06

Group Consolidated Quarterly Report as at 31 March 2006

GRUPPO HERA

Group Consolidated Quarterly Report as at 31 March 2006

1 – HERA GROUP

1.01 Hera's Mission

To gain a market position that maximises the value of the plant, networks and experience in the core business sectors of the companies that have taken part in the integration; increase the value of the Group and its competitive capacity, to take advantage of the opportunities presented with the progressive liberalisation of the markets.

To fulfil the "Hera model", creating synergies, optimising the available resources to achieve a better price/quality ratio and ensuring further margins of growth.

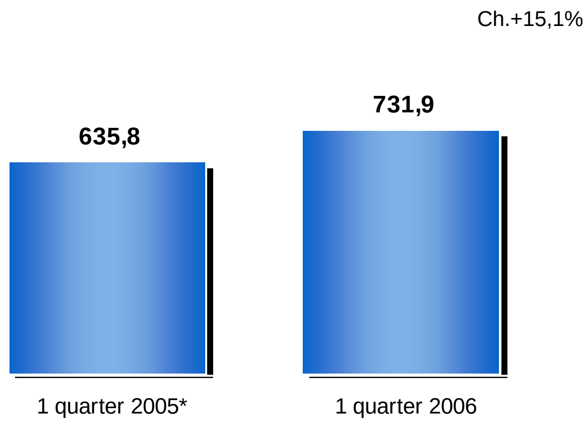
To combine the capacity to respond positively to market expectations with the objective of always providing adequate responses to the needs of the consumers/customers, guaranteeing quality, continuity and safety of the services, respecting the environment and maintaining constant relations with the territory.

To develop the core business activities in adjacent territories to those currently served, which present the possibilities for the attainment of economies of scale and synergies in the short-medium term.

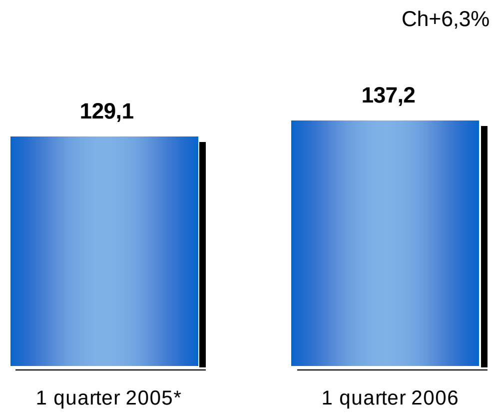
1.02 Summary Results

€/m	31 March 2005*^	%	31 Mach 2006	%	% Change
Revenues	635.8		731.9		+15.1%
EBITDA	129.1	20.3%	137.2	18.7%	+6.3%
EBIT	94.1	14.8%	95.5	13.1%	+1.5%
Pre-tax profit	82.9	13.0%	82.6	11.3%	(0.4%)

Revenues
euro mln



EBITDA
euro mln



* IAS adjusted
§ Pro-forma (With Meta Group)

1.03 Company Officers as at 27 april 2006

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	Vander Maranini
Director	Nicodemo Montanari
Director	Fabio Alberto Roversi Monaco
Director	Roberto Sacchetti
Director	Luciano Sita
Director	Bruno Tani
Director	Ermanno Vichi
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	Ermanno Vichi
Member	Stefano Zolea
Member	Vander Maranini

Remuneration Committee

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

Independent Audit Firm

PriceWaterhouse Coopers

1.04 Strategy

The results delivered over the last three years bear witness to the important progress made by the Group, which today has become the leading player in terms of turnover and the second in terms of capitalisation in the Italian utility sector. In the 2002-2005 period the EBITDA doubled with an average growth rate of +25% per year.

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

The Group's internal growth, which has made a significant contribution to the increase in EBITDA, has focused, on one hand, on expanding the business turnover by extending the range of services offered to a growing number of customers – hence favouring both customer loyalty and business profitability – and on the other, on raising efficiency levels through cost curbing policies and the reorganisation of operating activities.

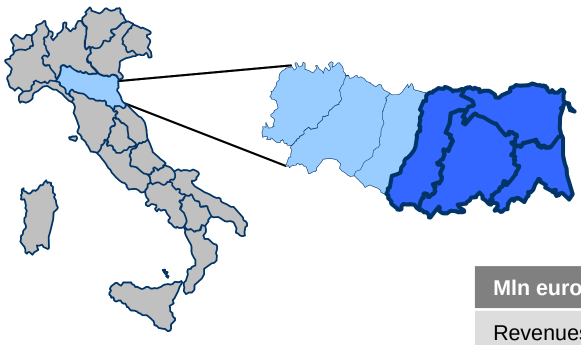
The reorganisation of activities and the centralisation of some activities within the "Industrial Holding" has added value both in terms of the operational management of services, guaranteeing strong presence on the territory while maintaining direct contact with the customer, and also in terms of the pursuit of economies of scale produced by the ever increasing dimensions.

The external growth, through mergers and acquisitions, began with the incorporation of Hera, established from the aggregation of 11 utilities of the Emilia Romagna region, and continued at a constant pace throughout the first three years of activity, contributing to the increase in EBITDA by almost +50% compared to the figure posted in 2002.

In 2004, the merger with Agea, a multi-utility company of the neighbouring province of Ferrara, extended the northern boundaries of the market served and, a year later, the merger with Meta, expanded the territory served to 70% of the Emilia Romagna region, steering the Group to market leadership in its core businesses and creating new opportunities to increase efficiency.

The consolidation strategy implemented over these years has abided by the principles established at the time of the Group's incorporation by bringing companies with business portfolios, cultural and geographical positions which are complementary to those of Hera.

In light of the results achieved it is possible to observe that thanks to these essential guidelines it has been possible to develop group synergies right from the beginning and to continue along a rapid process of integration that has led to the formation of a coherent, homogenous Group.



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

Mln euro	2002	2003	2004*	2005 *§
Revenues	1.067	1.222	1.493	2101
Ebitda	192	242	292	386

* IAS adjusted
§ Pro-forma

The external growth strategy has also been pursued through M&A transactions on mono-business companies which have allowed the Group to considerably strengthen its market positions in waste management and energy activities.

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

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

Acquisitions in the gas sector in 2005	Activity	Ownership
Argile Gas (Ferrara)	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 keeping with the strategic policies of the industry's major European players, Hera has implemented a dual fuel commercial strategy by which **electricity** is offered to customers who are already served by gas activities. The strategy has delivered positive results both in terms of increased customer numbers and volumes of electricity sold and in containing at marginal levels the decline in gas customers due to the fierce competition in the energy market.

The success achieved in the electricity sales market has lead to the need for further expansion in electricity generation (with the acquisition of minority interests in the companies Calenia Energia and SET realized in 2004) in order to guarantee increasing coverage of market demand in compliance with the principles of capital discipline.

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

The strategies which in the years since 2002 have lead to the increasing creation of value have been assimilated by all the enterprises which have converged on the Hera Group, through ongoing dialogue with the employees, shareholders and representatives of institutions and the reference territory.

All of the aforesaid strategies have been reconfirmed for the future with the aim of considerably strengthening the results achieved in Hera's short history, as illustrated at the end of 2005 at the time of approval and presentation of the new industrial plan 2006-2008 to the stakeholders.

It is worth remembering that the EBITDA posted in 2005 is already double the figure recorded in 2002, and moreover, that this has occurred two years ahead of the forecasts contained in the Industrial Plan presented at the time of the IPO.

The greatest contribution to growth is expected to come from the continued pursuit of higher levels of efficiency and from increased revenues. The expected synergies will benefit from the possibilities of increased efficiency offered by the recent integrations of Agea and Meta and by the Enel electricity distribution grid of the province of Modena which will become Hera property mid-2006.

In line with the strategic priorities defined, the Group aims to continue to enhance the exclusive know-how gained in the management and construction of new plants for the production of electricity from renewable sources (the last WTE plant became operative in the year 2004 in Bologna) with four new WTE plants, of which three are already under construction.

Lastly, in the light of implementation of the dual fuel policy, 2007 is expected to see the CCGT plants of the investee companies SET and Calenia Energia become operative and likewise the fully Group owned plant in Imola.

The Group's expansion is sustained by an investment plan of over Euro 1.4 billion chiefly financed by cash flows generated by activity in the 2006 – 2008 period. The self-financing capacity of the investments allows the Group to maintain a solid financial structure in 2008 (D/E equal to approximately 0.6).

1.05 Business Sectors

The Group is active in over 170 municipalities in the six provinces of Bologna, Rimini, Ravenna, Forlì – Cesena, Ferrara and Modena, serving a territory which covers approximately 70% of Emilia Romagna, a region with GDP and pro-capita consumption rates among the highest in Europe and where the quality and reach of the local public services have always represented an essential characteristic of economic and social development.

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

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

Solid Urban Waste Business

In an Italian context characterised by a considerable dearth of infrastructures, the Hera Group constitutes an outstanding example with one of the nation's most impressive plant structures comprising more than 70 plants capable of covering the full range of possible treatments and exploitation of waste, as shown on the table below.

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

The Service is managed in 6 ATOs (corresponding to the Provinces of the Emilia Romagna region in which the Group operates), on the basis of long-term concessions (2012), covering a territory of approximately 2.4 million inhabitants and handles the collection and disposal of approximately 1.5 million tonnes of solid urban waste per year.

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

Plants	Treatment capacity (ton.)	Installed capacity (MW)
Bologna (Fea)	180,000	20
Rimini	120,000	10
Forlì	60,000	6
Modena	115,000	7
Ferrara	40,000	3
Ravenna	55,000	6
Centro Ecologico di Ravenna	40,000	4,5
Total	**610,000**	**56,5**

In the 2006-2006 period the Group intends to extend the recovery of energy from waste further reducing the environmental impact, that is, the use of landfills, of the service managed. The three-year plan foresees the expansion of 4 existing plants, thus raising total treatment capacity to 1 million tonnes by 2008.

Special Waste Business

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

The Hera Group is one of Italy's top 4 operators in the treatment and disposal of special waste with a treatment capacity equal to 2.2 million tonnes/year thanks to one of the nation's most important network of plants, which includes 31 specifically dedicated plants and 28 mix-usage plants (both special and urban waste).

The 2006-2008 Plan sees further saturation of plant capacity, which has undergone recent expansion with the acquisition of Centro Ecologia Ambiente from ENI, thanks to the positive markets trends already witnessed during 2005.

Integrated Water Cycle

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

The service is performed on the basis of concessions with average expiry in 2022 in 6 ATOs (corresponding to the 6 Provinces of the Emilia-Romagna region in which the Group operates), which include over 170 municipalities; each year approximately 230 million cubic metres of drinking water for domestic and industrial use are supplied.

The Group avails of an extensive, efficient water system extending over approximately 24,000 km and serving over 2.3 million inhabitants, a number which rises considerably in the tourist areas of the Adriatic Riviera during the summer period. Completing the plant structure utilised for the water service is the sewerage network that covers 6,600 km and includes over 350 purification plants.

Energy

The Hera Group is Italy's third operator in the sale and distribution of Gas (with approximately 2.8 million cubic metres sold per year to approximately 940,000 customers, 2.4 billion cubic metres distributed through 11,510 km of network), while in the sale and distribution of electricity, mainly thanks to integration of the Modena area, the Hera Group now ranks among the top Italian operators with over 3.8 Twh sold in 2005 and almost 177,000 customers.

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

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

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

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

The Industrial Plan expects to see substantial continuation of the results achieved in gas sales (which primarily draw advantage from merger with Meta) while the electricity market is expected to undergo significant expansion, sustained to a large extent by the new plants scheduled to start operations in 2007.

This paragraph also provides an update on the application of resolutions 248/04 and 298/05 issued by the Italian Authority for Electricity and Gas. In this regard it is specified that the Group, as indeed was the case at 31 December 2005, has not recorded any provision in the balance-sheet insofar as, at present, the elements by which to determine any economic effects that may arise from the aforesaid resolutions are not yet available.

Specifically, the judicial proceeding pertaining to resolution 248/04 is currently still pending and a Council of State hearing on the suspension ordered by the Lombardy Regional Administrative

Court (TAR) has been scheduled for 6 June 2006. Furthermore, in relation to the criteria for application of Article 2 of resolution 248/04, the Group is awaiting the instructions that will be provided upon conclusion of the preliminary inquiry launched by the Authority with resolution 65/06 on 28 March 2006.

Other Businesses

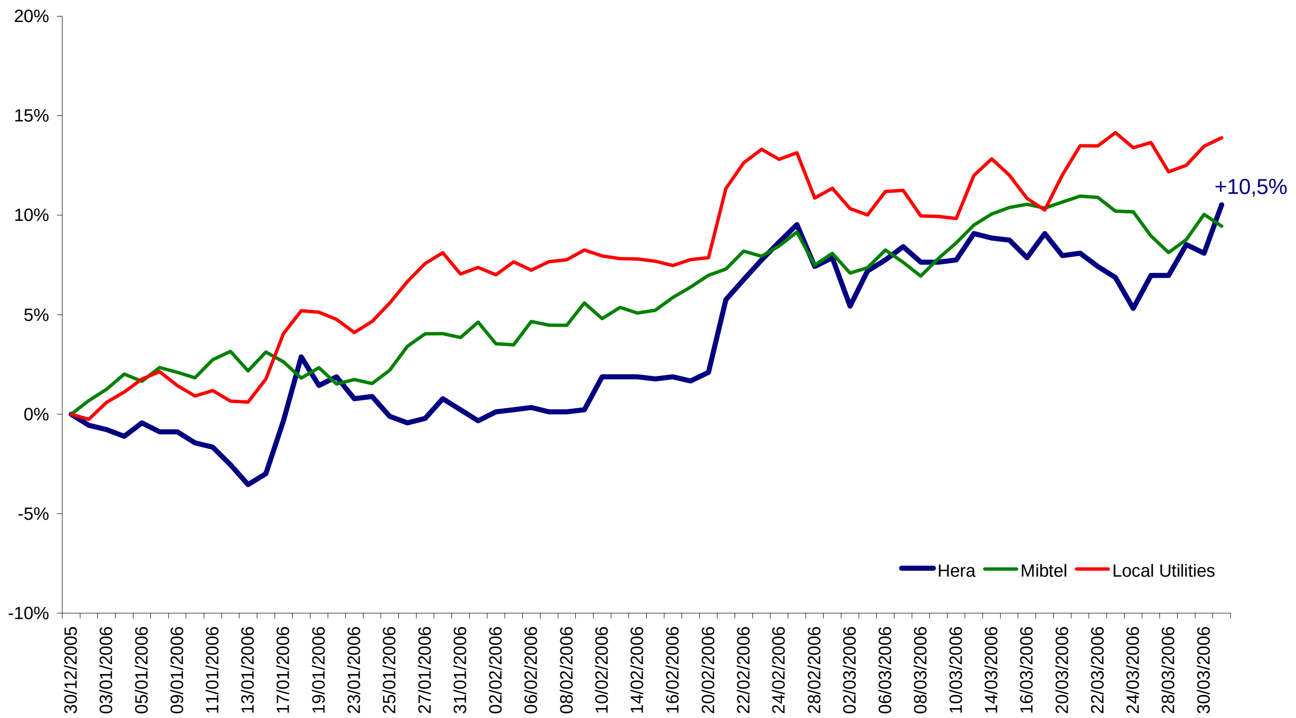
Further to the radical rationalisation of the activities of the companies within the Hera Group, the “other complementary businesses” have been reorganised and provided with integrated management. Within this context, the District Heating activities, in which Hera takes a leading role in Italy, and those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

The Group provided approximately 470 GWt/h in 2005 and managed over 293,000 light points within the area in which it operates. The development plans expect to see significant expansion of both these activities through investments and processes to heighten efficiency.

1.06 Hera's Performance on the Stock Exchange

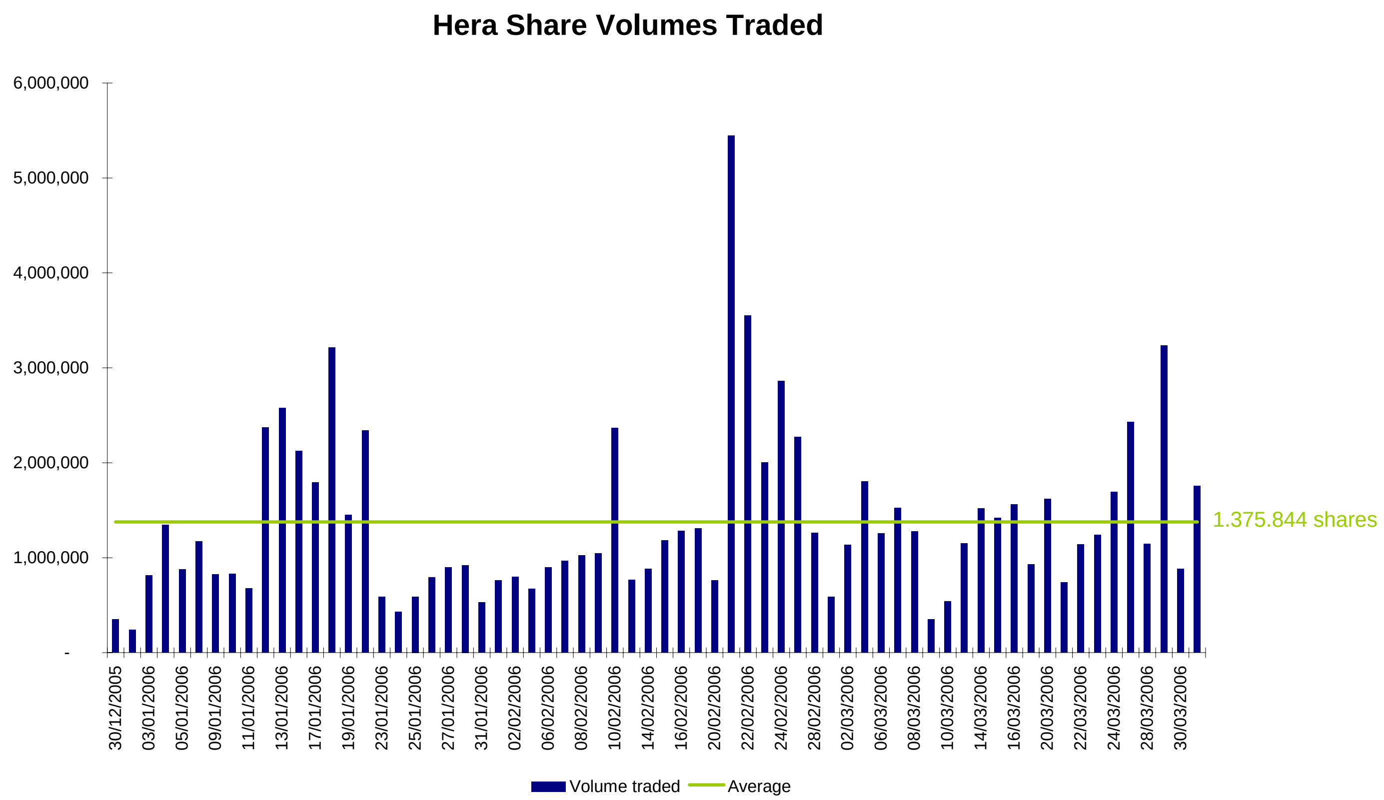
During the first three months of 2006 the Hera share recorded one of the best performances in the sector of listed former municipal enterprises, closing the period at €2.495 per share with an upturn of +10.5%, exceeding the Mibtel index by 1 percentage point (+ 9.5%).
In the wake of renewed interest in the sector, Italian local utilities have recorded an upward trend, delivering a sharp improvement on the performance recorded during 2005.

Hera Share Performance



The *MIB Storico* public utilities index also confirmed the renewed interest in the sector, recording a +2.8% rise at the end of the first quarter.

In April, following the presentation of 2005 annual results, the Hera Group organised an international road show to meet European and American investors. This coincided with a positive performance of the Hera share on the stock exchange where it achieved stability at around € 2.6 (high recorded in the month of April: € 2.7).



The average level of liquidity recorded in trading of Hera shares rose in 2005 for the second consecutive year, thanks to improvement of the medium term profit prospects, the outstanding performance achieved in the previous year, the rise in future targets reported in the industrial plan in November and the intense relations with international investors (European and American). The first quarter of 2006 has confirmed the liquidity values achieved last year with an average counter-value equal to € 3.2 m essentially in line with the values of the same quarter 2005 (€3.6 m). Particularly significant trading was recorded in the month of April which coincided with the road show organised to meet international investors.

Particularly intense trading activity was recorded in the month of January when the buy back project and the Geat Distribuzione merger project were approved, in the last days of February in the wake of the announcement of extraordinary finance transactions in the European utility sector and lastly to coincide with approval of the annual accounts 2005.

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” ethical indices.

Share Coverage

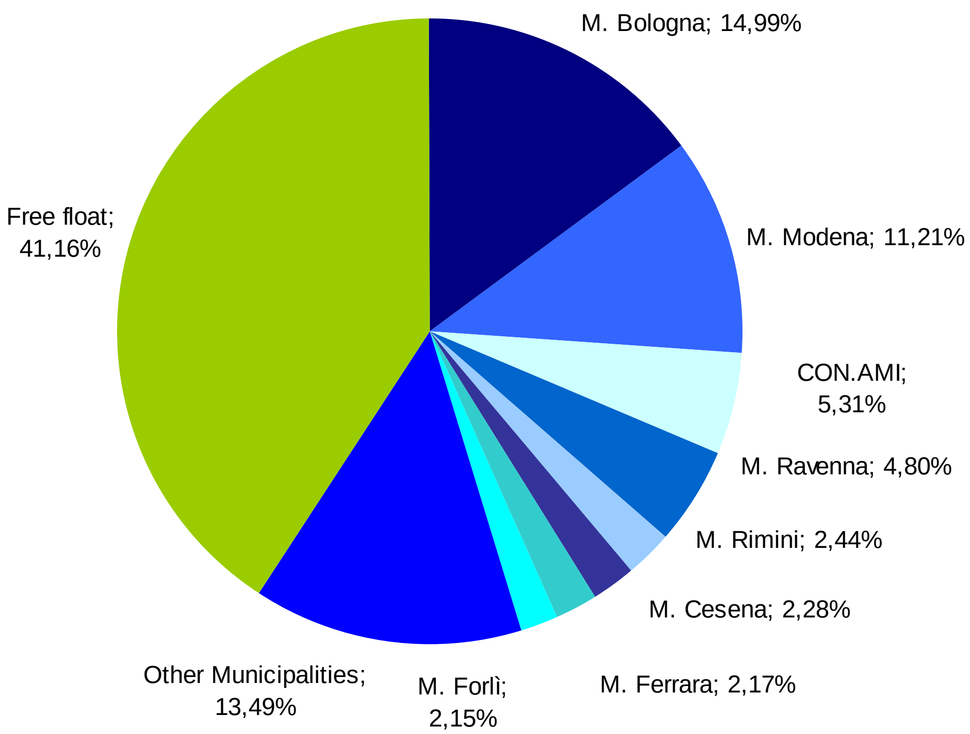
The Hera Group share is one of the most extensively covered in the Italian multi-utility sector, a factor which confirms the financial market's interest. Since the beginning of 2005, 15 independent analysts (half of which are international) have regularly covered the Hera share: Actinvest, Axia (ethical analyst) Caboto, Centrosim, Credit Agricole Indosuez, Euromobiliare, ING, Intermonte Securities, Jefferies, Banca IMI, Kepler and Rasbank. In the quarter, Cazenove, Oddo Securities (ethical analyst) and Studi e Investimenti Mobiliari also issued studies on Hera ("initial coverage").

Further to the international bond issue worth Euro 500 million listed on the Luxembourg market as from 16 February 2006 and placed by Banca IMI, JP Morgan and Citigroup which was implemented in the early months of 2006, some "credit analysts" have also started coverage (Banca IMI and UBS).

Shareholding Structure

Hera SpA has a widespread shareholding structure with over 180 different public shareholders (municipalities in the Emilia Romagna Region), approximately 180 Italian and international institutional investors and approximately 30,000 private shareholders. The absence of a controlling shareholder in its structure (the largest shareholder is the municipality of Bologna with approximately 15%) is a feature which distinguishes Hera from the other Italian Local Utilities.

Shareholding Structure



Further to merger through incorporation of the company Meta S.p.A. 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 31 March 2005 the Hera Group capitalised approximately Euro 2.5 billion.

Relations with the Financial Market

Relations with market operators continued to be particularly intense in the first quarter 2006 during which two road shows were organised. The first concerned the bond issue and engaged the Group's management from 27 January to 2 February, while the second was held after the annual accounts were presented in Milan at the Borsa Italiana conference halls. During the second road show Hera's management took part in numerous meetings held in the major European markets over a three week period from 29 March to 20 April.

During the road show organised after presentation of the annual accounts Hera attended the conference held by Borsa Italiana in New York to which the major mid-cap listed Italian companies are invited.

The Hera Investor Relations division maintained close contact with the institutional investors, organising numerous company visits for individual investors during the quarter.

The Investor Relations section available on the Hera website (www.gruppohera.it) contains all the information on events in which the Group has been involved during the quarter.

2 - Information on Hera Group Operations

2.1 Consolidated Results of the Hera Group

The Hera Group closes the first quarter 2006 with improvement in all the consolidated economic indicators, compared to the figures of the same period of the previous year.

Readers are reminded that incorporation of the Modena companies (Meta Group) took place at the end of 2005. While this merger did not modify last years' results, which were drawn up according to the IAS/IFRS international accounting standards, as provided for listed companies, it greatly modified the structure and the performances delivered in the Group's various business areas.

At the beginning of 2006 the activities of the Modena territorial area were spun off into the new company Hera Modena which, consistent with the organisational structure adopted by the Group, represents the seventh local operating unit.

The figures shown, as required by regulations governing listed companies, consider the full application of the IAS/IFRS international accounting standards.

The table below compares the results of the first quarter 2006 with the results of the same period of the previous year.

The value of production as at 31 March 2006 has risen by 39.8%, while a rise has also been recorded in EBITDA (+29.3%), EBIT (+21.2%) and pre-tax profit (+22.0%), as shown in the table below:

Income Statement (€/m)	**31-Mar-05**	**% Inc.**	**31-Mar-06**	**% Inc.**	**Change**	**% Chng.**
Revenues	523.7		731.9		+208.3	+39.8%
Change in finished prod.s and work in prog.	4,4	0.8%	1.3	0.2%	-3.1	-69.5%
Other operating revenues	5.1	1.0%	8.5	1.2%	+3.4	+66.5%
Raw materials and supplies	(270.6)	-51.7%	(419.0)	-57.2%	-148.4	+54.9%
Service costs	(91.7)	-17.5%	(121.3)	-16.6%	-29.7	+32.4%
Other operating costs	(24.0)	-4.6%	(28.3)	-3.9%	-4.3	+17.9%
Personnel costs	(58.9)	-11.3%	(71.4)	-9.8%	-12.5	+21.3%
Capitalised costs	18.1	3.4%	35.4	4.8%	+17.4	+96.4%
EBITDA	**106.1**	**20.3%**	**137.2**	**18.7%**	**+31.1**	**+29.3%**
Amort, depr. and prov.	(27.3)	-4.3%	(41.7)	-5.7%	-14.4	+52.5%
EBIT	**78.8**	**15.1%**	**95.5**	**13.1%**	**+16.7**	**+21.2%**
Portion of profit (loss) of associated companies	0.1	0.0%	0.2	0.0%	+0.1	+92.8%
Financial charges/income	(11.2)	-2.1%	(13.1)	-1.8%	-1.9	+17.3%
Pre-tax profit	**67.7**	**12.9%**	**82.6**	**11.3%**	**+14.9**	**+22.0%**

Approximately 60% of the increase in **Revenues**, from Euro 523.7 million to Euro 731.9 million, is correlated to the integration of the Modena area, while the remaining part is essentially due to the rise in prices/volumes of energy commodities.

It must also be noted that the tariff adjustments in the water and waste management sectors relate to the agreements undersigned with the Area Agencies between late 2004 and early 2005. Said agreements allow the Group to have a degree of certainty with regard to future tariffs trends.

As anticipated, in order to provide a clearer view of the economic results achieved, a pro-forma first quarter schedule with the figures of the Modena companies is provided below.

Income Statement (€/m)	**Pro-forma 31-Mar-05**	**% Inc.**	**31-Mar-06**	**% Inc.**	**Chng.**	**% Chng.**
Revenues	635.8		731.9		+96.2	+15.1%
Change in finished prod.s and work in prog.	4,4	0.7%	1.3	0.2%	-3.1	-69.5%
Other operating revenues	7.7	1.2%	8.5	1.2%	+0.8	+10.7%
Raw materials and supplies	(333.7)	-52.5%	(419.0)	-57.2%	-85.3	+25.6%
Service costs	(105.8)	-16.6%	(121.3)	-16.6%	-15.5	+14.7%
Other operating costs	(27.7)	-4.4%	(28.3)	-3.9%	-0.5	+1.9%
Personnel costs	(70.6)	-11.1%	(71.4)	-9.8%	-0.9	+1.2%
Capitalised costs	19.0	3.0%	35.4	4.8%	+16.5	+86.9%
EBITDA	**129.1**	**20.3%**	**137.2**	**18.7%**	**+8.2**	**+6.3%**
Amort, depr. and prov.	(35.0)	-5.5%	(41.7)	-5.7%	-6.7	+19.2%
EBIT	**94.1**	**14.8%**	**95.5**	**13.1%**	**+1.5**	**+1.5%**
Portion of profit (loss) of ass. companies	0.1	0.0%	0.2	0.0%	+0.1	+92.8%
Financial charges/income	(11.3)	-1.8%	(13.1)	-1.8%	-1.8	+16.4%
Pre-tax profit	**82.9**	**13.0%**	**82.6**	**11.3%**	**-0.3**	**-0.4%**

The increase in like-for-like **Revenues**, from Euro 635.8 million to Euro 731.9 million, is essentially due to the trends in gas prices on the international markets, the impact of which accounted for approximately Euro 80 million. Revenues from the Electricity business have fallen in relation to the lower volumes treated, while the other business areas record growth in revenues consistent with forecasts.

The rise in **Costs of raw materials and supplies**, equal to Euro 85.3 million (+25.6%) is completely attributable to the increase in the costs associated with the energy materials mentioned.

The rise in other operating costs, **Service costs** for Euro 15.5 million and **Other operating expenses** for Euro 0.5 million, is attributable to the increase in capitalised assets, equal to

Euro 16.5 million, confirming the recovery of efficiency guaranteed by the Group from its foundation to the present day.

Like-for-like **Personnel costs** also feature a modest increase, rising from Euro 70.6 million to Euro 71.4 million, +1.2%, with an incidence on revenues of less than 10%, posting an improvement of more than one percentage point between the first three months of 2005 and the same period of this year.

The increase in the item **Capitalised costs**, which rises from Euro 19.0 million to Euro 35.4 million, is chiefly linked to the delay in the launch of works which occurred in the first quarter 2005 and was caused by preparation of the area plans associated with stipulation of the agreements with the ATOs and to the inclusion of Modena in the Group's organisational area.

Comparing the first three months of 2006 with the same period of 2005 inclusive of the Modena area, Group consolidated **EBITDA** has increased by 6.3%, rising from Euro 129.1 to 137.2 million. This result has been achieved largely on account of the decidedly positive performance of the Waste Management and Water Cycle areas, and despite the downturn in the results of the Gas area activities, due to the lower margins permitted by the market.

The percentage EBITDA margin dropped from 20.3% to 18.7% as a result of the increase in energy commodities. Net of this effect, on a like-for-like basis, the EBITDA/revenue ratio would have improved by approximately one percentage point.

Amortisation, depreciation and provisions increased in absolute terms by Euro 6.7 million (+19.2%) confirming the substantial growth witnessed at the end of 2005. This increase is correlated to the sizeable investment plan implemented on both the distribution network, specifically the aqueduct network, with consequent tariff increases, and on the Group's plant equipment, in support of future economic growth.

Hence the first three months of 2006 close with **EBIT** of Euro 95.5 million up by 1.5% compared to the same period of last year inclusive of the result of the Modena area. Said result is significant in light of the increased amortisation and depreciation described above and has been possible thanks to the measures to achieve rationalisation and improved efficiency implemented by the Group which, it must be remembered, is still only enjoying marginal benefits from the synergies linked to integration of the Modena companies.

The increase in **Financial charges**, which rose from Euro 11.3 to 13.1 million, is rather modest despite the increase in indebtedness observed in the first quarter 2006, compared to the same period of the previous year, caused by the operating investments mentioned and, to the extent of almost one third, by the public purchase offer on the capital of Meta Spa implemented at the end of 2005.
The period closed with a pre-tax profit equal to Euro 82.6 million, essentially in line with the figure recorded in the same period of the previous year.

2.2 Investments of the Hera Group

The Group's tangible and intangible investments, inclusive of the increase in leased assets accounted for by applying the IAS standards, amount to Euro 58.5 million, as against the Euro 56.1 million of the previous year, posting a 4.3% increase. In 2005 both the investments of the Modena area and the leasing contracts reclassified according to the IAS/IFRS standards were considered.

Investments made during the reference period are broken down below by business area.

Total Investments

(€/millions)	31-Mar-05	31-Mar-06
Gas area	3.8	5.4
Electricity area	1.9	1.8
Integrated water cycle area	11.2	20.1
Waste management area	23.9	16.8
Other services	3.6	4.5
Central structures	11.7	9.9
Total	**56.1**	**58.5**

The Gas service investments within the area served mainly refer to extensions, reclamation and upgrading of networks and plants. The investments made by the company Medea concern the second section of the work for the methane conversion of Sassari.

Gas

(€/millions)	31-Mar-05	31-Mar-06
Territory	3.7	4.9
Medea	0.1	0.5
Total Gas	**3.8**	**5.4**

The Electricity service investments chiefly refer to extension of the service and to the extraordinary maintenance of the plants located within the Imola area (Euro 0.7 million) and the Modena area (Euro 1.0 million). The item CCGT includes the groundwork for the construction of the Imola co-generation plant.

Electricity		
(€/millions)	31-Mar-05	31-Mar-06
Territory	1.8	1.7
CCGT	0.1	0.1
Total Electricity	**1.9**	**1.8**

The investments within the Integrated Water Cycle chiefly refer to extensions, reclamation and upgrading of plant. The increase compared to the previous year is due to the fact that a greater number of interventions were scheduled and arranged with the pertinent ATOs. The increases were mainly attributable to interventions to reduce aqueduct leakage, to adjust plant to comply with prevailing purification sector regulations and extraordinary maintenance of the sewerage network.

Integrated Water Cycle		
(€/millions)	31-Mar-05	31-Mar-06
Aqueduct system	8.6	11.3
Purification system	1.0	4.0
Sewerage system	1.6	4.8
Total Water Cycle	**11.2**	**20.1**

In the Waste Management sector the increase in the investments for construction of the new waste-to-energy lines with particular reference to Canal Bianco (Ferrara) and Modena is worthy of note.

Waste Management		
(€/millions)	31-Mar-05	31-Mar-06
Territory	2.0	2.1
Investee companies	16.9	1.1
FEA	2.7	0.3
WTE Canal Bianco	0.7	8.1
WTE Modena	1.4	2.8
Other WTE	0.2	2.4
Total Waste Management	**23.9**	**16.8**

District heating service investments mainly concerned work to extend the service in the Bologna (Euro 1.5 million), Ferrara (Euro 0.6 million) and Imola (Euro 0.6 million) areas. In the public lighting field, investments concerned the installation of new lighting units and the extraordinary maintenance of the existing ones

Other Services

(€/millions)	31-Mar-05	31-Mar-06
DH	1.0	2.8
Public lighting	0.3	0.7
Other	2.3	1.0
Total Other Services	**3.6**	**4.5**

Once again during 2006 the considerable commitment continued towards making the corporate IT system fully operational, with particular reference to the SAP-ISU system and the related interfacing with SAP-R3. Worthy of note is the reduction in the other structure investments which chiefly refer to the renewal of vehicles and containers.

Structures

(€/millions)	31-Mar-05	31-Mar-06
Buildings	1.3	1.5
IT systems	5.2	5.7
Other investments	5.2	2.7
Total	**11.7**	**9.9**

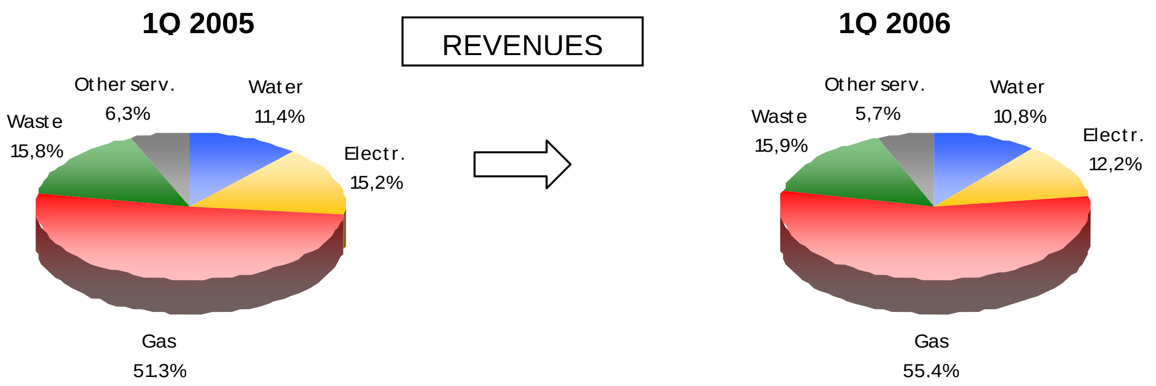
2.3 Analysis by Business Area

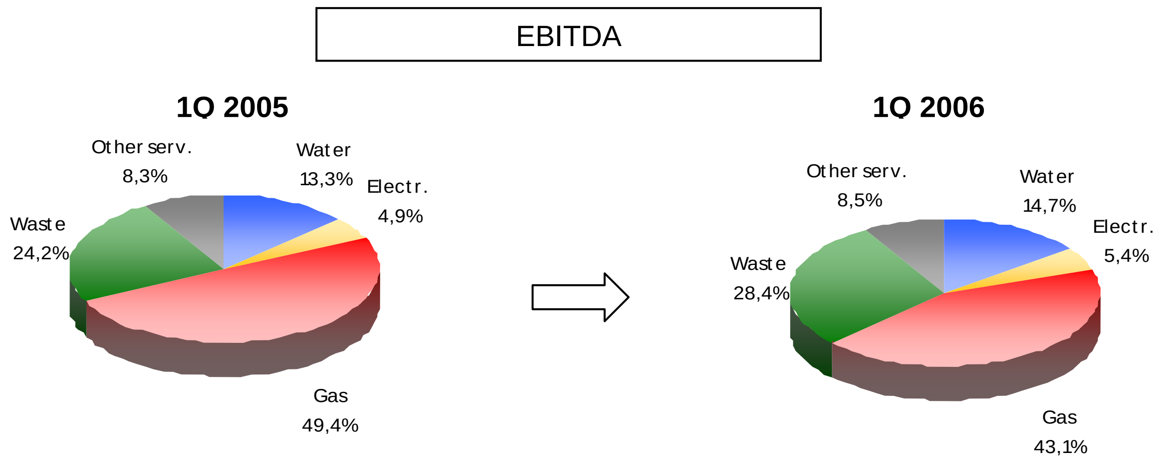
An analysis is presented below of the operating results achieved in the business areas in which the Group operates: (i) sector concerned with the distribution and sale of methane gas and LPG; (ii) sector concerned with the distribution and sale of Electricity, (iii) Integrated Water Cycle sector (Aqueducts, Purification and Sewerage), (iv) Waste Management sector (waste collection and treatment) and other activities (District Heating, Public Lighting, Heat Management and other minor services).

The business areas have basically not changed 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.

In order to provide more detailed information on the first quarter 2006 results, an analysis is shown of the business areas in which the Group operates. The composition and the evolution between same 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, including inter-divisional transactions valued at current market prices and, for 2005, include the figures relating to the integrated Modena area for comparative purposes.

It should also be noted that the analysis by business area includes the increases in work performed by the company/work in progress and, therefore, the related costs. This item, as provided by the IAS standards, is indicated by way of cost adjustment as capitalised costs in the individual tables.

2.3.1 *Analysis of the Gas Business*

As already witnessed at the end of the previous year, in the first three months of 2006 the importance of the Gas business has once again decreased compared to the same period of the previous year, in line with forecasts, by more than 6 percentage points in favour of the other areas of the Group's business.
This trend has confirmed the validity of the Hera multi-business model which makes it possible to offset any contrasting trends in the individual areas.

The table below illustrates the importance of this business area in relation to total Group activities:

(€/m)	Pro-forma 31-Mar-05	31-Mar-06	Change	% change
EBITDA	**63.7**	**59.1**	**-4.6**	**-7.2%**
Group EBITDA	129.1	137.2	+8.2	+6.4%
Percentage	*49.4%*	*43.1%*	*-6.3 p.*	

The results achieved in the Gas business in the first quarter 2006 fully tally with the trend already apparent in 2005, particularly in terms of the cost of raw materials, which derives from the high oil prices. This has created strong tension on prices and a considerable increase in the unit price which, in turn, has accentuated the commercial aggressiveness of rival companies, with particular regard for the business customers and in the major metropolitan areas, with consequent loss of margin.

The table below provides a summary of the economic results:

Income Statement (€/m)	Pro-forma 31-Mar-05	% Increase	31-Mar-06	% Increase	Change	% Change
Revenues	345.0		425.6		+80.7	+23.4%
Operating costs	(270.9)	-78.5%	(357.9)	-84.1%	-87.0	+32.1%
Personnel costs	(13.2)	-3.8%	(13.6)	-3.2%	-0.3	+2.5%
Capitalised costs	2.9	0.8%	5.0	1.2%	+2.1	+70.7%
EBITDA	**63.7**	**18.5%**	**59.1**	**13.9%**	**-4.6**	**-7.2%**

Revenues in the Gas sector increased by 23.4%, rising from Euro 345.0 million to Euro 425.6 million, chiefly in relation to rise in the cost of raw materials, transferred onto the sale price.

Distribution tariffs are in line with the same period of the previous year when the Italian Authority for Electricity and Gas had just introduced, with Resolution 170, a substantial reduction in unit tariffs. During the first quarter 2006 tariffs averaged 4.6 €/cent per cubic metre. The cost of the raw material varied by 34% in the same period.

The table below shows trends in the main quantitative factors contributing to determination of the results of the distribution and sales activities. The climatic trend in the period proved to be in line with the same period of the previous year with distributed volumes varying by less than 1%.

Quantitative Data	**Pro-forma 31-Mar-05**	**31-Mar-06**	**Change**	**% Change**
Volumes distributed (m^3/m)	1.069.7	1.059.8	-9.9	-0.9%
Volumes sold (m^3/m)	1.136.7	1.151.0	+14.3	+1.3%
- of which trading volumes	*84.1*	*91.0*	*+6.8*	*+8.1%*

With regard to the commercial competition mentioned above which has had a direct impact on the sales margin, Gas sector EBITDA has decreased by Euro 4.2 million, dropping from Euro 54.7 million to Euro 50.4 million. It must also be noted that the first quarter 2005 had benefited, to the extent of approximately Euro 2 million, from positive effects in raw material procurement.

2.3.2 Analysis of the Electricity Business

The Electricity Business, which in terms of Group profitability represented a marginal share, has seen its percentage importance increase considerably thanks to Modena integration.

It must also be remembered that an agreement for the acquisition of the former Enel network of the Province of Modena has been signed and this will lead to a further increase in the importance of this sector for the Group.

(€/m)	Pro-forma 31-Mar-05	31-Mar-06	Change	% Change
EBITDA	**6.3**	**7.4**	**+1.1**	**+17.2%**
Group EBITDA	129.1	137.2	+8.2	+6.4%
Percentage	*4.9%*	*5.4%*	*+0.5 p.*	

In the first quarter 2006 the Electricity area was also affected by the increase in the cost of raw materials, as already mentioned in relation to gas, which in this case was in the region of 10%. It also experienced a substantial decrease in volumes to non-captive customers of the Modena area.

The table below summarises the economic impact of these effects:

Income Statement (€/m)	Pro-forma 31-Mar-05	% Increase	31-Mar-06	% Increase	Change	% Change
Revenues	102.4		94.1		-8.4	-8.2%
Operating costs	(94.6)	-92.3%	(86.2)	-91.6%	+8.4	-8.9%
Personnel costs	(2.3)	-2.3%	(2.1)	-2.3%	+0.2	-8.7%
Capitalised costs	0.8	0.8%	1.7	1.8%	+0.9	+112.4%
EBITDA	**6.3**	**6.2%**	**7.4**	**7.9%**	**+1.1**	**+17.2%**

A breakdown of volumes by customer type highlights a fall in the activities performed for the free market which, although substantial, did not affect the area's overall margins thanks to the good results delivered by the procurement activities:

(€/m)	Pro-forma 31-Mar-05	% Increase	31-Mar-06	% Incr.	Chng.	% Chng.
Revenues from captive customers/distr.n	21,5	21,0%	23,3	24,7%	+1,8	+8,2%
Revenues from eligible customers	79,5	77.6%	69,0	73,4%	-10,4	-13,1%
Other	1.5	1.5%	1.8	1.9%	+0.3	+17,1%
Total revenues	***102.4***	***100.0%***	***94.1***	***100.0%***	***-8.4***	***-8.2%***

The table below summarises the area's quantitative data and highlights the aforesaid reduction in volumes sold to eligible customers:

Quantitative Data	Pro-forma 31-Mar-05	31-Mar-06	Change	% Change
Volumes sold(Gw/h)	**911.8**	**716.0**	**-195.8**	**-21.5%**
Captive customers	185.9	182.3	-3.6	-1.9%
Eligible customers	725.9	533.7	-192.2	-26.5%

EBITDA has not been affected by the drop in volumes and thanks to the synergies emerging from expansion of the area which, as we remember, was managed by two separate companies in 2005, has increased by 17%, rising from Euro 6.3 million to Euro 7.4 million.

2.3.3 *Analysis of the Integrated Water Cycle Business*

With 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 up 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.

Conventions have been set up with all the afore-mentioned Agencies, regulating the Integrated Water Service and guaranteeing the Group not only the extension of the concessions on average until 2022, but also the certainty of the tariff development until the end of 2007 and the guarantee of achieving the anticipated return on investment, in accordance with the provisions of the so-called Galli law, when fully up and running as from 2008.

Also in relation to the above, the Integrated Water Cycle area has delivered improved results and a growth trend in terms of percentage importance, as shown in the table below:

(€/m)	Pro-forma 31-Mar-05	31-Mar-06	Change	% Change
EBITDA	**17.1**	**20.1**	**+3.0**	**+17.4%**
Group EBITDA	129.1	137.2	+8.2	+6.4%
Percentage	*13.3%*	*14.7%*	*+1.4 p.*	

Compared to the same period of 2005, the first quarter 2006 delivers a performance which, consistent with forecasts, shows an increase in revenues linked to the tariff framework approved by the ATOs and to an increase in costs chiefly associated with the increase in capitalised costs and to the greater charge linked to the costs for electricity in relation to the increase in the unit price.

The table below provides a breakdown of the results of the Integrated Water Cycle management.

Income Statement (€/m)	Pro-forma 31-Mar-05	% Increase	31-Mar-06	% Increase	Change	% Change
Revenues	76.6		82.6		+6.1	+7.9%
Operating costs	(51.9)	-67.7%	(63.5)	-76.9%	-11.7	+22.5%
Personnel costs	(18.2)	-23.7%	(19.1)	-23.1%	-1.0	+5.2%
Capitalised costs	10.6	13.8%	20.1	24.3%	+9.5	+90.4%
EBITDA	**17.1**	**22.4%**	**20.1**	**24.3%**	**+3.0**	**+17.4%**

Attention is drawn to the increase in capitalised costs which is related to the delay in the launch of Water Cycle works in 2005, which were held back in order to allow full definition of the Area Plans, constituting an essential component of the agreements signed with this sector's ATOs.

In the first three months of 2006 sales of Euro 82.6 million were achieved, up by 7.9% on the same period of 2005, due to the tariff increases linked to the afore-mentioned agreements with the ATOs and, to a lesser extent, to greater revenues for works.

The area's main quantitative data, shown in the table below, does not indicate any variances between the two periods under review:

Quantitative Data	Pro-forma 31-Mar-05	31-Mar-06	Change	% Change
Volumes sold (m^3/m)				
aqueduct	52.6	52.7	0.0	+0.0%
sewerage	45.5	45.6	0.1	+0.2%
purification	46.9	47.0	0.1	+0.3%

As at 31 March 2006, EBITDA has increased by Euro 3.0 million, rising from the Euro 17.1 million of the previous year to Euro 20.1 million, thanks to the recovery of efficiency achieved and to the afore-mentioned increase in tariff revenues.

2.3.4 Analysis of the Waste Management Business

Partly thanks to the contribution of the Modena area, in the first months of 2006 the Waste Management business continues to be the sector with highest growth rates in terms of margin, so much so that its percentage importance has increased by over 4% compared to the previous year:

(€/m)	Pro-forma 31-Mar-05	31-Mar-06	Change	% Change
EBITDA	**31.2**	**38.9**	**+7.8**	**+24.9%**
Group EBITDA	129.1	137.2	+8.2	+6.4%
Percentage	*24.2%*	*28.4%*	*+4.2 p.*	

The Hera Group proves to be 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. This sector has also seen conclusion of the agreements in accordance with the regulatory provisions in force.

The table below provides a breakdown of the operating results achieved in the Waste Management area activities:

Income Statement (€/m)	Pro-forma 31-Mar-05	% Increase	31-Mar-06	% Incr.	Change	% Change
Revenues	106.2		122.4		+16.3	+15.3%
Operating costs	(47.1)	-44.4%	(55.3)	-45.2%	-8.1	+17.2%
Personnel costs	(28.6)	-26.9%	(29.8)	-24.4%	-1.3	+4.5%
Capitalised costs	0.7	0.7%	1.6	1.3%	+0.9	+126.2%
EBITDA	**31.2**	**29.4%**	**38.9**	**31.8%**	**+7.8**	**+24.9%**

The first quarter 2006 figures have felt the positive effects of the start of full capacity operations in some plants, specifically the Bologna waste-to energy plant and the Ravenna Centro Ecologico plants, which in the same period of last year were not in full use.

The revenues figure at the end of March features a 15.3% increase, rising from the Euro 106.2 million of 2005 to the Euro 122.4 million of 2006.

One third of the increase in sales is linked to the greater revenues from waste management services and the remainder to greater volumes treated and to energy yielded by the Group plants. The quantity of waste treated by the Group plants increased by 15% reaching a total of almost 900 thousand tonnes.

In the first three months of the year EBITDA increased by almost 25% rising from Euro 31.2 to 38.9 million. It is worth noting that in percentage terms the margin increased by over two points rising from the 29.4% of the first quarter 2005 to the 31.8% of the same period of 2006.

2.3.5 Analysis of the Other Services Business

The activities of rationalisation and reorganisation of the Other Services area which continued in 2005 have led to the gradual disposal of almost all the services which are not linked to the Group's core business.

Despite this the percentage weight of the Other Services area on the total Group EBITDA is in line with the previous year:

(€/m)	Pro-forma 31-Mar-05	31-Mar-06	Change	% Change
EBITDA		**11.7**	**+1.0**	**+9.2%**
Group EBITDA	129.1	137.2	+8.2	+6.4%
Percentage	*8.3%*	*8.5%*	*+0.2 p.*	

The Other Services area which specifically includes the Public Lighting and District Heating services, has posted very positive results in the first quarter 2006, as shown in the table below:

Income Statement (€/m)	Pro-forma 31-Mar-05	% Increase	31-Mar-06	% Incr.	Chng.	% Chng.
Revenues	42.2		44.0		+1.8	+4.2%
Operating costs	(27.2)	-64.5%	(28.8)	-65.4%	-1.6	+5.7%
Personnel costs	(7.4)	-17.4%	(6.8)	-15.4%	+0.6	-7.8%
Capitalised costs	3.1	7.3%	3.2	7.4%	+0.2	+6.0%
EBITDA	**10.7**	**25.3%**	**11.7**	**26.5%**	**+1.0**	**+9.2%**

Revenues have increased, despite the above-mentioned disposals, rising from the Euro 42.2 to 44 million and this increase chiefly relates to the rise in district heating revenues which are obviously linked to trends in raw materials for energy.

The success of this area's reorganisation activities has allowed the Group to achieve efficiency levels which have brought these services to a margin in percentage terms of 26.5% in line with Group forecasts.

2.4 Analysis of the Net Financial Position of the Hera Group

In order to illustrate the 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 less significant:

(€/m)	31-Dec-05	% Incr.	31-Mar-06	% Incr.	% Change
Net financial position					
medium/long-term	523.7	53.8%	1.011.9	108.3%	93.2%
short-term	450.3	46.2%	(77.5)	-8.3%	-117.2%
Total NFP	**974.0**	**100.0%**	**934.4**	**100.0%**	**-4.1%**

In absolute terms the Group's Net Financial Position has decreased, as at 31 March 2006 compared to figures reported as at 31 December 2005, by Euro 39.6 million (-4.1%), despite the investments effected in the period (Euro 58.5 million). This result has been achieved thanks to the expected improved efficiency of the new SAP system, which has brought improvement to both the billing processes and credit management.

In order to further improve the long-term debt position and in view of the sizeable investment plan scheduled in the 2005-2008 industrial plan (approximately Euro 1.4 billion), on 16 February 2006 a fixed-rate Eurobond with bullet maturity on 16 February 2016, was issued for an amount of Euro 500 million – in the face of a demand of over Euro 2.2 billion – with annual coupon equal to 4.125%. The transaction was organised with the assistance of Banca IMI, Citigroup and JPMorgan.

As is apparent, with the issue of the Eurobond, the Group has cleared its short-term debt, fully consolidating its financial position in long-term, fixed-rate debt at a more advantageous cost.

In order to be able to guarantee all the financial committees of the next 12 months, the Group has obtained an irrevocable 36-month revolving credit facility, of Euro 100 million. A further similar facility for the same amount will be formally stipulated in the second half 2006.

As far as short-term debt is concerned, the Group has obtained several credit lines – at present undrawn – for over one billion Euro, at 20 bps over Euribor as everage.

The above has allowed Hera to (i) improve the quality of its debt, by converting it entirely into long-term, fixed-rate debt, (ii) reduce the cost of money and (iii) have an extremely solid financial structure.

The reliability of the Group's economic and equity structure has been endorsed by Standard & Poor's confirmation of the A+ rating on the long term and by the Moody's assignment of the A1 rating. It must be noted that the Hera Group is the only Italian multi-utility to be assigned this level of reliability by such two important rating agencies.

2.5 Human Resources

At 31 March 2006 employees of the Hera Group total 5,908 (consolidated companies), with the following division by category: Executives (99), Managers (252), White-collar (2,494), Blue-collar (3,063). This figure was brought about by the following movements: recruitments (59), exits (55).

	31-Dec-05	31-Mar-06	Change
Executives	93	99	6
Managers	245	252	7
White-collar	2,458	2,494	36
Blue-collar	3,108	3,063	-45
Total	**5,904**	**5,908**	**4**

A breakdown of the movements is provided below:

	30-Mar-06
Headcount at year end 2005	**5,904**
Inflows	59
Outflows	-55
Net flows	**4**
Headcount at period end	**5,908**

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

3 – HERA GROUP FINANCIAL STATEMENTS

3.01 Reclassified Consolidated Income Statement

	31/03/2006 €/000	31/03/2005** €/000 (adjusted) *	31/12/2005** €/000
Revenues	731,933	523,669	1,730,723
Change in inventories of finished products and work in progress	1,339	4,389	2,465
Other operating income	8,540	5,130	34,771
Use of raw materials and consumables (net of change in inventories of raw materials and stock)	-419,011	-270,567	-809,571
Service costs	-121,337	-91,659	-440,135
Personnel costs	-71,447	-58,917	-227,639
Amortisation, depreciation and provisions	-41,673	-27,322	-142,652
Other operating costs	-28,251	-23,958	-108,038
Capitalised costs	35,449	18,052	138,463
EBIT	**95,542**	**78,817**	**178,387**
Adjustments to technical fixed assets			15,518
Quota of profit (loss) pertaining to associated companies	187	97	-444
Financial income	6,865	1,901	34,359
Financial charges	-20,003	-13,104	-74,102
Pre-tax profit	**82,591**	**67,711**	**153,718**

** not pro-formed with Meta Group
* values adjusted and reclassified according to IFRS

3.02 Consolidated Net Financial Position

	31/03/2006	31/12/2005
Non-current securities and other financial receivables	62.7	53.4
Bank payables – long-term	(1.036.8)	(521.4)
Sums due to other financial institutions (leasing IAS 17)	(36.2)	(39.9)
Financial derivatives	(1.6)	(15.8)
Medium/long-term debt	**(1.011.9)**	**(523.7)**
Other financial receivables/payables	(1.2)	(1.2)
Bank payables – short-term	(262.5)	(636.8)
Cash in banks and on hand	344.3	189.1
Sums due to other financial institutions (leasing IAS 17)	(10.8)	(9.8)
Current financial assets	7.7	8.4
Net short-term debt	**77.5**	**(450.3)**
Total net debt	**(934.4)**	**(974.0)**

3.03 Content and form of the accounting schedules

The Consolidated Quarterly Report of the Hera Group as at 31 March 2006, which has not been submitted to audit, has been drawn up in compliance with the provisions of Article 82 of the "Regulations containing the provisions for implementation of Legislative Decree no. 58 of 24 February 1998 concerning issuers" (CONSOB Resolution no. 11971 of 14 May 1999 and subsequent amendments), as amended by CONSOB Resolution no. 14990 of 14 April 2005. Pursuant to the aforesaid Article 82, the Quarterly Report has been prepared by applying the IFRS international accounting standards in compliance with the specifications contained in Annex 3D of said Regulations. Hence this quarterly report has not been drawn up in accordance with the provisions of the accounting principle concerning interim financial reporting (IAS 34 "Interim Financial Statements"). The figures of the comparative period have also been determined according to the IFRS. The appendix contains the reconciliation provided by IFRS 1 accompanied by explanatory notes on the criteria used.

When comparing the balances of the income statements as at 31 March 2005 and 31 March 2006, it is necessary to remember that the former do not include the contribution of the Meta group, as the merger by incorporation of the Meta Group into Hera S.p.A. was only determined on 31 December 2005. Hence the economic effects on the Hera Group's consolidation are included, in compliance with IFRS 3, as from 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 balance-sheet items have been valued on the basis of the general concepts of prudence and accrual, considering the business to be a going-concern. Transactions have been recorded in the accounts giving priority to substance over form.

In drawing up the consolidated income statements schedules the accounting schedules as at 31 March 2006 of the individual companies, duly reclassified and adjusted in order to achieve uniformity with the accounting standards and valuation criteria of the Parent Company, have been used.

In drawing up the consolidated income statement schedules the income and charges pertaining to companies included in consolidation have been recorded on a line-by-line basis. Income and charges and profits and losses arising from transactions implemented between companies included in consolidation have instead been eliminated.

Dividends from subsidiaries, in which the Parent Company has majority control over the Shareholders' Meeting, are recorded in the year in which they accrue, provided that the draft financial statements of the Parent Company are approved by its Board of Directors after the approval of the draft financial statements of the subsidiary companies. Consolidation of the subsidiary companies leads to elimination of the dividends recorded on an accruals basis.

The accounting principles applied to the Group are illustrated below.

Tangible assets – Tangible assets are recorded at acquisition or production cost including accessory costs, or at the value based on expert appraisals of the business assets, net of the related accumulated depreciation and any losses in value. The production cost includes the portion of the direct and indirect costs reasonably attributable to the asset (such as: transport, customs duty, costs for the preparation of the installation location, final test & inspection costs, notary fees, land registry expenses). Cost includes any professional fees and, for certain assets, financial charges capitalised 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 at the date of changeover to the IFRS – 1 January 2004 – the Group adopted the criteria of fair value as a replacement for cost (fair value as deemed cost) for the tangible fixed assets, applying it selectively to certain categories of assets; the additional value which emerged was credited directly to the reserves.The adoption of the fair value occurred on the basis of an appraisal carried out by an independent expert which made it possible, amongst other things, to identify the individual plant and machinery components of a significant amount and with a different useful life, in accordance with the approach for components envisaged by IAS 16.

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

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

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

District heating and gas services	Min %	Max %
Land	0	0
1st stage pressure reducer stations - Abstraction		
- Buildings	2.50	5.50
- General plant	7.50	15.00
- Specific plant	4.00	10.00
2nd stage pressure reducer stations - district – Specific plant-user 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	

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

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

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

Equipment	5.00	10.00
Furniture	6.00	12.00

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

General equipment	5.00	10.00
Snow service equipment	5.00	10.00
Sanitary equipment	5.00	10.00
Light construction	5.00	10.00
Automobiles	12.50	25.00
Controlled landfills		

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

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 at the date of acquisition, or, if lower, at the current value of the minimum payments due for the leasing; they are depreciated on the basis of their estimated useful life on a consistent basis with the assets owned. The corresponding liability vis-à-vis the lessor is recorded in the balance sheet. The payments for lease instalments are divided up into principal and interest and the financial charges are booked directly to the income statement for the year. All the other leases are considered to be operating leases and the related costs for the lease instalments are recorded on the basis of the conditions anticipated in the agreement.

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

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

The advertising expenses are charged directly to the income statement.

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

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

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

Business combinations - IFRS 3 is applicable to the business combinations which have come about as from 31 March 2004. The Company has applied this policy for the acquisitions of the Agea Group and the Meta Group.

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

The goodwill deriving from the acquisition is recorded as an asset and initially valued at cost, represented by the surplus of the acquisition cost with respect to the Group share in the current values of the identifiable assets, liabilities and potential liabilities recorded. If, after the re-determination of these values, the Group share in the current 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 faculty envisaged by the IRFS, the Group has not retroactively applied IFRS 3 to the business combination transactions which took place before the date of changeover to the IAS/IFRS Standards; these transactions have been recorded at the same values determined on the basis of the previous accounting policies.

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 at 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 at each balance sheet date, the Group takes into consideration the book value of the tangible and intangible fixed assets in order to assess whether there is any indication that said assets have suffered a reduction in value. If there is any indication in this sense, the recoverable amount of said assets is estimated so as to determine the extent of the writedown. Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the unit generating the financial flows to which said assets belong. Future cash flows are discounted back to a discount rate (net of taxation) which reflects the current valuation of the market and takes into account the risks associated with the specific business activities.

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

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

- **Investments in associated companies –** An associated company is a company over which the Group is able to exercise significant influence, (but not control, or joint control), by means of participation in the decisions on the financial and operating policies of the investee company. Investments in associated companies are carried at equity, except in the cases where they are classified as “held for sale”, or when they are of a negligible 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, as adjusted for the changes subsequent to acquisition in the net assets of the associated companies, net of any losses in value of the individual investments. The additional value of the acquisition cost with respect to the percentage due the Group of the current value of the identifiable assets, liabilities and potential liabilities of the associated company as at the acquisition date is recognised as goodwill. The goodwill is included in the book value of the investment and subject to an impairment test.

- **Other equity investments and securities** – The other equity investments and securities belong to the category provided by IAS 39 “financial assets available for sale”. They comprise instruments representative of shareholders’ equity and are stated at fair value. When the market price or the fair value cannot be determined, they are valued at cost adjusted to reflect permanent losses in value, whose effect is booked to the income statement.

  If the reasons for the writedown cease to exist, the investments carried at cost are revalued within the limits of the writedowns made and the effect is booked to the income statement. The risk deriving from any losses exceeding the book value of the investment is recorded in a specific reserve to the extent that the holder is obliged to fulfil legal or implicit obligations vis-à-vis the investee company or in any event cover its losses.

Financial assets which the Company intends or is able to maintain until maturity, are stated at cost represented by the fair value of the initial payment made in exchange, increased by the transaction costs. Following initial registration, the financial assets are valued on an amortised cost basis using the effective interest rate method.

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

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

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

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

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

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

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

Trade receivables – Trade receivables are recorded at face value, reduced by an appropriate writedown in order to reflect the estimate of the losses on receivables.

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

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

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

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

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

Trade payables – These concern commercial supply transactions.

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

Derivative financial instruments – The Group holds derivative instruments for the purpose of hedging its exposure to the risk of interest rate fluctuations and the risk of changes in methane gas and electricity prices. Consistent with the chosen strategy, the Group does not enter into derivative transactions for speculative purposes.

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

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

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

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

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

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

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

In particular:

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

- revenues from services rendered are recognised on the basis of services provided and in compliance with the relevant contracts,

- revenues from the sale of goods are recognised at the time the Group transfers the significant risks and benefits associated with ownership of the assets to the purchaser,

- costs are stated in accordance with the accruals principle.

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

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

3 05 Company Lists

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

(in Euro) Name	Registered office	Share capital	Percentage ownership		Total	Total interest
			Direct	Indirect		
Parent Company:						
Hera S.p.A.	Bologna	1,016,752,029				
Subsidiaries:						
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	Castel Maggiore (BO)	1,820,000	51.00%		51.00%	51.00%
BIO ENERGY S.r.l.	Modena	100,000	100.00%		100.00%	100.00%
Cales S.r.l.	Imola (BO)	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	3,316,427	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 %
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 Gas Tre S.p.A.	Bologna	120,000	100.00%		100.00%	100.00%
Hera Energia 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 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	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 %
Meta Energy s.r.l.	Modena	13,795,000	100.00%		100.00%	100.00%
Meta Service 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.	Cassana (FE)	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)	579600		59.00 %	59.00 %	59.00 %
Sotris S.p.A.	Ravenna	2,340,000	70.00 %		70.00 %	70.00 %
TS Distribuzione gas s.r.l.	Monghidoro (BO)	100,000	100.00%		100.00%	100.00
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%

The main changes in the consolidation area compared to the situation as at 31 December 2005 are stated below.

As at 31 March 2006, Hera Modena S.r.L., which was consolidated by the equity method as at 31 December 2005, has been consolidated by the line-by-line method since it became operative with effect from 1 January 2006 (the share capital was increased to Euro 1,000,000).

Likewise, the company Ambiente 3000, valued by the equity method as at 31 December 2005 and the company Hera Servizi Funerari s.r.l. have been consolidated on a line-by-line basis since they became operative as from 1 January 2006.

The main changes in the interests held in the following companies are also stated:

- Hera Luce srl; on 16 January 2006 the Group acquired a further equity investment of 18% from the shareholder Gemmo Impianti. The total stake currently held is equal to 87.30%.
- Recupera Srl, with effect from 1 January 2006 the share capital increase underwritten by Hera Spa gave rise to an 18.45% increase in the equity investment. The total stake currently held is equal to 93.96%.

List of Companies Consolidated by the Equity Method

Name	Registered office	Share capital	Percentage ownership		Total	Total interest
			Direct	Indirect		
Adriatica Acque S.r.l.	Rimini (Rn)	89,033		22.32 %	22.32 %	22.32 %
Agea One S.r.l.	Cassana (Fe)	2,300,000	100.00 %		100.00 %	100.00 %
Acantho S.p.A.	Imola (BO)	15,875,781	50.58%		50.58%	50.58%
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	26.87 %		26.87 %	26.87 %
Attivabologna S.r.l.	Bologna	2,558,600		96.40%	96.40%	96.40%
Dyna Green Srl	Milan	30,000		33.00 %	33.00 %	33.00 %
Estense global service	Ferrara	10,000	23.00 %		23.00 %	23.00 %
Gasgas Srl	Ferrara	10,000		100.00 %	100.00 %	100.00 %
Meta rete Gas	Modena	99,000	100.00 %		100.00 %	100.00 %
Modena Network Spa	Modena	2,000,000	30.00%		30.00%	30.00%
Oikothen s.c.ar.l.	Siracusa	1,101,730		46.10%	46.10 %	46.10%
4 Italy Energy & Environment Spa	Modena	50,000	50.00%		50.00%	50.00%
Refry Srl	Reggio Emilia	2,800,00	20.00%		20.00%	20.00%
Set Spa	Milan	120,000	39.00%		39.00%	39.00%
Service Imola S.r.l.	Borgo Tossignano (BO)	10,000	40.00 %		40.00 %	40.00 %
SGR Servizi SpA.	Rimini	5,264,000		20.00%	20.00 %	20.00 %
Sinergie Ambientali S.r.l.	Bologna	100,000	50.00 %		50.00 %	50.00 %
Tecnometano Srl	Comacchio (FE)	10,400	100%		100%	100%
Yele S.p.A.	Vallo della Lucania (SA)	103,400	35.00 %		35.00 %	35.00 %

The following changes, compared to the situation as at 31 December 2005, are stated:

1. Ambiente 3000 s.r.l and Hera Modena, currently consolidated on a line-by-line basis, as noted above.
2. Agea One s.r.l., consolidated by the equity method as at 31 March 2006 (as at 31 December 2005 it was consolidated by the line-by-line method) insofar as it is a company in liquidation of which the operating activity has essentially ceased.

3.06 Appendix: Changeover to the international accounting standards (IFRS)

Introduction

The Hera Group has adopted the international accounting standards, the International Financial Reporting Standards, as from the 2005 accounting period, with date of changeover to the IFRS as at 1 January 2004. The last consolidated financial statements drawn up in accordance with Italian accounting principles refer to the accounting period ended 31 December 2004.

As required by IFRS 1 and by Article 81 of the Issuers' Regulation No. 11971/1999 adopted by CONSOB by means of Resolution No. 14990 dated 14 April 2005, this Appendix contains the statement of reconciliation between the balances reported previously in accordance with the Italian accounting principles and those reclassified in pursuance of the IFRS, accompanied by the related notes commenting on the adjustments.

This statement has been drawn up solely for the purposes of the changeover project for the drawing up of the first complete IFRS-compliant consolidated financial statements and does not include the comparative figures and the necessary explanatory notes which would have been required for the complete view of the equity-financial standing and consolidated economic result of the Hera Group in compliance with the IFRS standards.

Shareholders are also informed that the statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) currently in force, inclusive of the IFRS recently adopted by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC). These standards are those which it is assumed will be in force as at 31 December 2006. However, these standards may not coincide with those in force as at 31 December 2006 as a result of both the new stances of the European Commission regarding their approval, and the issue of new standards or interpretations by the competent authorities and, therefore, the figures presented could undergo changes for the purposes of their use as comparative data of the first complete IFRS-compliant consolidated financial statements.

The most significant accounting standards and policies used for the preparation of the statement of reconciliation are those described in these explanatory notes.

For the adoption of the international accounting standards, the Group has applied the provisions of IFRS 1 – First-time adoption of the International Financial Reporting Standards, availing itself of the following exemptions:

- Business combinations: the Group has not applied IFRS 3 retrospectively to the business combination transactions which took place before the date of changeover to the IFRS;
- Valuation of real estate property, plant and machinery at revalued cost as the replacement of the cost for certain categories of assets chosen selectively;

- Employee benefits: the Group has decided to record all the cumulative actuarial gains and losses existing as at January 1, 2004, despite having chosen to use the corridor method for the subsequent actuarial gains and losses;
- Classification and valuation of the financial instruments: IFRS 1 makes it possible to apply IAS 39 as from the financial statements for the periods starting as at 1 January 2005. The Group has therefore decided to avail of these exemptions, applying IAS 39 for the valuation and recording of derivative instruments.

IAS/IFRS Consolidated Income Statement as at 31 March 2005

The Income Statement of the first quarter 2005 is provided below and features:

- the values determined according to the Italian accounting standards reclassified according to the IAS/IFRS principles;
- the adjustments for compliance with the IAS/IFRS standards.

Figures are expressed in millions of euro.

INCOME STATEMENT AS AT 31 MARCH 2005

	Note	IAS reclassified Italian accounting principles	IAS/IFRS Adjustments	IAS/IFRS
Operating assets				
Revenues		524		524
Change in inventories of finished products and work in progress		4		4
Other operating income		5		5
Use of raw materials and consumables (net of changes in inventories of raw materials and stock)		-270		-270
Service costs	1	-91	-1	-92
Personnel costs	2	-60	1	-59
Amortisation, depreciation and provisions	3	-38	10	-28
Other operating costs		-24		-24
Capitalised costs		18		18
EBIT		68	10	78
Quota of profit (loss) pertaining to associated companies		0		0
Financial income		2		2
Financial charges	4	-10	-2	-12
Pre-tax profit		60	8	68

COMMENTARY ON THE MAIN IAS ADJUSTMENTS MADE TO THE BALANCE SHEET ITEMS AS AT 30 SEPTEMBER 2004

1) **Costs for services (**+ Euro 0.5 million) – the adjustment mainly concerns the recording in the income statement of capitalised costs under the item "intangible fixed assets" during 2004 in relation to which the application of the IFRS provides for direct booking to the income statement.

2) **Personnel costs** (- Euro 1 million) – the adjustments concern the different accounting approach (financial-actuarial) of the benefits due to the employees (leaving indemnities, supplementary in-house welfare and gas discount).

3) **Amortisation, depreciation and provisions.**

The main adjustments are summarised in the table below:

millions of Euro	
Amortisation of goodwill	(3.6)
Amortisation of intangible assets	(1.9)
Depreciation of tangible assets (IAS 16, IAS 37)	0.5
Total	(5)

The aforesaid adjustments reflect:

- a decrease, of Euro 3.6 million, attributable to the reversal of the amortisation of goodwill;
- a decrease, of Euro 1.9 million, attributable to the reversal of the amortisation of intangible fixed assets no longer envisaged by the IAS/IFRS;
- an increase, of Euro 0.5 million, as a result of the definition, for certain categories of tangible fixed assets, of the fair value as a replacement for cost and of the consequent definition (and recalculation) of the significant components for the asset categories concerned, as a result of the reversal of the depreciation on the assets written down as per IAS 36 and as a result of the amortisation of reclamation costs for the site on which the tangible fixed assets exist since it complies with the provisions of IAS 37.

The adjustments to the item "provisions" totalling Euro 5.1 million concerns the reversal of the provisions to the landfill post-closure provisions amounting to Euro 1.5 million and to the provision for the restoration of third party assets totalling Euro 5.5 million, as well as the recording of the provision to the discounted back provision for the restoration of third party assets amounting to Euro 1.9 million.

4) **Financial charges** (+ Euro 2.2 million) – the adjustment mainly comprises:

- Euro 0.5 million as a result of the discounting back of the landfill post-closure provisions;
- Euro 0.4 million as a result of the discounting back of the employee benefits;

- Euro 0.6 million as a result of the discounting back of the provision for the recovery of third party assets.
- Euro 0.7 million as a result of the application of IAS 39

Reclassification of the income statement items

The main reclassifications made to the income statement of March 2005, as already included in the column "IAS reclassified Italian accounting principles", are described below.

Income Statement

<u>Extraordinary income and charges</u>

The international accounting standards expressly forbid separate recording of the item extraordinary income/expense in the income statement. Hence said items have been reclassified under current items.