovery, exceeding the average of national operators by 50%.

Regulated Integrated Water Cycle business

The Hera Group is one of the five leading Italian operators that provide services pertaining to water collection, potabilisation, adduction, distribution, sewage disposal and waste water treatment.

Hera manages this service based on concessions which expire, on average, in 2022, in 6 ATOs (corresponding to the 6 Provinces in the Emilia-Romagna region in which the Group operates), supplying approximately 230 million cubic metres of drinking water for domestic and industrial use. The tariffs were established by Local Authorities for the period 2005-2007.

The Group avails of an extensive, efficient water system extending over approximately 24,000 km and servicing about 2.6 million inhabitants, whose number rises considerably in the tourist areas of the Adriatic Riveria during the summer period.

Completing the plant structure utilised for the water service are the 11,000 km waste water collection network and the numerous treatment plants.

Energy Distribution business: Methane Gas and Electricity

The Hera Group is among the leading Italian operators in the sale and distribution of Gas (with over 2.4 billion cubic metres distributed per year to approximately 950,000 customers), whilst electricity distribution business operates with a more limited presence but, from this quarter, benefits from the contribution of the power grid in Modena province acquired from Enel.

The Hera Group's free competition activities comprise the sale of Energy (partly on the free market), disposal of special waste and other services (Public Lighting and District Heating).

Energy Sales business: Methane Gas and Electricity

The Hera Group is among the leading Italian operators in the sale and distribution of Gas (with over 2.4 billion cubic metres sold per year to approximately 950,000 customers, and over 0.4 billion cubic metres traded), while in the sale and distribution of electricity, its presence is limited, but has grown over the last 3 years (with approximately 3.7 Twh/year sold in 2005).

The sale of Methane Gas is a free market activity whereas that relating to electricity is not due to be opened to free competition until 2007 (when "captive" and "ineligible" customers will be free to choose their supplier).

Special Waste business

The Hera Group is one of Italy's top 4 operators in the special waste sector. The activity in this sector primarily involves the treatment and disposal of hazardous and non-hazardous special waste.

This business is managed under free competition on the Italian market, which is significantly scattered among small operators. The supply of these services in Italy is unable to meet the domestic demand due to the considerable dearth of infrastructures, which forces national producers to have part of their waste treated abroad, incurring significant transport costs. Hera is equipped with a treatment capacity of 2.2 million tonnes/year, concentrated in its area of reference (in which it holds 40% of the market).

The Hera Group boasts 31 specifically dedicated plants and 28 plants for mixed use (both special and urban waste). The level of treatment and disposal capacity reached by the Group today enables it to expand its presence in a market offering significant opportunities for growth.

Hera recently reorganised its marketing activities in order to implement a full-service marketing strategy centred on Business customers to whom the Group provides other managed services.

Other Businesses: District Heating and Public Lighting

As a result of the rationalisation of companies within the Hera Group, other complementary businesses have been reorganised and provided with integrated management. Within this process, 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 provided and distributed over 470 GWt/h in 2005 and managed over 293,000 lighting units within the area in which it operates.

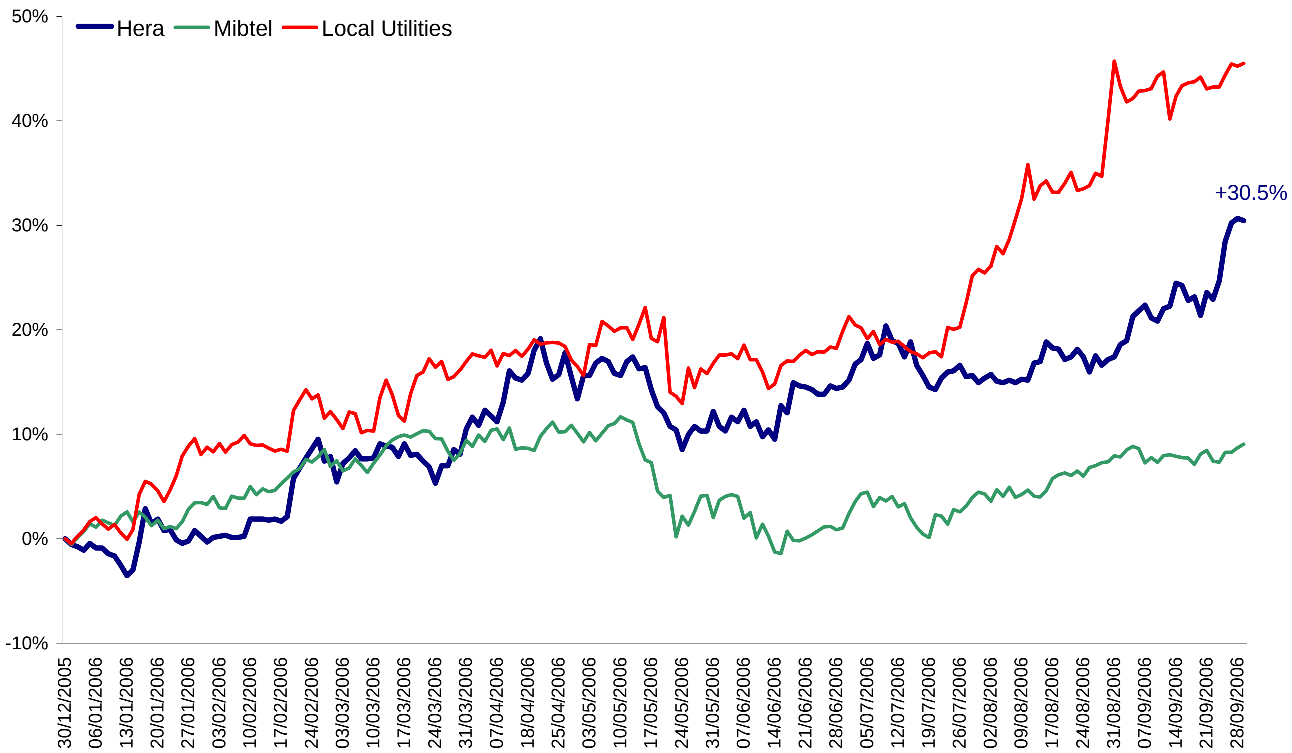
These activities are considered strategic in the light of market growth potential, and the efficiencies which can be obtained from economies of scale achieved with the expanded size of the Hera Group.

1.06 Hera's Performance on the Stock Exchange

Italian public utilities continue their upward trend, recording +46% from the start of 2006, mainly sustained by the prospective of an accelerated consolidation process in the sector.

During the first nine months of 2006, the Hera share recorded a positive performance, closing the period at Euro 2.945 per share, with an upturn of +31% (from the beginning of the year), clearly outperforming the Mibtel index, which recorded +9.0%, but underperforming with respect to the average of other sector shares.

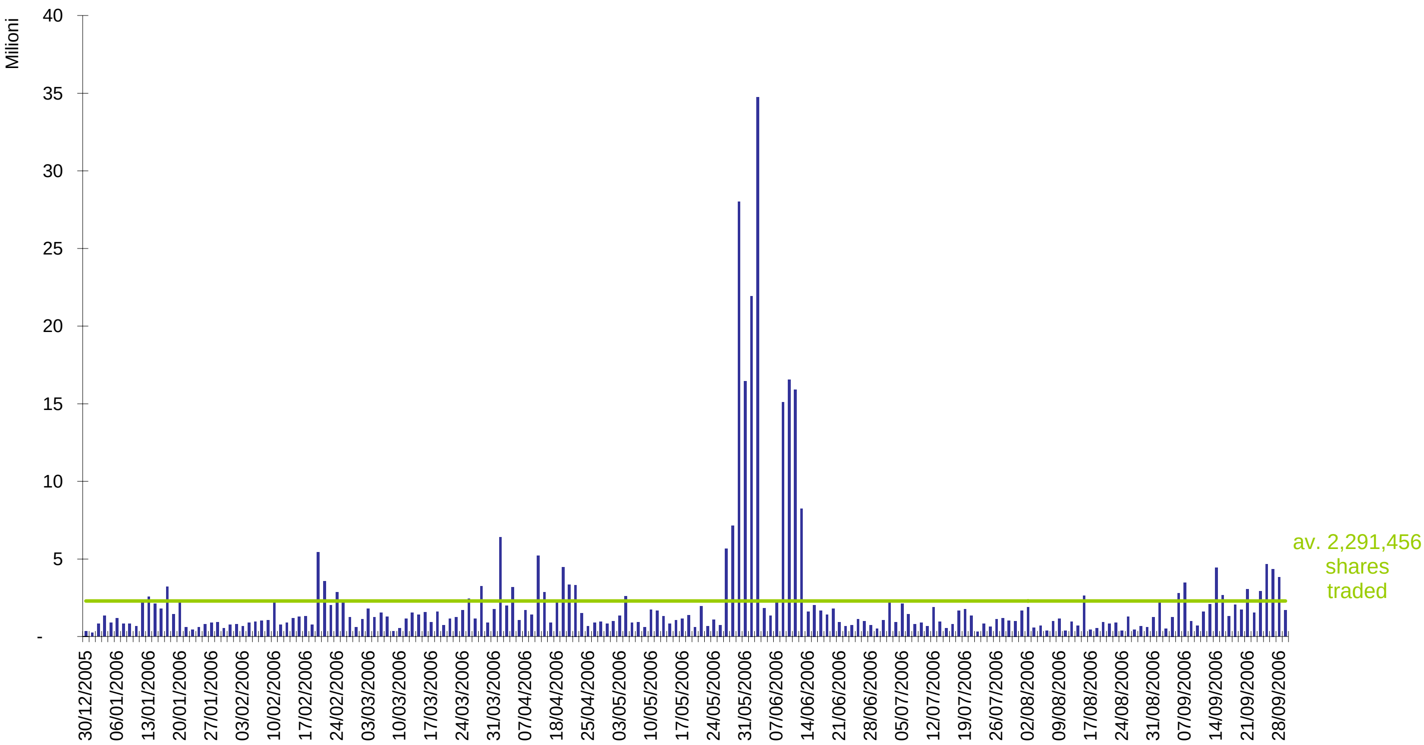
Hera Share Performance



The increase in the share price was recorded in conjunction with the release of the annual report, and even more so when the new 2006-2009 industrial plan was published in September.

On 6 June, as approved on 27 April by the Shareholders' Meeting, the annual dividend was issued, equal to 7 eurocents per share, paid as per usual starting from 8 June.

Hera Share Volumes Traded



The average level of liquidity (5.8 million euro on an average 2.3 million shares exchanged daily) rose in 2006 for the second year running (+57%), thanks to improvement in the medium term profit prospects, the exceptional performance achieved in the previous year, the rise in future targets reported in the industrial plan of 14 September, operations regarding sector consolidation (acquisition of the Enel Grid, Geat Distribuzione Gas, SAT and Aspes), and intense activity in relations with international investors (European and American).

The Hera share 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”.

Share Coverage

The Hera Group share is one of the most extensively covered in the Italian multi-utility sector, a factor which confirms the financial market’s growing interest. Since the beginning of 2006, 13 independent analysts have regularly covered the Hera share: Actinvest, Axia (ethical analyst), Caboto, Cazenove, Centrosim, CAI Cheuvreux, Euromobiliare, Intermonte Securities, Banca IMI, Kepler, Oddo Securities (ethical analyst), Rasbank and Studi e Investimenti Mobiliari.

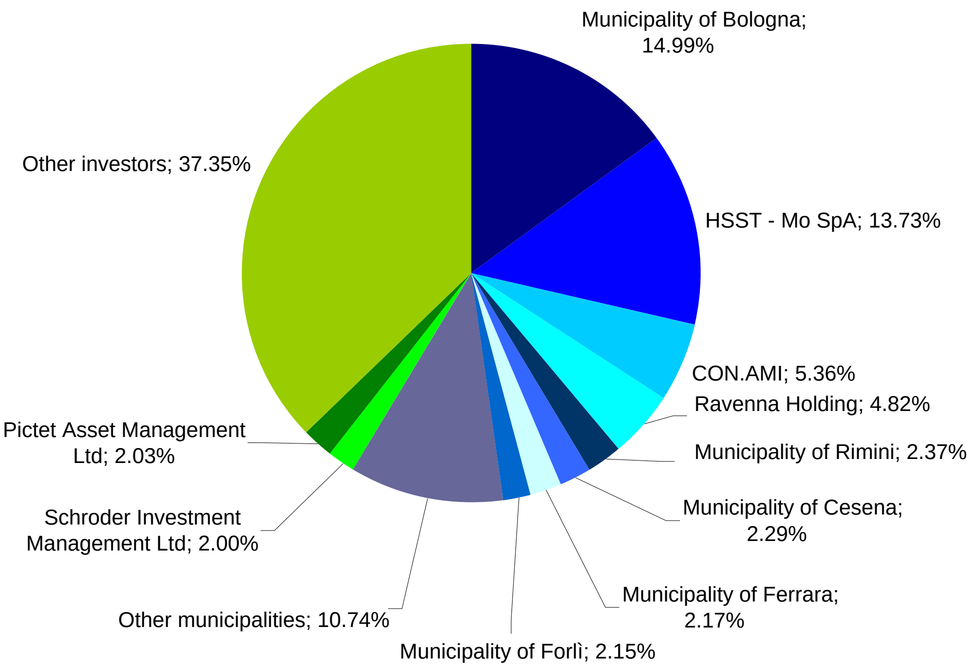
Since July, the Hera share has added a new broker with international prestige, Citigroup (recommendation Buy and Target price at Euro 3 per share), thus confirming interest roused in the financial market by this Italian sector.

Further to the international bond issue worth Euro 500 million listed on the Luxembourg market and placed by Banca IMI, JP Morgan and Citigroup, implemented on 16 February 2006, some "credit analysts" have also started coverage (Banca IMI and UBS). Moreover, Hera has been issued ratings by Standard & Poor's (A+) and Moody's (A1).

Shareholding Structure

Hera SpA has a widespread shareholding structure with over 180 different public shareholders (municipalities in the Emilia Romagna region), approximately 500 Italian and international institutional investors and approximately 40,000 private shareholders. The absence of a controlling shareholding in Hera's structure (the largest shareholder is the municipality of Bologna with approximately 15%) is a feature which distinguishes Hera from the other Italian Local Utilities.

Shareholding Structure



Further to the merger through incorporation of the company Meta Spa, 176.8 million new Hera shares were issued. Hence the total number of ordinary Hera shares has risen from 839.9 to 1,016.8 million shares. As at 30 September 2006, the Hera Group capitalised approximately Euro 3.0 billion.

In April, the Shareholders' Meeting approved an own shares repurchase plan for a maximum 15 million shares (equal to a maximum 45 million euro) valid for a period of 18 months. To date, the Hera plan has purchased approximately 6 million own shares, mainly to proceed with the Geat Distribuzione Gas merger. Hera currently holds approximately 500,000 own shares.

Relations with the Financial Market

Relations with financial market operators was particularly intense in the first 9 months of 2006, in which no less than three international road shows were organised: for the bond issue which involved management from 27 January to 2 February, for the presentation of the annual report beginning on 30 March and, more recently, for the presentation of the new 2006-2009 industrial plan for about one month from 14 September onwards.

All the road shows organised involved management in the main European and American markets and largely received the consent of the world financial market, which sustained the positive trend in listed share prices.

On the occasion of the road shows, Hera participated in the Borsa Italiana conference organised in New York, to which the leading Italian listed mid-cap companies were invited, and in the annual Citigroup conference in London in which the leading European small and mid-cap companies participated.

Hera was also invited to the conferences organised on 31 May in Milan by Mediobanca, on 21 June in Paris by Oddo Securities, and on 23 June in London by Merrill Lynch and Borsa Italiana.

The Hera Investor Relations division maintained close contact with institutional investors also through company visits for individual investors organised during the quarter.

The Investor Relations section available on the Hera website (www.gruppohera.it) contains all information on events involving the Group. The website, now considered to be one of the Group's main communication tools, has been further developed in the Investor Relations section, now also available in English.

2 – DIRECTORS' REPORT

2.01 Consolidated Results of the Hera Group

At the end of the third quarter of 2006, all of the Hera Group's consolidated economic indicators were up from the same period of the previous year.

We would like to remind the reader that at the end of 2005 the companies from Modena (Meta Group) were absorbed into the Hera Group, and that although this had no effect on last year's results, prepared according to IAS/IFRS rules, it did, however, have a significant effect on the structure and performance of the various Group business areas. 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.

The following representation was prepared in full application of IAS rules as established by the law for publicly traded companies.

Revenues as at 30 September 2006 rose to 1,607.1 million euro, compared to 1,233.6 million euro in the first half of 2005 (+30.3%), along with EBITDA, up from 213.0 million euro to 289.7 million euro (+36.1%), and EBIT, up from 123.5 million euro to 156.1 million euro (+26.4%). Net profit for the period showed a 36.5% increase, as indicated in the following table:

Income Statement (mln/€)	30-Sep-05	% Inc.	30-Sep-06	% Inc.	Change	% Change
Revenues	1,233.6		1,607.1		+373.5	+30.3%
Change in inventories of finished products and work in progress	1.5	0.1%	4.2	0.3%	+2.7	+183.2%
Other operating income	21.9	1.8%	28.0	1.7%	+6.2	+28.1%
Raw materials and consumable materials	(560.2)	-45.4%	(795.2)	-49.5%	-235.0	+42.0%
Costs for services	(310.4)	-25.2%	(367.9)	-22.9%	-57.5	+18.5%
Other operating costs	(77.8)	-6.3%	(85.7)	-5.3%	-7.9	+10.1%
Personnel costs	(172.5)	-14.0%	(208.6)	-13.0%	-36.1	+20.9%
Capitalised costs	76.9	6.2%	107.8	6.7%	+30.9	+40.2%
Ebitda	**213.0**	**17.3%**	**289.7**	**18.0%**	**+76.8**	**+36.1%**
Depreciation, Amortisation and Provisions	(89.4)	-7.3%	(133.6)	-8.3%	-44.2	+49.4%
EBIT	**123.5**	**10.0%**	**156.1**	**9.7%**	**+32.6**	**+26.4%**
Quota of profits (losses) of associated companies	(0.2)	0.0%	2.1	0.1%	+2.2	-1410.7%
Financial income and charges	(32.4)	-2.6%	(40.2)	-2.5%	-7.8	+23.9%
Profit before tax	**90.9**	**7.4%**	**118.0**	**7.3%**	**+27.1**	**+29.8%**

In order to help the reader to better understand the economic indicators set out below, the same set of figures is also provided below in pro-forma format for 2005, including the results of the Modena-area companies.

Income Statement (mln/€)	**30-Sep-05 pro-forma**	**% Inc.**	**30-Sep-06**	**% Inc.**	**Change**	**% Change**
Revenues	1,490.5		1,607.1		+116.6	+7.8%
Change in inventories of finished products and work in progress	1.3	0.1%	4.2	0.3%	+2.8	+214.4%
Other operating income	30.3	2.0%	28.0	1.7%	-2.3	-7.4%
Raw materials and consumable materials	(696.5)	-46.7%	(795.2)	-49.5%	-98.7	+14.2%
Costs for services	(350.3)	-23.5%	(367.9)	-22.9%	-17.6	+5.0%
Other operating costs	(90.5)	-6.1%	(85.7)	-5.3%	+4.8	-5.3%
Personnel costs	(203.6)	-13.7%	(208.6)	-13.0%	-4.9	+2.4%
Capitalised costs	76.9	5.2%	107.8	6.7%	+30.9	+40.2%
Ebitda	**258.0**	**17.3%**	**289.7**	**18.0%**	**+31.7**	**+12.3%**
Depreciation, Amortisation and Provisions	(112.3)	-7.5%	(133.6)	-8.3%	-21.3	+19.0%
EBIT	**145.7**	**9.8%**	**156.1**	**9.7%**	**+10.4**	**+7.2%**
Quota of profits (losses) of associated companies	(0.2)	0.0%	2.1	0.1%	+2.3	-979.3%
Financial income and charges	(33.1)	-2.2%	(40.2)	-2.5%	-7.1	+21.5%
Profit before tax	**112.4**	**7.5%**	**118.0**	**7.3%**	**+5.6**	**+5.0%**

When the same perimeter is considered, the increase in **Revenues**, from 1,490.5 to 1,607.1 million euro (+7.8%) is mainly due to the increased cost of natural gas transferred onto sales prices. With regard to other business areas, the decrease in the Electrical Energy sector is offset by increases elsewhere, particularly in the Environment sector.

The 98.7 million euro (+14.2%) increase in **Raw materials and consumable materials** relates to the increased cost of natural gas.

The total increase in other operating costs (**Costs for services**, up 17.6 million euro, and **Other operating costs**, down 4.8 million euro) of 12.8 million euro (+2.9%) was greatly limited with respect to increased turnover, confirming the efficiency of the process of rationalisation and the search for increased efficiency implemented by the Group since its foundation.

In 2006 **Personnel costs** rose from 203.6 million euro to 208.6 million euro (+2.4%), while the impact on revenues improved by nearly one percentage point between the first nine months of 2005 and the corresponding period this year.

The increase in **Capitalised costs**, which rose from 76.9 million euro to 107.8 million euro, approximately 60% is linked to increased investment of in the water sector and the remainder to the inclusion of the Modena-area businesses into the group's organisational perimeter.

The Group's consolidated **EBITDA** as at 30 September 2006 increased by 12.3%, up from 258.0 million euro in the corresponding period of 2005 to 289.7 million euro. This result was achieved mainly due to the positive performance in all Group business areas.

As a percentage of revenues, gross operating margin was up slightly from the first half of 2005, increasing from 17.3% to 18.0 % in spite of the increase in the cost of natural gas; if the effect of this increased cost is ignored, margins increase to 19.2%.

Amortisation, Depreciation and Provisions increased in absolute value by 21.3 million euro (+19.0%): this increase is related to the important investment plan regarding the integrated water cycle (with consequent tariff increases) and the Group's plant systems in support of future economic development.

The first nine months of 2006 ended with an **EBIT** of 156.1 million euro, an increase of 7.2% over the same period of the previous year, including results of the Modena-area businesses. This result, which takes on added significance in the light of the increase in amortisation and depreciation described above, was made possible by the Group's ongoing rationalisation and efficiency improvement action.

Financial charges, including the representational figure resulting from application of IAS accounting standards, increased from 33.1 million to 40.2 million euro, up 21.5% over the first nine months of 2005. This growth is linked to the increase in debt required as a result of the increase in Group business volumes and operational and extraordinary investments, as well as to increased interest rates.

In the light of the above information, the period ended with **Profit before tax** of 118.0 million euro, up 5.0% from the same period last year. Growth increases to 29.8% if the Modena area is excluded.

2.02 Hera Group Investments

As at 30 September 2006, the Group's tangible and intangible investments totalled 208.1 million euro, compared to 212.3 million euro in the same period of the previous year. In order to present homogenous data for comparison, the 2005 figures include the effects of changes relating to the Modena area.

In the same period, the Group also invested in shareholdings and acquisitions for a total of 128.4 million euro, including 107.5 million euro for acquisition of the Enel grid for the province of Modena, 16.6 million euro for the increased holding in Aspes Multiservizi and the rest in other minority interests.

The table below illustrates a breakdown of investments by business sector in the reference period:

Total Investments

(€ millions)	30-Sep-05	30-Sep-06
Gas area	33.8	30.6
Electricity area	5.5	7.6
Integrated Water Cycle area	47.8	64.6
Environment Area	64.3	50.0
Other Services area	14.6	20.4
Central Structure	46.3	34.9
Total investments	212.3	208.1

The Gas service investments within the area served mainly refer to extensions, reclamation and upgrading of networks and plants. Investments by the company Medea regard the completion of the second stage of the project to construct a methane gas pipeline in Sassari, and the purchase of plant systems by the company Geat in Riccione is also worthy of note..

Gas

(€ millions)	30-Sep-05	30-Sep-06
Territory	14.2	15.9
Medea	3.3	1.6
Plant acquisition	16.3	13.1
Total Gas	33.8	30.6

Investments in the Electricity service relate to the expansion of service and extraordinary maintenance in plant systems and distribution networks for the Modena and Imola area, while investments in combined cycle gas turbine power plants refer to the new Imola facility.

Electricity

(€ millions)	30-Sep-05	30-Sep-06
Territory	5.3	7.0
CCGT	0.2	0.6
Total Electricity	5.5	7.6

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**,** consequently reflected in tariff increases. These mainly regard reclamation expansion and the enhancement of networks and plants.

Integrated Water Cycle

(€ millions)	30-Sep-05	30-Sep-06
Aqueduct	31.6	38.1
Waste water treatment	6.2	12.5
Sewerage	10.0	14.0
Total Water Cycle	47.8	64.6

In the environment area, intervention on plants spread throughout the territory has reduced slightly as compared to the previous year, while for investments by investee companies it should be mentioned that in 2005 over 16 million euro was related to intervention on Centro Ecologico Ambiente plants in Ravenna. Investments in waste-to-energy plants were concentrated on the Modena, Canal Bianco (FE) and Forlì plants.

Environment

(€ millions)	30-Sep-05	30-Sep-06
Territory	8.2	7.2
Investee Companies	19.3	7.1
FEA	18.2	1.8
WTE Canal Bianco	5.6	14.5
WTE Modena 4th line	12.5	9.5
WTE Forlì		9.7
Other WTE	0.5	0.2
Total Environment	64.3	50.0

District heating service investments concerned work to extend the service in the areas of Bologna (4.0 million euro), Ferrara (2.0 million euro) and Imola (2.9 million euro). Telecommunications investment relates to completion of the regional telecom plan for fibre-optic connections. In the Public Lighting sector, investments related to the installation of new lighting units and extraordinary maintenance on existing units. Other interventions mainly relate to the construction of new micro-cogeneration plants and on thermal plants linked to the heat management service.

Other services

(€ millions)	30-Sep-05	30-Sep-06
District heating	7.2	9.7
Telecommunications	3.8	1.0
III. Public lighting	1.3	2.9
Other	2.3	6.8
Total Other Services	14.6	20.4

Investments in the central structure were down on the whole. IT investments mainly related to implementation of the company IT system, particularly the new customer system. In the other investments category, the renewal of the operating vehicle fleet was of particular importance (6.0 million euro).

Structure

(€ millions)	30-Sep-05	30-Sep-06
Real estate investments	7.9	7.0
IT Systems	21.2	18.5
Other investments	17.2	9.4
Total	46.3	34.9

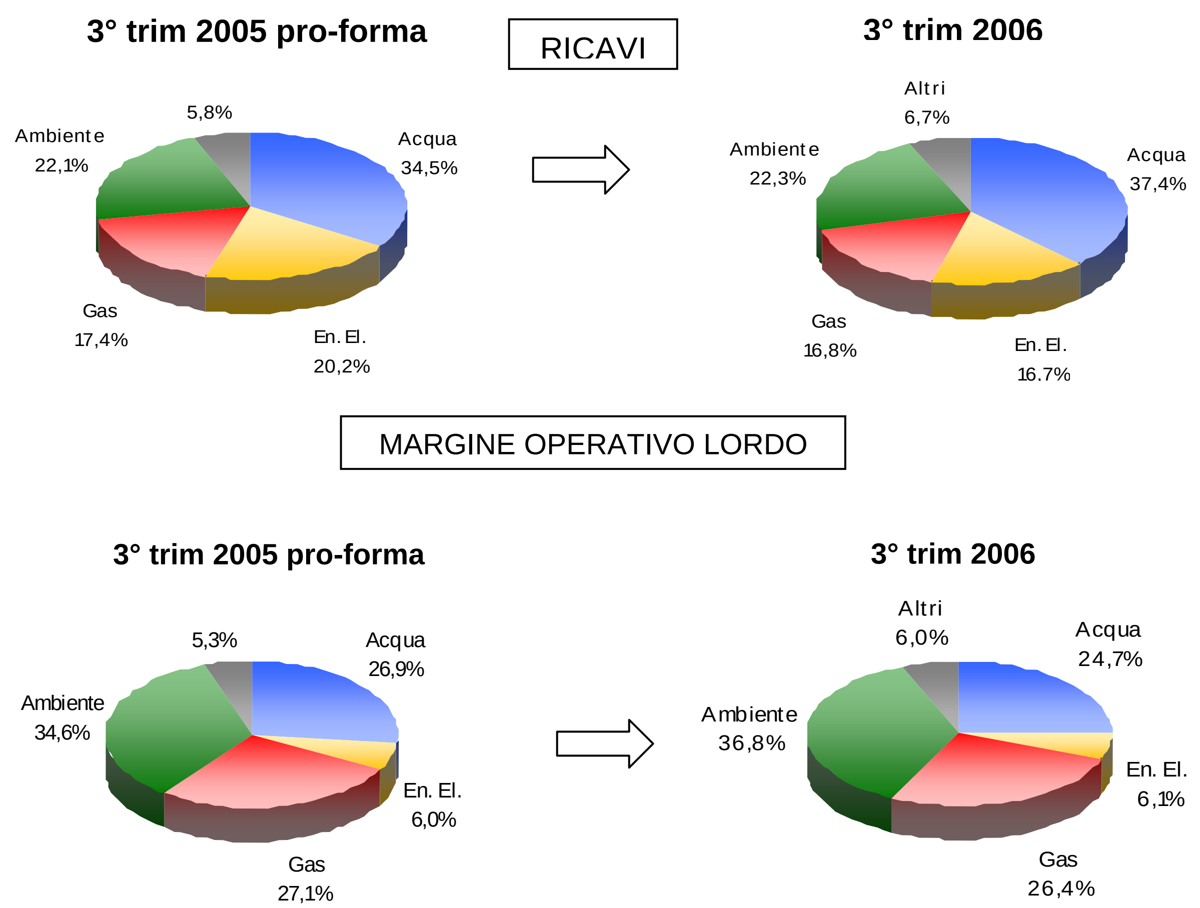
2.03 Analysis by Business Area

An analysis is presented below of the operating results achieved in the business areas 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, Waste Water Treatment and Sewerage), (iv) Environment Sector (Waste Collection and Treatment) and (v) other activities (District Heating, Public Lighting, Heat Management and other minor services).

The business areas remain basically unchanged as a result of the integration of Meta, which operated within the same spheres: by contrast, the Electricity area, in which the Modena-based company was leader in its province, emerges as greatly enhanced. This leadership position was further strengthened by acquisition of the former Enel grid on 1 July 2006.

In order to provide more detailed information on results for the first nine months of 2006, later paragraphs include the analysis of business area data from the same period in 2005, including the former Meta area. The composition and evolution for the corresponding periods of 2005 and 2006 in terms of Revenues and EBITDA are shown in the graphs below:

COMPOSITION OF THE BUSINESS PORTFOLIO



The following sections contain an analysis of the operating results generated by business area. The income statements by business area include structural costs, inter-divisional transactions valued at current market prices and for 2005, as already mentioned, include figures relating to the integrated Modena area.

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

2.03.1 Gas area

In the first nine months of 2006, the weight of the Gas business area, including sales and distribution, decreased as compared to the same period of the previous year in favour of other business areas of the Group.

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

(mln/€)	30-Sep-05 pro-forma	30-Sep-06	Change	% Change
Area Ebitda	**69.5**	**71.5**	**+2.1**	**+3.0%**
Group Ebitda	258.0	289.7	+31.7	+12.3%
Percentage	*26.9%*	*25%*	*-2.2 p.p.*	

The results in the Gas business area, as already shown for the first half 2006, while affected by an increase in the cost of raw materials deriving from the high level of oil prices, and the commercial aggressiveness of competitors for business customers, demonstrated an improvement compared to the previous year.

The results are summarised below:

Income Statement (mln/€)	30-Sep-05 pro-forma	% Inc.	30-Sep-06	% Inc.	Change	% Change
Revenues	547.7		649.6		+101.9	+18.6%
Operating costs	(459.3)	-83.9%	(562.3)	-86.6%	-103.0	+22.4%
Personnel costs	(31.9)	-5.8%	(31.6)	-4.9%	+0.3	-0.9%
Capitalised costs	13.0	2.4%	15.8	2.4%	+2.8	+21.5%
Ebitda	**69.5**	**12.7%**	**71.5**	**11.0%**	**+2.1**	**+3.0%**

Revenues in the Gas area rose by 18.6%, from 547.7 million euro to 649.6 million euro in the first nine months of 2006, in relation to the increase in raw materials costs transferred onto the sales price.

The following table illustrates the performance of the main quantitative factors which determined the results of the distribution and sales business: compared with the same period last year, it should be noted that a milder spring in this period has substantially offset the physiological increase in volumes distributed. The Trading business fell due to the lesser interest expressed by international suppliers in the Italian market, and to the decrease in transport capacity acquired by the Group. This had a particular impact on the third quarter.

Quantitative data	30-Sep-05 pro-forma	30-Sep-06	Change	% Change
Number of customers (in thousands)	***953,806***	***957,455***	+3,649	+0.4%
Distributed volumes (millions of m^3)	1,561.9	1,540.8	-21.1	-1.3%
Volumes sold (millions of m^3)	1,790.6	1,660.5	-130.2	-7.3%
- of which trading	*266.2*	*157.9*	*-108.3*	*-40.7%*

The EBITDA in the Gas business area, in relation to the effects described above, rose by 2.1 million euro, from 69.5 million euro to 71.5 million euro.

The effect of the increase in natural gas transferred to sales prices caused a reduction in the percentage margin from 12.7% in 2005 to 11.0% in 2006.

2.03.2 Electricity area

The Electricity area, which represents a marginal share in terms of Group profitability, increased its percentage weight with the integration of Meta and of the former Enel grid in the Modena area.

In fact, the reader is reminded that as at 30 September 2005 the percentage weight of the Electricity area for the Group without the Modena area was 2%.

(mln/€)	30-Sep-05 pro-forma	30-Sep-06	Change	% Change
Area Ebitda	**15.6**	**17.8**	**+2.2**	**+14.1%**
Group Ebitda	258.0	289.7	+31.7	+12.3%
Percentage	*6.0%*	*6.1%*	*+0.1 p.p.*	

The Electricity business area also felt the effects of the increase in the cost of raw materials, as shown in the Gas business area, and from repositioning of electricity availability to customers offering greater profitability, as already indicated in accounts closed on 30 June.

An analysis of the operating results achieved in the Electricity area is shown below:

Income Statement (mln/€)	30-Sep-05 pro-forma	% Inc.	30-Sep-06	% Inc.	Change	% Change
Revenues	320.1		289.7		-30.4	-9.5%
Operating costs	(299.3)	-93.5%	(268.0)	-92.5%	+31.4	-10.5%
Personnel costs	(7.2)	-2.2%	(10.3)	-3.6%	-3.2	+44.0%
Capitalised costs	2.0	0.6%	6.4	2.2%	+4.4	+216.6%
Ebitda	**15.6**	**4.9%**	**17.8**	**6.1%**	**+2.2**	**+14.1%**

3 factors had a substantial impact on revenues figures as at 30 September 2006: the increased cost of raw materials, an increase in volumes sold to captive customers mainly from the acquisition of the former Enel grid and a consistent drop in volumes sold to eligible customers due to trade repositioning, as well as to the increased pressure from competition.

The table below illustrates quantitative data for the Area by customer type, and highlights the volume performance linked to the management policies described above.

Quantitative data	30-Sep-05 pro-forma	30-Sep-06	Change	% Change
Volumes sold (Gw/h)	**2,801.4**	**2,265.5**	**-535.8**	**-19.1%**
Captive customers	529.5	586.3	+56.8	+10.7%
Eligible customers	2,271.9	1,679.3	-592.6	-26.1%
Volumes distributed (Gw/h)	**1,117.6**	**1,321.5**	**+203.9**	**+18.2%**

EBITDA increased from 15.6 in 2005 to 17.8 million euro as a result of synergies made possible by integration of the Modena area, confirming the effectiveness of the commercial action taken.

2.03.3 Integrated Water Cycle area

With the integration of the Modena area, the Group currently operates in the Integrated Water Cycle management sector in 170 municipalities, with more than 2.3 million inhabitants, linked to a network of approximately 24 thousand km and with more or less complete coverage of the area in question.

Hera operates in 6 ATOs coinciding with the Provinces of Ravenna, Ferrara, Forlì-Cesena, Rimini, Modena and Bologna.

Agreements were set up with the above-mentioned Agencies, regulating the Integrated Water Service and guaranteeing the Group not only the extension of concessions on average until 2022, but also the certainty of tariff development until the end of 2007 and the guarantee of achieving the expected return on investment, in accordance with the provisions of the Galli Law, when fully implemented as from 2008.

Also in relation to the above, the Integrated Water Cycle Area demonstrated improved results, and confirms its percentage weight, as shown in the table below:

(mln/€)	30-Sep-05 pro-forma	30-Sep-06	Change	% Change
Area Ebitda	**69.9**	**76.5**	**+6.6**	**+9.5%**
Group Ebitda	258.0	289.7	+31.7	+12.3%
Percentage	*27.1%*	*26.4%*	*-0.7 p.p.*	

The 30 September 2006 results, compared to the same period of 2005, demonstrate performance in line with expectations, with an increase in revenues linked to the tariff scheme approved by the ATOs.

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

Income Statement (mln/€)	30-Sep-05 pro-forma	% Inc.	30-Sep-06	% Inc.	Change	% Change
Revenues	276.4		292.0		+15.6	+5.6%
Operating costs	(194.8)	-70.5%	(225.1)	-77.1%	-30.3	+15.5%
Personnel costs	(57.6)	-20.8%	(59.3)	-20.3%	-1.7	+2.9%
Capitalised costs	45.8	16.6%	68.9	23.6%	+23.1	+50.3%
Ebitda	**69.9**	**25.3%**	**76.5**	**26.2%**	**+6.6**	**+9.5%**

In the first nine months of 2006, sales amounted to 292.0 million euro, an increase of 5.6% compared to the same period of 2005, in relation to tariff increases connected to the aforementioned agreements with the ATOs. The reader is informed that the third quarter of 2005 was influenced by revenues for greater than average work involved in the recovery of business linked to the launch of the new customer system.

The increase in costs derived mainly from greater internal capitalisation regarding Environment Plan investments and from greater electricity costs caused by the price increases already mentioned in previous paragraphs.

The main quantitative figures of the business area, shown in the table below, do not demonstrate significant variations between the two periods in question.

Quantitative data	30-Sep-05 pro-forma	30-Sep-06	Change	% Change
Volumes sold (millions of m^3)				
Aqueduct	175.9	176.5	+0.6	+0.3%
Waste water treatment	152.4	153.6	+1.2	+0.8%
Sewerage	157.2	158.7	+1.5	+1.0%

As at 30 September 2006, EBITDA has increased by 6.6 million euro, from the 69.9 million euro of the previous year to 76.5 million euro, with an increase of nearly one percentage point on revenues, from 25.3% in 2005 to 26.2% in 2006.

2.03.4 Environment Area

Partly due to the contribution of the Modena area, Environment Area confirmed the results for the first half year and is that which presented the highest levels of growth in margin and percentage terms.

(mln/€)	30-Sep-05 pro-forma	30-Sep-06	Change	% Change
Area Ebitda	**89.3**	**106.6**	**+17.3**	**+19.3%**
Group Ebitda	258.0	289.7	+31.7	+12.3%
Percentage	*34.6%*	*36.8%*	*+2.2 p.p.*	

With 36.8% the Environment area was the major contributor to Group results.

The Hera Group has for some time been one of the most important integrated operators in the sector at European level due to its range of treatment and disposal plants for urban and special waste.

As already mentioned with regard to the Integrated Water Cycle area, the Group operates in the 6 ATOs of the Provinces of Ravenna, Ferrara, Forlì-Cesena, Rimini, Modena and Bologna. In this sector as well, agreements were finalised in compliance with the current regulations in force.

An analysis of the operating results achieved in the Environment area is shown below:

Income Statement (mln/€)	30-Sep-05 pro-forma	% Inc.	30-Sep-06	% Inc.	Change	% Change
Revenues	350.4		387.7		+37.3	+10.6%
Operating costs	(176.5)	-50.4%	(195.3)	-50.4%	-18.8	+10.7%
Personnel costs	(87.6)	-25.0%	(89.1)	-23.0%	-1.4	+1.6%
Capitalised costs	3.1	0.9%	3.3	0.8%	+0.2	+7.6%
Ebitda	**89.3**	**25.5%**	**106.6**	**27.5%**	**+17.3**	**+19.3%**

Revenues at the end of September 2006 demonstrate a rise of 10.6%, passing from 350.4 million euro in 2005 to 387.7 million euro in 2006. The increase in sales is linked to the increased volumes of energy sold by Group plants, to the increased volumes disposed and to acquisition of the company ASA.

The figures for the first nine months of 2006 are positively influenced by the full operations of several plants, in particular the waste-to-energy plant in Bologna and the plants of Ravenna's Centro Ecologico, which were not completely operational in the corresponding period of the previous year. The reader is reminded that these plants are eligible for fuel cost allowances (CIP6) on the electricity generated.

As illustrated in the table below, the waste disposal quantity increased by 2%.

Quantitative data	30-Sep-05 pro-forma	% Inc.	30-Sep-06	% Inc.	Change	% Change
Urban waste	1,153,282	45.6%	1,191,299	46.2%	+38,017	+3.3%
Market waste	1,373,791	54.4%	1,385,712	53.8%	+11,921	+0.9%
Waste treated by type	**2,527,073**	**100.0%**	**2,577,011**	**100.0%**	**+49,938**	**+2.0%**
Landfills	900,112	35.6%	1,016,841	39.5%	+116,729	+13.0%
Waste to Energy plants	416,201	16.5%	441,753	17.1%	+25,552	+6.1%
Selection plants	212,376	8.4%	166,904	6.5%	-45,472	-21.4%
Compost plants	81,299	3.2%	100,210	3.9%	+18,911	+23.3%
Inert. and chemical plants	598,547	23.7%	545,291	21.2%	-53,256	-8.9%
Other	318,538	12.6%	306,012	11.9%	-12,526	-3.9%
Waste treated by plant	**2,527,073**	**100.0%**	**2,577,011**	**100.0%**	**+49,938**	**+2.0%**

From the above quantitative data it can be seen that a lesser use has been made of third party plants, with increased use of the waste-to-energy plants which demonstrate a quarterly increase of 8.7% in quantities treated.

This greater use has had a favourable impact on EBITDA, which increased to 106.6 million euro as at 30 September 2006 as compared to the 89.3 million euro of the corresponding period last year. Noteworthy the increase in margins by two percentage points, from 25.5% to 27.5%.

2.03.5 Other Services area

The Other Services area, which particularly includes Public Lighting, District Heating and Heat Management, has affected overall Group margins by approximately 6%, as compared to 7.1% in June, relating to the strong seasonal impact on this business area.

(mln/€)	30-Sep-05 pro-forma	30-Sep-06	Change	% Change
Area Ebitda	**13.8**	**17.3**	**+3.5**	**+25.8%**
Group Ebitda	258.0	289.7	+31.7	+12.3%
Percentage	*5.3%*	*6.0%*	*+0.6 p.p.*	

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

Income Statement (mln/€)	30-Sep-05 pro-forma	% Inc.	30-Sep-06	% Inc.	Change	% Change
Revenues	92.1		116.6		+24.5	+26.7%
Operating costs	(71.9)	-78.1%	(94.5)	-81.0%	-22.6	+31.4%
Personnel costs	(19.3)	-21.0%	(18.3)	-15.7%	+1.0	-5.4%
Capitalised costs	12.9	14.0%	13.4	11.5%	+0.5	+3.9%
Ebitda	**13.8**	**14.9%**	**17.3**	**14.8%**	**+3.5**	**+25.8%**

The rationalisation and reorganisation of the Other Services area, also continued in 2006, have led to the gradual disposal of almost all services not linked to the Group's core business. Nevertheless, revenues increased from 92.1 million euro to 116.6 million euro, especially as a result of the increase in revenues in district heating, linked as always to the price performance of energy raw materials, and the growth in business volumes in the Public Lighting business.

The reorganisation and focusing of the business area has allowed for the achievement of high efficiency levels with EBITDA rising from 13.8 million euro in the first nine months of 2006 to 17.3 million euro in the corresponding period of 2006, an increase of 3.5 million euro in line with the June results.

2.04 Analysis of the Net Financial Position of the Hera Group

In order to illustrate changes in the Net Financial Position (NFP), figures are compared with those recorded as at 31 December 2005, as comparison with the same period of the previous year is not significant:

Net financial position (mln/€)	30-Sep-05	% Inc.	30-Sep-06	% Inc.	Change	% Change
medium/long-term	(604.1)	77.6%	(1.000.8)	87.5%	(396.7)	65.7%
short-term	(174.3)	22.4%	(143.1)	12.5%	31.2	-17.9%
Total NFP	**(778.4)**	**100.0%**	**(1.143.9)**	**100.0%**	**(365.4)**	**46.9%**

In absolute terms the Group's Net Financial Position has increased as at 30 September 2006, compared to figures reported as at 31 December 2005, by 169.9 million euro (+17.4%), despite the investments effected in the period (58.5 million euro).

In order to guarantee all financial commitments for the next 12 months, the Group has obtained an irrevocable 36-month revolving credit facility of 200 million euro.

To cover short-term debt, the Group has obtained two credit lines – at present unused – for over one billion Euro, at the Euribor 1 month + 18 bps rate.

Such action has allowed Hera to improve the quality of its debt, reduce the cost of money spread and boast an extremely solid financial structure.

2.05 Human Resources

At 30 September 2006 employees of the Hera Group total 5,933 (consolidated companies), with the following division by category: managers (101), middle managers (253), office staff (2,531), and manual workers (3,048). This workforce was the result of the following changes: recruitment (112), acquisition of staff through perimeter change (57), departures (140).

	31-Dec-05	30-Sep-06	Change
Managers	93	101	8
Middle managers	245	253	8
Office staff	2458	2531	73
Manual workers	3108	3048	-60
Total	5904	5933	29

A breakdown of the movements is provided below:

	30-Sep-06
Headcount at year end 2005	5904
Inflow	112
Outflow	-140
Net flows	-28
Perimeter/business changes	57
Headcount at period end	5933

In the third quarter of 2006 the freeze on turnover in lower added value activities continued.

3 – CONSOLIDATED ACCOUNTING STATEMENTS OF THE HERA GROUP

3.01 Reclassified Consolidated Income Statement

	30 Sep 2006 € /000	30 Sep 2005 € /000	3rd quarter 06 € /000	3rd quarter 05 € /000	31 Dec 2005 € /000
Revenues	1,607,092	1,233,629	428,133	351,925	1,730,723
Change in stock of finished products and work in progress	4,155	1,467	261	1,648	2,465
Other operating income	28,028	21,876	12,928	7,006	34,771
Use of raw materials and consumables (net of change in stock of raw materials and stocks)	-795,206	-560,176	-178,570	-142,904	-809,571
Costs for services	-367,857	-310,352	-127,181	-108,785	-440,135
Personnel costs	-208,555	-172,494	-66,379	-55,121	-227,639
Ammortamenti e accantonamenti	-133,638	-89,444	-45,873	-29,600	-142,652
Other operating costs	-85,699	-77,841	-27,309	-24,203	-108,038
Capitalised costs	107,783	76,853	37,922	28,512	138,463
EBIT	**156,103**	**123,518**	**33,932**	**28,478**	**178,387**
Adjustments to technical fixed assets					15,518
Investee share of profit (loss)	2,084	-159	935	155	-444
Financial income	24,384	5,707	7,094	2,485	34,359
Financial charges	-64,579	-38,137	-23,304	-12,065	-74,102
Profit before tax	**117,992**	**90,929**	**18,657**	**19,053**	**153,718**

3.02 Consolidated Net Financial Position

	(euro/000000)	30/09/06	31/12/05
a	**Cash and cash equivalents**	**140.3**	**189.1**
b	**Other short-term receivables**	**8.6**	**8.4**
	Short-term bank loans	-218.3	-568.5
	Short-term portion of longer term bank loans	-62.0	-68.3
	Other short term payables	-1.4	-1.2
	Payables for finance leases - maturing within the next year	-10.3	-9.8
c	**Short-term debt**	**- 291.9**	**- 647.80**
d (a+b+c)	**Net short-term debt**	**- 143.1**	**- 450.30**
e	**Medium to long-term receivables**	**54.6**	**53.4**
f	**Financial assets from derivatives**	**3.1**	**3.4**
	Long-term bank loans	-488.6	-491.3
	Bonds issued	-500.0	0.0
	Other medium to long-term financial debt	-32.9	-30.1
	Financial liabilities from derivatives	-4.3	-19.2
	Payables for finance leases - maturing beyond the next year	-32.7	-39.9
g	**Medium to long-term financial debt**	**- 1,058.5**	**- 580.51**
h (e+f+g)	**Net medium to long-term financial debt**	**- 1,000.8**	**- 523.70**
i (d+h)	**Net financial debt**	**- 1,143.9**	**- 974.00**

3.03 Content and form of the accounting statements

The Consolidated Quarterly Report of the Hera Group as at 30 September 2006, not subjected to audit, has been drafted in accordance with the provisions of Article 82 of the "Regulations containing the provisions for implementation of Legislative Decree 58 of 24 February 1998 concerning issuers" (CONSOB Resolution 11971 of 14 May 1999 and subsequent amendments), as amended by CONSOB Resolution 14990 of 14 April 2005.

Pursuant to said Article 82, the Quarterly Report was drafted by applying the IFRS international accounting standards in accordance with specifications contained in Annex 3D of said regulations. Hence this quarterly report was not drafted in accordance with the provisions of the accounting principle concerning interim financial reporting (IAS 34 "Interim Financial Statements").

When comparing the balances of the income statements as at 30 September 2005 and 30 September 2006, it is necessary to remember that the former do not include the contribution of the Meta group, as the merger by incorporation of Meta SpA into Hera SpA was only determined on 31 December 2005, as the merger by incorporation of Geat Distribuzione Gas SpA in Hera SpA became effective on 1 January 2006.

The consolidated income statement schedules and the figures included in the explanatory notes are expressed in thousands of euro, unless otherwise stated.

3.04 Accounting policies and consolidation criteria

The quarterly report of the Hera Group as at 30 September 2006 includes the quarterly financial statements of the Parent Company, Hera SpA and those of the subsidiary companies. Control is obtained when the Parent Company has the power to determine the financial and operating policies of a company in such a way as to benefit from its activities.

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

Investments representing non-current assets in associated companies whose size is insignificant are carried at equity. By contrast, dormant companies, in liquidation, or of an irrelevant size are maintained at cost.

The companies held exclusively for the purpose of their disposal are excluded from consolidation and assessed at fair value. These investments are classified under separate items.

There are no companies consolidated under the proportional method.

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

The financial statements used for preparation of the consolidated income statement, were those duly reclassified and adjusted by companies included within the scope of consolidation (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. In particular, the consolidated income statement fully integrates the income and expenses of the consolidated companies, whereas the income and expenses, profits and losses generated by transactions between consolidated companies are eliminated. The dividends collected by the parent company and recorded under financial income in the income statement are eliminated during the process of consolidation of the various companies.

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

The accounting principles applied to the Group are illustrated below.

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

As of the date of changeover to the IFRS – 1 January 2004 – the Group adopted the criteria of fair value as a replacement for cost (fair value as deemed cost) for tangible fixed assets, applying it selectively to certain categories of assets; the emerging additional value was credited directly to the reserves. The adoption of 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 value 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, modernisation and transformation costs which increase the value of the assets, are charged to the related balance sheet assets.

The book value of tangible fixed assets is subject to assessment 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. Tangible fixed assets are systematically depreciated in each accounting period using the economic-technical rates considered representative of the residual possible usefulness of the assets. The following tables contain the useful lives taken into account for the depreciation of the assets.

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

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

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

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

Electricity production and distribution service	**min %**	**max %**
Land	0	0
Buildings	1.50	3.00
MV underground and overhead distribution network	2.00	4.00
LV underground and overhead distribution network	4.00	8.00
HV/MV - LV/MV transformers	3.50	7.00
- station transformers	2.00	4.00
- pole transformers	2.50	5.00
Connectors	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

Environment 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 pertinence	1.66 – 2.00	3.33 – 4.00
- external building works	1.66	3.33
- electricity generation plant	2.00	4.00
- general plant	2.50	5.00
- waste-to-energy post-combustion furnace boiler and fume recovery line	2.50	5.00
- waste-to-energy heater with fluid bed boiler line	3.57	7.14
- steam turbine and electricity generation	2.50	5.00
- waste-to-energy line control systems	5.00	10.00
Specific BIOGAS plant, storage + IRE	5.00	10.00
- land	0	0
- buildings	1.00 – 1.25	2.00 – 2.50
fixed plant with real estate pertinence	1.66 – 2.00	3.33 – 4.00
- external building works	1.66	3.33
- electricity generation plant	2.50	5.00
- CDR packing	2.50	5.00
- selection, disintegration, 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 compost plant	5.00	10.00
- land	0	0
- buildings	1.00 – 1.25	2.00 – 2.50
fixed plant with real estate pertinence	1.66 – 2.00	3.33 – 4.00
- external building works	1.66	3.33
- general plant and lifting equipment	3.33	6.67
- pre-selection plant	2.50	5.00
- mixing plant	3.33 – 5.00	6.67-10.0
- palleting plant	5.00	10.00
- energy recovery plant	2.50	5.00
- screening and refining plant	3.33 – 4.16	6.67-8.33
- weighing plant	2.25	5.00
- deoxidisation / organic treatment systems	3.33	6.67
- second maturing	5.00	10.00
- heap 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 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 lease; they are depreciated on the basis of their estimated useful life on a consistent basis with the assets owned. The corresponding liability vis-à-vis the lessor is recorded in the balance sheet. The payments for lease instalments are divided up into the principal portion and the interest portion and the financial charges are booked directly to the income statement for the period. All other leases are considered operating leases and the related costs for the lease instalments are recorded on the basis of contractual conditions.

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 systematically amortised over the period of the estimated useful life. Amortisation commences when the asset is available for utilisation or in any event 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.

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 their useful life.

Concessions and licences mainly comprise concession rights for the 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 corresponding 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 the light of current ATO agreements. The residual value of the intangible fixed assets corresponding with concessions for the management of 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 according to 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 book value of the assets; they are recorded in the income statement at the time of disposal.

Business combinations - IFRS 3 is applicable to business combinations formed since 31 March 2004. The Company has applied this standard for the acquisitions of the Agea Group, Meta Group and Geat Distribuzione Gas Group.

IFRS 3 requires that business combinations be recorded in accordance with the acquisition method. Specifically, the acquisition cost is determined by the sum total of the fair values, as of the date of exchange, of activities transferred, liabilities incurred or undertaken and any financial instruments issued by the group in exchange for control over the acquired company, in addition to 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 fair value less the sale costs.

Goodwill deriving from the acquisition is recorded as an asset and initially valued at cost, represented by the surplus of the acquisition cost with respect to the Group share in the fair values of the identifiable assets, liabilities and potential liabilities recorded. If after revaluation the Group share in the fair values of the identifiable assets, liabilities and potential liabilities exceeds the acquisition cost, the surplus is recorded immediately in the income statement

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

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

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

Losses in value (Impairment) - As of each balance sheet date, the Group takes into consideration the book value of the tangible and intangible fixed assets (and in relation to the latter those with an undefined useful life, including goodwill) in order to assess whether there is any indication that said assets have suffered a reduction in value. If a reduction in value is identified, the recoverable amount of the assets concerned is estimated so as to determine the total write-down. The recoverable amount is either the net sales price or the utilisation value, whichever is the greater. Where it is not possible to individually estimate the recoverable value of an asset, the Group estimates the recoverable value of the unit generating the financial flows relating to those assets. Future cash flows are discounted back to a discount rate (net of taxation) reflecting the current market value and takes into account the risks associated with the specific business activity.

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. Write back of the value is charged to the income statement, unless the asset is revalued, in which case the write back value 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 - 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 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. In accordance with the equity method, the investments are stated in the balance sheet at cost, adjusted for changes subsequent to acquisition in the net assets of the associated companies, net of losses in value of the individual investments. The surplus value of the acquisition cost, with respect to the percentage due to the Group of the fair value of identifiable assets, liabilities and potential liabilities of the associated company as of the acquisition date, is recognised as goodwill. The goodwill is included in the book value of the investment and is subjected to an impairment test.

- **Other equity investments and securities** – Other equity investments and securities belong to the IAS 39 category "financial assets available for sale". They comprise instruments representing shareholders' equity, are stated at fair value and are recognized to shareholders' equity. When the market price or fair value cannot be determined, they are valued at cost adjusted in accordance with IAS 36.

  If the reasons for write-down cease to exist, the investments carried at cost are revalued to the extent of the write-downs and the effect is booked to the income statement, or to shareholders' equity if the assets are available for sale. Any risk deriving from 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 hold until maturity, are stated at cost represented by the fair value of the initial exchange payment, increased by transaction costs. Following initial recording, financial assets are valued on an amortised cost basis using the effective interest rate method.

Other non-current assets – These are stated at face value, adjusted if necessary for 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 completion basis *(*cost to cost*)*, so as to allocate the revenues and economic result of the contract to the relevant individual accounting periods, in proportion to the works completion status. 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 contractual payments, include variants, price reviews and the recognition of incentives to the likely extent that they represent effective revenues which can be reliably determined.

When the result of a contract cannot be reliably estimated, the revenues attributable to the related contract are recorded solely to the extent of the contract costs incurred that are likely to be recovered. Contract costs are recorded as expenses during the accounting period in which they are incurred.

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

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

The value of obsolete and slow-moving stock is written down in relation to the possible utilisation or realisation, by allocation to a specific provision for materials obsolescence.

Inventories of work in progress and finished products are valued at weighted average manufacturing cost for the period, which comprises raw materials, consumables and 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 realisation value.

Financial assets – Financial assets are recorded and written-off from the financial statements on the basis of the date of transaction and are initially valued at cost, inclusive of 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 any write downs to reflect losses in value. Financial assets other than those held to maturity are classified as held for trading purposes or available for sale, assessed at fair value at each period end and recorded in 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, readily convertible into cash and subject to an insignificant risk of 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 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 severance indemnity and other employee benefits – Liabilities relating to defined-benefit schemes (such as employee severance indemnity - TFR) are calculated net of any assets serving the scheme on the basis of actuarial suppositions and on an accruals basis in line with the employment services necessary to obtain such benefits. The liability assessment is verified 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 "actuarial" gains and losses not recorded for each scheme at the end of the previous accounting period exceeds 10% of the highest value among the obligations referring to defined benefit plans (Corridor method).

Provisions for risks and charges – The provisions for risks and charges comprise amounts set aside as recorded in the financial statements on the basis of current obligations (emerging from past events), which the Group believes it will be expected to meet. Provisions are set aside on the basis of the best estimate of costs required to meet the obligation, as of the balance sheet date, and are discounted back when the effect is significant and the necessary information is available. In this case, the provisions are determined by discounting back future cash flows at a pre-taxation discount rate which reflects the current market valuation and takes into account any risk associated with the business activities. When discounting back, 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 site recovery), the provision is recorded as a matching entry to its related asset and recognition of the charge to the income statement is by depreciation of the tangible fixed asset to which the charge refers.

Trade payables – These relate to commercial supply transactions.

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

Derivatives – The Group holds derivatives to hedge its exposure to the risk of interest rate fluctuations and the risk of changes in methane gas and electricity prices. In relation to such activities, the Group is expected to manage risks associated with the misalignment between index-linking formulas relating to the purchase of gas and electricity and index-linking formulas relating to the sale of these commodities. The instruments used for price risk management, with regard to both the price of the goods and the related euro/dollar exchange rate, are substantiated in commodity-swap agreements to pre-establish the effects on sales margins irrespective of changes in the aforementioned market conditions.

Consistent to 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 in accounting standards for hedge accounting treatment are classified as "hedges", while those which do not satisfy said requisites, despite being entered into for hedging purposes, are classified as "trading".

For accounting purposes, hedge 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 from either an existing asset or liability, or from a future transaction.

With regard to derivatives classified as "fair value hedges" which meet hedge accounting requirements, any gains and losses deriving from their market value calculation are booked to the income statement. Gains and losses deriving from fair value adjustment to the element underlying the hedge are also booked to the income statement.

In relation to instruments classified as “cash flow hedges” which meet hedge accounting requirements, gains and losses deriving from their market value calculation are booked to shareholders’ equity.

Changes in the fair value of derivatives not classified as hedges 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 their correlation to 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 as revenues for services provided during the accounting period and are therefore recorded on an accruals basis.

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

In particular:

- revenues from energy, gas and water sales are recognised and recorded at the time the service is provided and include allocations for services provided but not yet invoiced (estimated on the basis of historical analyses determined according to previous consumption levels),
- revenues from services are recognised on the basis of services provided 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.

Translation of foreign currency balances – The operating and reporting currency adopted by the HERA Group is the euro. Foreign currency transactions are initially recorded using the exchange rate in force on transaction date. Foreign currency assets and liabilities, with the exception of fixed assets, are recorded using the exchange rate valid at the year end date, and related exchange gains and losses are duly charged to the income statement. Any net gain is set aside to a specific restricted reserve until the realisation date.

3 05 Company Lists

List of Group Companies consolidated by the integral method

Name	Registered office	Share capital	Percentage control		Total	Total interest
			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%
Cales S.r.l.	Naples	250,000	50.01%		50.01%	50.01%
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 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 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	51.00%		51.00%	51.00%
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%
TS Energia S.r.l.	Monghidoro (BO)	10,000		100.00%	100.00%	100.00%
Uniflotte S.r.l.	Bologna	2,254,177	99.00%		99.00%	99.00%
Viviservizi S.r.l. Consortile	Bologna	250,000	81.74%		81.74%	81.74%

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

Agea One S.r.l., placed in liquidation on 19 April 2005 was wound up on 29 June 2006, from which date it is therefore no longer included in the Group scope of consolidation.

Ambiente 3000 S.r.L., consolidated by the equity method on 31 December 2005, is currently consolidated by the integral method as it became operative as of 1 January 2006.

Bio EnergY S.r.l., consolidated by the integral method on 31 December 2005, is currently consolidated by the equity method as it was placed in liquidation on 21 April 2006.

Famula On-line SpA increased its share capital on 26 July 2006 by 3,316,427 euro to 4,364,030 euro via shareholder subscription of shares proportionate to their respective holdings.

Gas Riccione S.p.A. is included among the fully consolidated companies following the merger of Geat Distribuzione Gas S.r.L. into Hera S.p.A.

On 16 January 2006, Hera SpA increased its stake in Hera Luce S.r.l. from 69.30% to 87.30%. The value of the acquisition was 2,850,000 euro.

Hera Modena S.r.l. and Hera Servizi Funerari S.r.l., subsidiaries not yet consolidated as at 31 December 2005, became operative as of 1 January 2006 and are therefore consolidated by the integral method.

Recupera S.r.l., with effect from 1 January 2006 due to the share capital increase subscribed by Hera SpA, showed an 18.45% increase in equity investment. The total stake currently held is 93.96%.

TS Distribuzione S.r.l., consolidated by the integral method on 31 December 2005, is currently consolidated by the equity method as it was placed in liquidation on 9 May 2006.

In January 2006, Viviservizi S.r.l. reduced its share capital from 451,000 euro to 142,725, euro releasing shareholders from calls subscribed but still in arrear. A further reduction in share capital was then implemented from 142,725 euro to 54,486 euro, later restored to 250,000 euro. As a result of these transactions Hera SpA now controls 81.74%.

The reader is also informed that on 30 June 2006 Hera SpA acquired 100% of Hera Rete Modena Srl, a company for the distribution and sale of electricity to captive customers and distribution only to free market customers in the districts of Castelnuovo Rangone, Fanano, Fiumalbo, Guiglia, Lama Mocogno, Marano sul Panaro, Montecreto, Montese, Pavullo nel Frignano, Pievepelago, Polinago, Riolunato, San Cesario sul Panaro, Savignano sul Panaro, Sestola, Spilamberto, Vignola and Zocca, for a total value of 107,497 thousand euro from Enel Distribuzione spa. The annual report as at 31 December 2006 will include the consolidation and allocation of the greater values of this transaction as from 30 June 2006.

Group Companies valuated by the Equity method

Name	Registered office	Share capital	Percentage control		Total	Total interest
			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		22.32%	22.32%	22.32%
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%
Aspes Multiservizi S.p.A.	Pesaro	10,963,627	49.79%		49.79%	49.79%
Attivabologna S.r.l. Cons. in liquid.	Bologna	2,558,600		96.40%	96.40%	96.40%
Bio Energy S.r.l.	Modena	100,000	100.00%		100.00%	100.00%
DYNA Green Srl	Milano	30,000		33.00%	33.00%	33.00%
Estense global service	Ferrara	10,000	23.00%		23.00%	23.00%
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%
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%
Yele S.p.A.	Vallo della Lucania (SA)	103,400	35.00%		35.00%	35.00%

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

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

4 Italy Energy & Environment S.p.A. was sold on 27 June 2006 for a total of 1,000,000 euro.

On 27 July 2006, Hera SpA purchased 2,512,488 shares in Aspes Multiservizi SpA from the Municipality of Pesaro at the price of 6.6 euro per share for a total value of 16,582,420.80 euro. As a result of this transaction the Hera SpA holding increased from 26.87% to 49.79%.

Gasgas, Meta Rete Gas, Tecnometano and TS Distribuzione have completed their respective liquidation proceedings and were wound up in the period July-August 2006.