05

half year report

GRUPPO HERA

SUMMARY

THE HERA GROUP

Mission

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.

Fulfil the “Hera system”, creating synergies, optimising the available resources to achieve a better price /quality and ensuring further margins of growth and development.

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

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.

1.2 Corporate officers

Board of Directors	
Office	**Name**
Chairman	Tomaso Tommasi di Vignano
Managing Director	Maurizio Chiarini
Director	Filippo Brandolini
Director	Luigi Castagna
Director	Pier Luigi Celli
Director	Piero Collina
Director	Piergiuseppe Dolcini
Director	Vander Maranini
Director	Nicodemo Montanari
Director	Fabio Alberto Roversi Monaco
Director	Roberto Sacchetti
Director	Luciano Sita
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

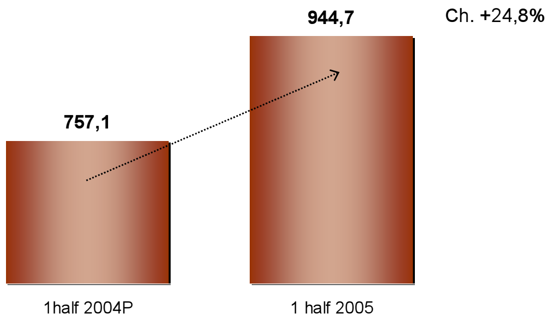
Committee for internal control	
Office	**Name**
Member	Ermanno Vichi
Member	Stefano Zolea
Member	Vander Maranini

Comitato per la remunerazione	
Office	**Name**
Member	Pier Luigi Celli
Member	Piero Collina
Member	Nicodemo Montanari

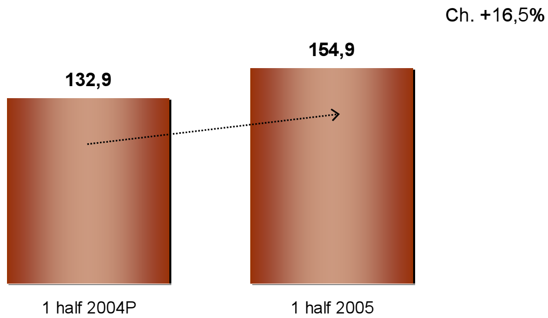
Independent audit firm
Deloitte & Touche SpA

1.3
Summary results

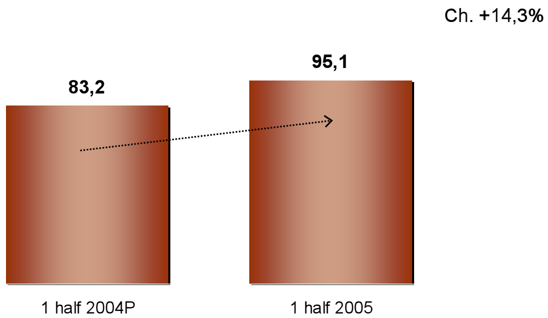
Value of Production
mln euro



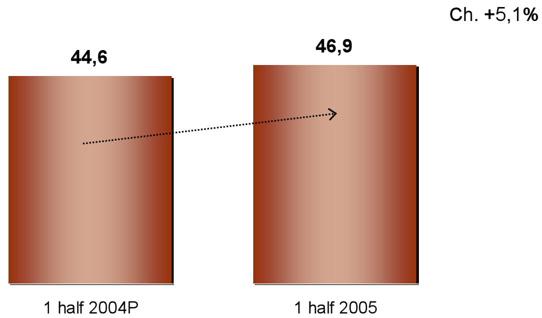
Ebitda
mln euro



Ebit
mln euro



Net Profit
mln euro



1.4 Sector overview

In the first six months of the year the national energy scenario was strongly conditioned, on the one hand, by international events that sustained the increasing trend of petroleum prices and, on the other, by the resumption of the changes in the ownership structure of the utilities.
The progressive concentration of the Italian market, a process still in evolution as evidenced by the recent public tender offer on the Spanish group Endesa by Natural Gas, confirmed the tendency of the operators in the sector to search for larger dimensions as has occurred at European and international levels.
The operators promote concentrations in the sector to meet the increasing competition in the market of the final customer, in particular in the natural gas market, to react to the stringent tariff regulatory activities undertaken by the Authority (that has reduced the tariff component relating to the remuneration of the energy transport activity) and to have available important financial resources necessary to assume positions not purely defensive in the decisive phases of the energy chain (generation in the electricity market and procurement, and the construction of new infrastructures, in the gas market).
In this scenario there was a return to dialogue and agreements between local and regional utilities whose growth, excluding the large European energy groups,

today represents the only credible alternative to a consolidation in key oligopoly national energy market.
At the top end of the energy chain there were a series of structural initiatives, such as the consultation on the mechanism of assignment to the market of the generation capacity of the incumbents ("Virtual Power Plant") and the creation of independent operators in the management of the transport networks (reduction of the ENI group in the share capital of Snam Rete Gas and the merger of Terna –GRTN) that will permit the independent operators (among those, the local utilities) to look at market developments with renewed confidence.
The real configuration of the markets, however, is today still impacted by the structural problems that impact upon the mechanisms for the formation of the prices. Despite the progressive increase in high efficiency new generation capacity (CCGT), the market prices remain higher than European averages. The mechanism of the Italian electricity market is still not apparently capable of pegging the prices from the continual increase in the petroleum prices; the relative containment of the tariffs practised to the final customers was obtained in part through the strategies of an advanced provisioning by the Single Purchaser and in part with extraordinary measures (components of securitised costs). In the first half of the year the electricity demand also confirmed the increasing trend in

the medium term period, without the peaks of the previous years. At the end of June this was fixed at 54.1 GW (higher by over 0.5 GW compared to the previous year, at December 31, 2004), the new record for the peak power required by the network.
Price tension also remains on the gas market due to an increase in demand (in the first half equal to 44.7 billion cubic metres, an increase of 5% on the corresponding period of 2004), principally driven by the request of fuel for electricity generation (from 13.4 to 15.6 million cubic metres, +16.5% on the previous period) and the continuing structural weakness of the importation systems. The demand of capacity to the interconnections remains, in fact, above the offer due to the non realisation of numerous projects.

While awaiting the acclaimed objectives of greater liberalisation of the markets of the generation of electricity and of the procurement of natural gas on the international markets, the local utility sector confronts the competitive scenario with different strategies. Hera is confirmed leader in the search for procurement sources at competitive costs through commercial agreements with international shippers (gas) and the acquisition of combined cycle Greenfield quotas (electricity); the objective is to cover the needs of the clients served through a balanced mix of own capacity and market procurement.

Also the local services sector (waste management and water) report a recovery in M&A activity. With the expansion in neighbouring territories there is a consolidation of large regional players in the water sector (Hera, Amga Genova and Acea) and there is an incursion of large international groups (Veolia at Latina); however, the failure of the bidding procedures for the management of the regions (Sicily and Calabria) underlines the continual scarce capacity to attract private capital. The tariffs in the integrated water cycle in Italy remain at a distance from the European averages; the highest Italian tariffs are equal to 65% of those applied in the large urban centres in Spain and 35% of those applied in Germany; in 2004 the highest Italian tariffs were in fact lower by 10-20% of the global average calculated on OCSE countries and non OCSE countries. On the other hand the consumption increases; this has occurred in the waste management cleaning sector which reports a constant increase in the quantities of waste collected and treated against only an adjustment for inflation of the charges.
In the presence of a substantial static tariff scenario, the good results obtained by the best companies in the sector (typically municipality groupings and quoted) are dependent on the capacity of the most dynamic players to generate efficiencies through economies of scale and organisation and to define future tariff increases with the Authorities in application of the national laws in force.

Hera, although confirming its fundaments “mission” of local public service company and deep rooted in the regional territory, continues the strategy to aggregate industrial businesses that share the objectives and strategies. The merger with Meta is the latest of these aggregations that will result in the creation of the first Italian multi-utility company by size, turnover and employees; the new business will consolidate the levels of excellence of Hera into the local services sectors (waste management and water cycle) and will consent the new Group to compete with increasing resources and expertise also on the liberalised energy markets.

1.5
History

The Hera Group was created in 2002 from the first and most important consolidation operation carried out, anticipating the modernisation and industrialisation processes in the Utility sector in Italy.

The Group continued to excel in the sector due to the consolidation activities with the merger of the multi-utility of Riccione (Geat), of Ferrara (Agea) and with the acquisition of the Ravenna Ecologic Centre.

In only two years, the "Hera" aggregation model, has permitted one of the most important growths in profitability in the sector (among the 55 major listed companies on the Italian stock exchange) thanks to the creation of synergies and is today a reference point in the consolidation process of the sector.

The Shareholders' Meeting of September 23, 2005, approved the merger with the neighbouring multi-utility company of Modena (Meta SpA) that will see the Hera Group cover 70% of the Emilia-Romagna area strengthening its leadership in the local utilities market in all of its main sectors of activity.

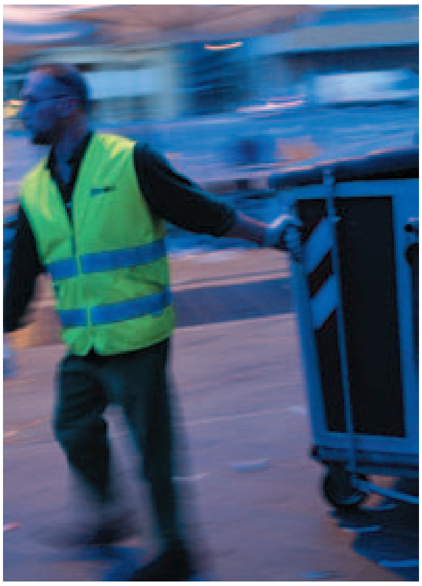
1.6
Description of the business

The Hera Group operates in the provision of public utility services in over 150 municipalities in the Emilia – Romagna region within the provinces of Bologna, Rimini, Ravenna, Forlì – Cesena and Ferrara, a region with a GDP and per capita consumption amongst the highest in Europe and where the quality and level of local public services have always represented a typical trait of economic and social development.

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

The complementary nature of the businesses favours growth in turnover (based on the market opportunities pursued with "multi-service" commercial proposals), the realisation of cost synergies and the reaching of higher levels of efficiency.

1.6.1 Solid urban waste business



The Hera Group covers a primary role in the Italian scenario of the activities relating to the management of solid urban waste.

Hera manages the service in 5 ATO's (corresponding to the 5 Provinces in which the Group operates in the Emilia-Romagna region), based on concessions to 2012, covering a territory of approximately 7,500 km squared with approximately 1.9 million inhabitants and manages the collection and treatment of approximately 1.3 million tonnes of solid urban waste.

The Group is the owner of one of the most important plant compositions in Italy that consists of 12 plants specifically dedicated and another 24 with shared usage (urban-industrial wastes), that include selection plants, chemical-physical and inert treatment, in addition to landfills and waste-to-energy plants. This equipment permits a treatment of the waste with a low environmental impact (in 2004 over 60% of the waste managed underwent treatment and recovery activities significantly above the average of the national operators) in line with the sustainability objectives.

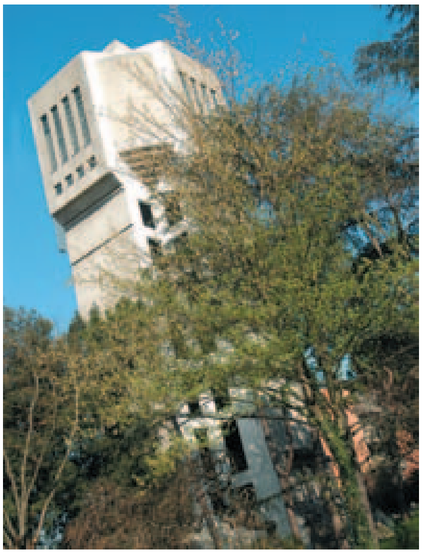
In addition, Hera is among the leading Italian operators in the use of heat from waste with waste-to-energy plants ("WTE") with 5 WTE plants that have a total treatment capacity of approximately 500,000 tonnes annually and an electricity generation capacity of 57 MW.

1.6.2 Special waste business

The offer of these waste treatment services in Italy is not able to meet the internal demand, due to national infrastructural problems that oblige Italian producers to dispose of waste abroad - sustaining considerable transport costs.

In this context, the Hera Group is among the leading 4 operators in Italy in the sector of treatment and disposal of harmful and non-harmful special waste with a capacity of 2.2 million tonnes per year concentrated in the territory in which it operates (where it holds 40% of the market) through the most important level of plant at a national level with 22 specifically dedicated plants and 24 shared usage plants (both special and urban waste) and which was recently strengthened with the acquisition of the Ravenna Ecologic Centre in 2004.

1.6.3 Integrated Water Cycle



The Hera Group is one of the five leading Italian operators that includes abstraction, adduction, distribution, sewerage and purification services ("integrated water cycle")

Hera operates the service on the basis of concessions that on average expire in 2022 in 5 ATO's (corresponding to the 5 Provinces in which the Group operates in the Emilia-Romagna area), that includes over 150 municipalities, providing approximately 200 million cubic metres of drinking water for civil and industrial use.

The Group has a complete and efficient water system of almost 21,000 km, on a surface area of 9,000 km squared serving approximately 2 million inhabitants that increases 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 extends over 6,600 km and over 350 purification plants.

1.6.4 Energy: Methane Gas and Electricity

In the sale and distribution of the Gas business, the Hera Group is among the principal Italian operators (with over 1,850 million square metres per year sold and approx. 800,000 clients served) while in the sale and distribution of electricity business, it operates with a limited presence (with annual sales of approximately 2 Twh/year).

The sale of these energy products is an activity in an advanced stage of liberalisation while that of distribution is still managed under a monopoly regime based on long-term concessions (expiry 2011 for those relating to methane gas and 2030 for those relating to electricity).

In response to the greater competitive pressure in the sale of energy products, the Hera Group has developed a Dual Fuel strategy and strengthened the customer care activities for the "Domestic" clientele with positive results with regard to the further penetration of that market.

The Hera Group, that currently has a reduced electricity generation capacity (prevalently obtained with industrial partnerships in which Hera has acquired a minority holding), has agreed long-term contracts with national and international 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 Borsa Elettrica Italiana.

1.6.5 Other Businesses: District Heating and Public Lighting

Thanks to the rationalisation of the activities of the companies within the Hera Group, the "other complementary businesses" were reorganised and provided with an integrated management. In this context, of particular importance were the District Heating activities, in which Hera has a primary role in Italy, and those relating to Public Lighting in which Hera is the second operator in the domestic market.

The Group provided over 430 GWt/h in 2004 and managed over 249,000 light points within the area in which it operates.

1.7 Strategy

The Hera Group was created with the objective of achieving greater levels of efficiency and growth from potential cost and market synergies obtained with the integration of several companies into one single group.

The Group strategy focuses on the search for opportunities in the creation of value both "internally" and "externally" and in continual evolution in line with the following principles:

1. Growth of the core businesses, through greater commercial penetration in the liberalised sectors with:

a. the continuation of the consolidation process (through the process of full mergers) of multi-utility companies operating in neighbouring regions and with a similar business profile;
b. the consolidation and plant integration in the electricity generation of the treatment of urban and special waste and in the sale of gas;

2. Increase the economic-financial efficiency, exploiting the synergies and the economies of scale of the Group in terms of cross-selling, reduction of costs and improvement in operational efficiency through the sharing of "internal" best practices;

3. Rationalisation the portfolio of investments and development of some high potential growth businesses such as District Heating and Public Lighting;

4. Guaranteed Sustainability, through the cost optimisation of all of the businesses whilst continuing to respect the social and environment expectations of all stakeholders.

1.7.1 Strategy for the consolidation of the sector

In the Italian multi-utility sector the reaching of optimal dimension is a critical factor of success realisable through a process of consolidation between companies in the sector. The Hera Group was founded with this objective of the shareholder Municipalities that conferred the “local” multi-utility companies to create a synergic group of large dimension.

The Hera Group continued this expansion strategy realising further mergers of similar companies (Geat Spa, Agea SpA and the acquisition of 29% of Aspes, multi-utility operator in the Marche region neighbouring the region served by Hera) to expand the synergy potentials of the Group on an even larger scale.

The consolidation strategy of Hera was implemented aggregating companies present in neighbouring territories with the reference market, active in similar and complementary businesses (thus benefiting from advantages of know-how sharing and reaching optimal dimension in all of the main businesses), and permitting a 100% integration that allowed for a complete reorganisation of the activities facilitating the process of realising the synergies and economies of scale.

The expansion policy pursued resulted in the Group reaching positions of primary standing in all of the main sectors of activity and assume a role of leadership in the process of consolidation of the sector in Italy. The “open” organisational model will permit Hera to realise further merger operations such as the integration with Meta of Modena approved recently by the Shareholders’ Meeting, which will see the Group covering 70% of the market in the Emilia-Romagna region.

1.7.2 Merger by integration of Meta SpA

On September 23, 2005, just 9 months from the beginning of the negotiations, the extraordinary Shareholders' Meeting ratified the merger with Meta of Modena.

The merger by integration, the first between two listed Italian utility companies, will be completed by the end of the current year after the launch of the residual Public Tender Offer on 29% of the share capital of Meta (subscription from October 31 to November 22).

Meta of Modena responses to all of the sector consolidation strategy criteria implemented by Hera: adjacent to the reference territory of the Group, operating in similar and complimentary businesses and open to a full integration in accordance with the model proposed by the Hera Group.

With this operation, Hera has estimated to realise synergies of approximately Euro 20 million in terms of increased Ebitda in the next 3 years benefiting from a significant strengthening in the market positions in all of the main areas of activity.

Within the end of the year, the Hera Group will have reached a market capitalisation of around Euro 2.5 billion (estimated on the basis of the current market values of the two companies) becoming one of the major Italian multi-utility businesses.

1.7.3 "Up stream" integration strategy

The Up stream integration strategy in the energy and waste disposal businesses response to the need to reduce energy procurement costs and strengthen the high added value areas of activity.

The Upstream integration strategy in the production of electricity has the objective of strengthening the electricity production capacity. In accordance with the objectives of an "Up steam" development the Hera Group, in 2003, acquired (through the Consortium Energia Italiana/Acea-Electrabel) a holding of 5.5% in the share capital of Tirreno Power S.p.A. (the third generation company sold by ENEL S.p.A. with an installed power above 2,600 MWh) and in 2004 purchased firstly 15% of Calenia Energia (company dedicated to the construction of a CCGT plant of 800 MW in the Sparanise area), and then 39% of SET (company dedicated to the construction of a CCGT plant of 400 MW in the Teverola area).

In completion of the strategy the Group has plans for the construction of new medium/small sized CCGT plants for a total installed capacity of 310 MW.

This Up Stream integration strategy in the production of electricity is pursued by the Group to the extent required to satisfy the demand in the region served and therefore with the exclusive objective of maintaining a relatively contained role as producer.

In the Gas area, in line with the "Upstream" integration strategy, Hera has implemented a policy of acquisition of companies operating in the distribution and sale in its territory with the purpose to increase the penetration in this market.

In the past two years, Hera purchased small/medium sized companies (ArgileGas, Tecnometano, GasGas) and acquired 20% in the share capital of the company Gas Rimini. In relation to the procurement of methane gas, Hera increased the capacity of its international shipping activity (which covers 25% of the needs of the group) being awarded, in 2004, further importation quotas of

200 million cubic meters of gas obtained from the so-called “Gas Release”.

The Up stream strategy implemented in the special waste business provides for the strengthening of the waste-to-energy capacity of the Group (up to a total of approximately 1 million tonnes) and the reaching of a WTE electricity production capacity of up to a total of 95 MW installed.

These objectives are pursued through an investment plan that will expand the existing waste-to-energy plants in the area served. These projects will permit an increase in the sale of electricity at subsidised tariffs (CIP6 and green certificates) and to reduce further the quota of non valuable urban waste that today is directly transferred to landfills.

This strategy resulted in the acquisition of the Ravenna Ecologic Centre in 2004, which expanded the special waste treatment capacity of the Group with a waste-to-energy plant having a disposal capacity of approximately 30,000 tonnes per year and other treatment plants for mud, water and gases.

The first construction in relation to this plan was the new waste-to-energy plant at Bologna, that entered into service in October 2004; this plant has a treatment capacity of approximately 180,000 tonnes/year, with a recovery of electrical equal to approximately 150 GWh/year sold to GRTN at CIP6 tariffs.

1.7.4 Efficiency strategy

The Hera Group was created with the objective to increase the efficiency in the management of public utility services both through the reduction of costs (economies of scale and sharing the Best Practices matured within the Group) and the search for a greater penetration in the markets through activities of cross-selling of the services to clients already served by the Group.

The search for greater penetration of the markets served also arises from a response to the greater competitive pressure in the sale of energy products. The Hera Group has developed a Dual Fuel strategy for the Business clientele (joint methane gas and electricity offer), and has strengthened the customer care activities for the “Domestic” clientele. These strategies were implemented with success, despite the competition from the major national competitors, resulting in an expansion of the client base and greater penetration within the market in which the group operates.

1.7.5 Corporate Social Responsibility (“CSR”)

The commitment of the Group on the corporate social responsibility, already a priority in the companies that merged into Hera, is present both in the strategic planning and in the daily operations.

In Hera the sustainability is intended as an evolution of the business model towards a path of equilibrated growth and with specific attention to the environmental problems, with regard to both the impact of the activities and the opportunities to improve the utilisation of the various resources.

In the first half-year of 2005 further steps were taken in the direction of a continual improvement of the corporate social responsibility in Hera.

Firstly there was the creation of the Corporate Social Responsibility (CSR) function that further emphasised the primary role of the enterprise sustainability alongside that of the economic/financial objectives.

In June the third Sustainability Report was published (relating to the year 2004) presented to the stakeholders through the photographic display "Sustainable" and the photographic competition "Sustainable look" that contributed to promote the commitments of Hera for the sustainability in the region served.

The activity of involvement of the stakeholders was enriched by two important researches that involved clients and employees: the customer satisfaction research that involved 1,800 clients and that provided very satisfactory overall results; and the research on the satisfaction and on the expectations of employees that involved all of the 5,000 employees of the Group commenced in July.

The next objectives for the future are the increase of the involvement of the local resident communities close to production plants of Hera, the completion of the EMAS registration project for the improvement of the environmental performances and of the certificates ISO 14001 and OHSAS 18001 for all of the Group.

The integration project with Meta will be carried out with regard to the aspects relating to “CSR” and to the reporting on the sustainability also considering the commitment in this direction by the Modena multi-utility.

1.7.6 Industrial Plan

Since its incorporation, the Hera Group has shared with the financial market the economic/financial plans elaborated on the basis of the strategic objectives described.

The strategy has already showed a significant capacity to create value measured by the increase of over 43% in the Group operating margin (Euro +80 million of cost synergies and revenues) in only two years.

In the first year of activity, the Group expected to almost double its Ebitda in five years through the creation of revenue and cost synergies of approximately Euro 120 million (in terms of incremental Ebitda) and a further Euro 60 million thanks to the expansion of WTE plants and the realisation of new electricity generation plants.

In 2004, following the significant strategic activities and the synergies realised already in the first year of activity (that increased the Ebitda from Euro 192 million to Euro 243 million), the objectives of the industrial plan to 2007 were revised and increased to include further cost and revenue synergies of approximately Euro 50 million in terms of Ebitda and the positive effects relating to the further mergers carried out in the year (Agea and the Ravenna Ecologic Centre).

By the end of 2005, Hera will complete the elaboration of the objectives of the industrial plan to include prevalently the expected benefits from the already ratified merger with Meta, which will integrate significant increases to the economic/financial data already at the end of the current year.

1.8
Structure of the Group

Loyalty and attachment to ones region are particular character traits of the Group that, while strategic efficiencies continue internally, externally the operating activities are reorganised locally in order to create and undertake over time efficient relationships with the final customers.

This was the guideline followed by Hera since its incorporation in 2002.

A strong point in the consolidation process is the "model adopted" that provides for the initial merger of the companies incorporated into the Holding and consequent spin-off of the operating activities into the local operating companies (LOC) controlled 100% by Hera and created "ad hoc" with business profiles and similar dimensions between each company.

The LOC's, resulting from the reorganisation of the companies merged into Hera, which contain the historical memory of the Group and the technical and managerial know-how – have the task to carry out the activities in the territory, developing efficiencies and quality in the services provided and maintain the traditional "attachment" to the region. The similarly of the operating models and businesses of the LOC's permits the creation of the internal benchmarks with the aim of promoting a concrete process of improvement in the levels of efficiency through the sharing of best practices.

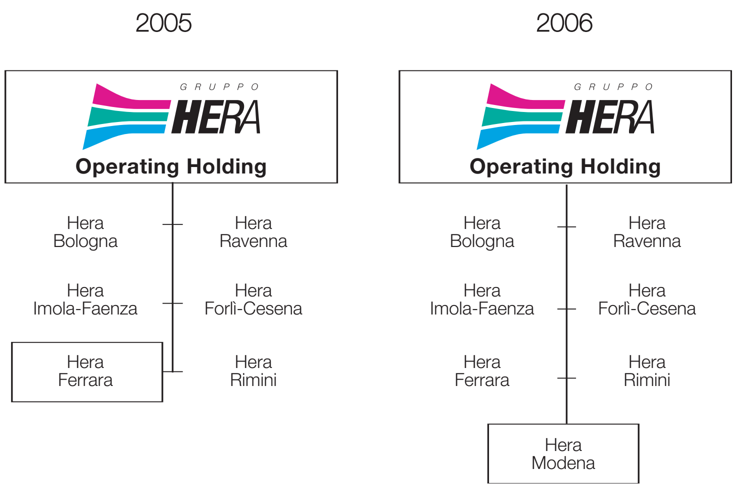
The Holding, operational and strategic centre for the whole Group, incorporates all of the operational and coordination activities, regrouped in divisions and organised by business areas, thus permitting the achievement of scale and cost synergies.

The organisational structure thus defined, has resulted in an aggregated "open" model, which permits the entry into the Group of other companies that on the one hand, have the advantage to acquire a role and functions in the governance of the company and on the other to maintain a "local" corporate operating structure capable of ensuring increasing quality in standards and efficiencies in the services (thanks to the sharing of the best practices and synergies achieved).

The success of the model described is confirmed by the group synergies achieved and the further aggregations carried out with success in a short time period.

By 2005, with the approval of the merger by integration of Meta, the sixth LOC "Hera Modena" will be created that will contain, reorganised as is practice, the activities transferred from the Modena multi-utility.

Group structure with the merger of Meta S.p.A.

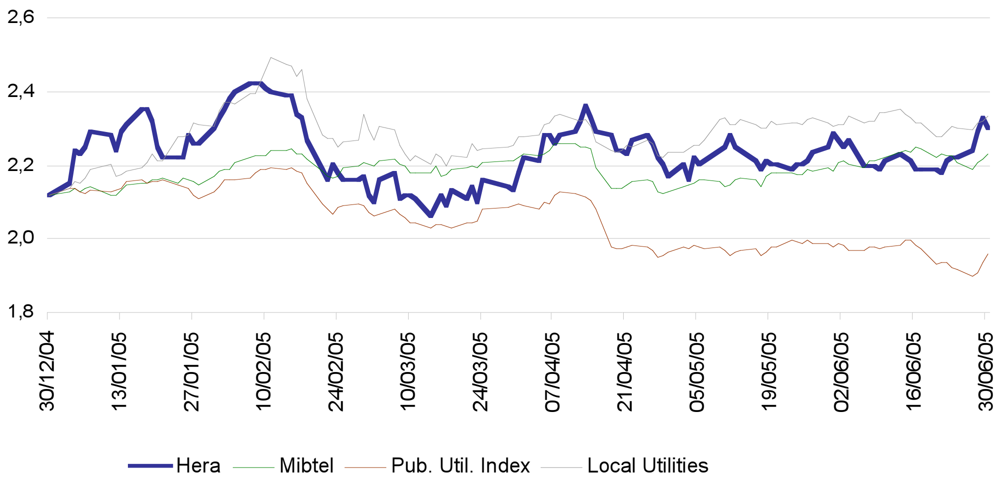


1.9
Hera on the Stock Exchange

Performance of the Hera share price

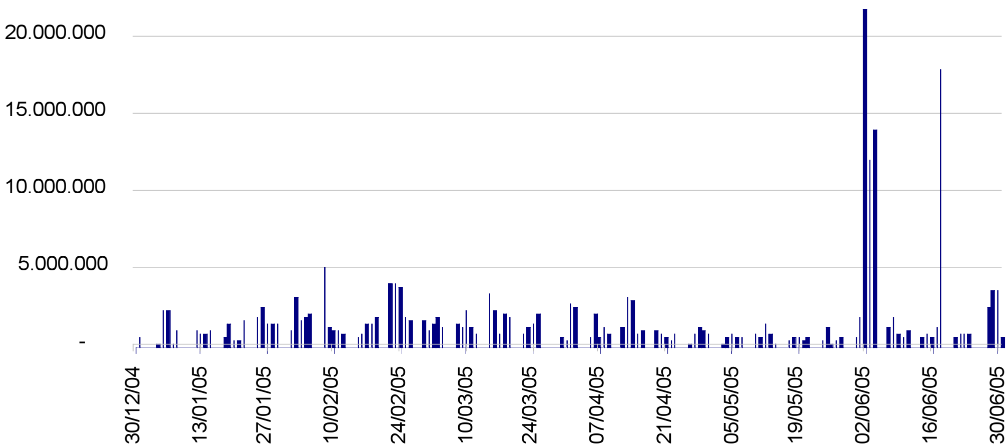
The Hera share price in the first half of the year recorded a performance of +8.5% recording an increase above the financial market performance. At June 30, 2005 the share price was Euro 2.3 per share and thereafter continued its increase thanks to the agreement on the merger reached in record time between Hera and Meta. The trend recorded by Hera in the period is above that recorded by the Italian utilities and in line with that of the Italian "local-utilities".

Performance of the Hera share price in the first half of 2005



On June 6 the annual dividends were paid as approved by the Shareholders' Meeting on April 28, 2005 (the payment date was June 9) equal to Euro 0.6 cents per share with an annual dividend yield of 2.8% (calculated compared to the average market price at December 31, 2004).

Hera volumes traded in the first half of 2005



The improvement of the results recorded in the previous year, and the continuation of the expansion through the consolidation of multi-utility companies, has attracted the attention of many investors including from overseas (European and American) that has further increased the level of liquidity in the Hera share; the average value of the daily trading increased by +73% from Euro 2.3 million in 2004 to almost Euro 4.0 million in the first half of 2005. Consequently, Borsa Italiana increased the minimum threshold of trading the share on the market in blocks to 500,000 shares compared to the previous 250,000 shares.

In line with the average increase in the volumes traded the share entered the Midex index. Currently, the Hera share price is included in the "Dow Jones Stoxx TMI" and "TMI Utilities", in addition to the ethical indices of "Axia Ethical Index" and "Kempen SNS Smaller Europe SRI Index".

Coverage of the share

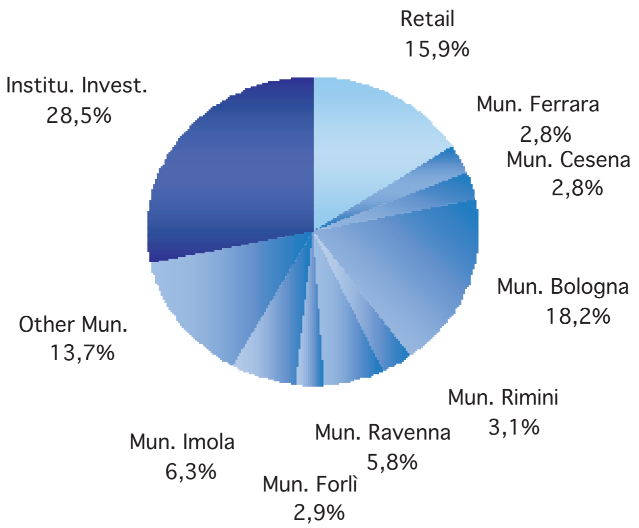
The Hera Group currently has a "coverage" amongst the widest in the sector in Italy that confirms the interest generated from the financial market.

Since the beginning of the year 15 independent analyst offices have regularly covered the Hera share (of which half international): ABN Amro, Actinvest, Akros, Axia, Caboto, Credit Agricole Indosuez, Euromobiliare, ING, Intermonte Securities, Jefferies, IMI, Kepler, Rasbank, also added to this list in 2005 is CentroSim.

Hera has been the subject of studies by independent analysts that issue their opinion on the "sustainability" of the company such as Axia that published a positive "ethical rating" (A+++).

Share structure

Hera SpA has a widespread shareholding structure with over 150 different public shareholders (municipalities from the Emilia Romagna Region), over 300 Italian and international institutional investors and over 40,000 private shareholders. The absence of a controlling shareholder in Hera (the largest shareholder is the municipality of Bologna with approximately 18%) consists of a unique characteristic of the "Local Utility" companies. The share capital of Hera is represented by 839.9 million ordinary shares.



Relations with the financial marke

The relations with the financial market operators were particularly intensified at the beginning of the year on the occasion of the Investor Day organised at Bologna and on the occasion of the publication of the annual accounts. The Hera Group in fact met over 140 Italian and overseas institutional investors prevalently during the road show (meeting in the first three weeks of April) and participated at a series of meetings that permitted meeting new exponents of the financial market. From a market research the Hera Group was reconfirmed among the first three Italian companies for the number of meetings held with the financial community.

The Investor Relations section available on the internet site of the Hera Group (www.gruppohera.it) was recently restructured improving the usefulness of the financial information with the insertion of sections dedicated to the different types of investors and enhancing the new interactive section.

2 INFORMATION ON THE OPERATIONS OF THE HERA GROUP

2.1 Corporate events and Group Structure

The first half-year of 2005 was characterised by an intense activity of corporate rationalisation of the Group structure, that already in 2004 resulted in the disposal/liquidation of 12 holdings, and the merger of 4 companies operating in the waste management sector.
More precisely, in the half-year period there were 12 disposal/liquidations, 3 acquisitions/incorporation of companies, and 1 spin-off of a company operating in the energy sector.

In relation to this, it is noted the principal **M&A operations** that took place:

SGR Servizi SpA: On May 17, 2005, the purchase was completed by the sales company of the Group, Hera Comm Srl, of 20% in the share capital of SGR Servizi S.p.A, a company operating in the sale of gas in the provinces of Rimini, Pesaro-Urbino and Macerata.

Partial spin-off of Amga Energia Srl into Sinergia Srl:
On January 1, 2005, the partial spin-off of Amga Energia Srl into Sinergia Srl was completed, a company operating in the management and servicing, ordinary and extraordinary maintenance and transformation of energy plants.

Incorporation of Hera Gas Tre SpA.:
On April 27, 2005, Hera SpA incorporated Hera Gas Tre SpA in which it holds the entire share capital, a company operating in the transport of natural gas.

Incorporation of Hera Energie Bologna Srl:
On June 30, 2005, Hera Comm Srl, a 100% of Hera SpA, incorporated Hera Energie Bologna Srl, in which it holds 67% of the share capital, a company operating in the provision of all of the activities relating to the supply to third parties, directly or indirectly, of energy services and heat management.

– It is also noted that the following disposals of equity investments took place:

Leucopetra SpA, a company operating in the provision of services relating to waste;

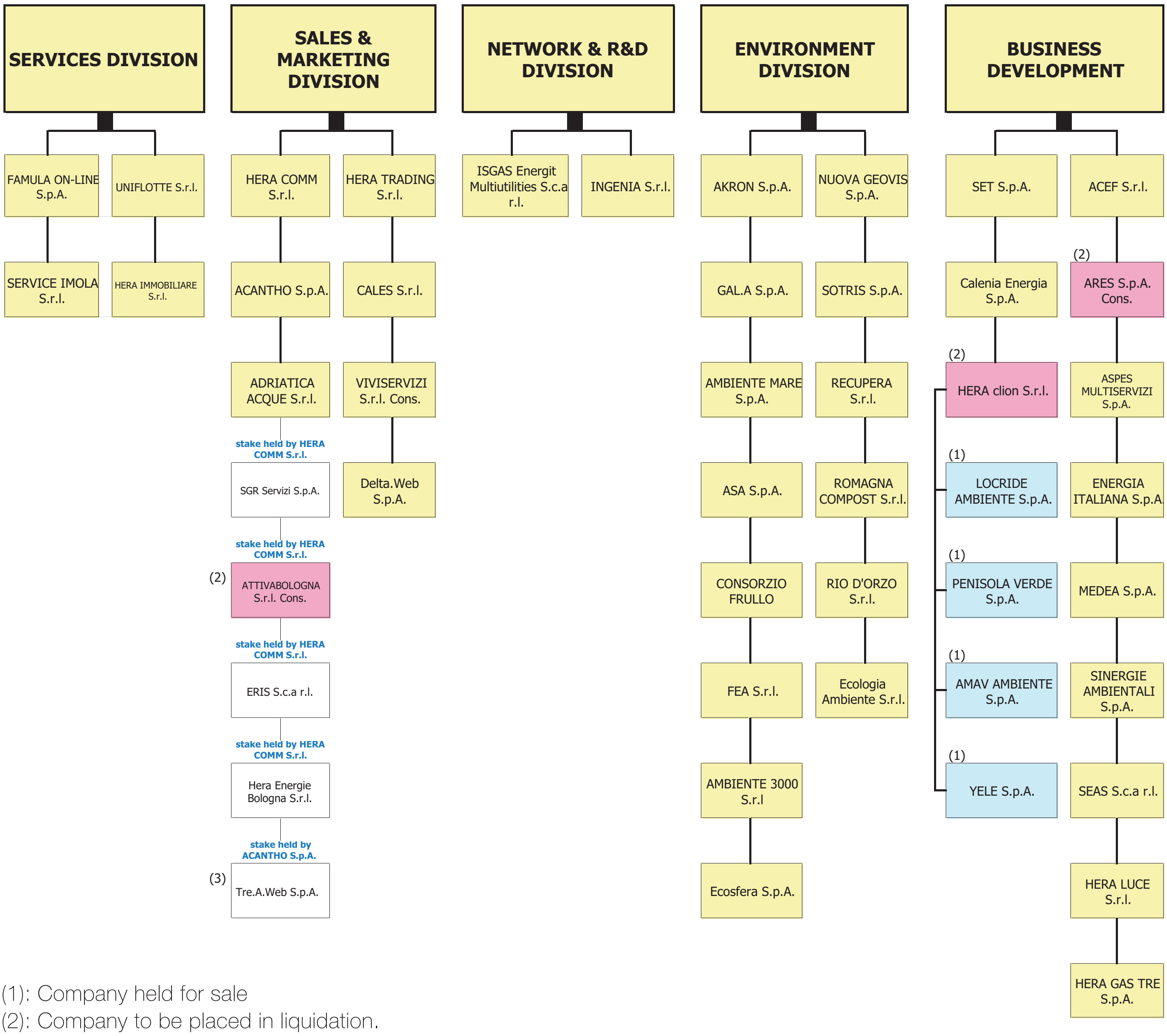
Acosea Impianti Srl, a company created from the partial spin-off of Acosea SpA, in relation to the integration project of Agea SpA and Acosea SpA into Hera, and operating in the provision of administrative and financial management of the networks, plants and other assets providing local public services.

SGS Srl, a company operating in the provision of meter reading and billing.

AGEA ONE Srl, a company acquired following the merger of Agea SpA into Hera SpA and placed in liquidation after the transfer to the sales company of the Group, Hera Comm Srl, of the business unit that commercialises the products and services on the energy market.

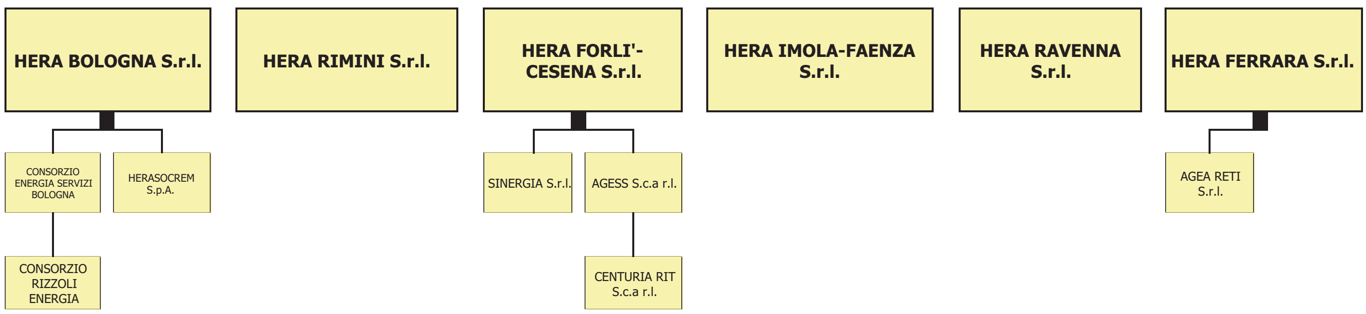
– On June 24, 2005, in addition, the **Merger by incorporation project of Meta SpA into Hera SpA** was approved. The aggregation operation between the two municipalities listed on the stock exchange will result in an increase in the share capital of Hera SpA to serve the relative share exchange – from the current Euro 839,903,881 up to a maximum of Euro 1,061,485,109 through the issue of a maximum number of 221,581,228 ordinary shares.

Hera SpA - AS AT 30 JUNE 2005



(1): Company held for sale
(2): Company to be placed in liquidation.
The disposal in the following equity investments is planned: Cispel Service S.c.a r.l., 4 Italy Srl, Energy & Environment, Consorzio Ferrara E-care, Ferrara T.U.A. - Traffico Urbano Autoparking SpA, Estense Global Service S.c.a r.l., Consorzio V.E.R.A. Energia, and Delta Web, acquired from the merger/spin-off operation of AGEA and ACOSEA into HERA SpA.
(3):Company will be merged into Acantho SpA.

Hera SpA - AS AT 30 JUNE 2005

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2.2 Performance in the first half-year of 2005 of the Hera Group

2.2.1 Results

The Hera Group ended the first half-year of 2005 with an increase in the consolidated results compared to the same period in the previous year.

Contributing to this increase was the incorporation of the companies of Ferrara at the end of 2004 that, consequently, changed the consolidation scope of the Group; in the analysis of the single accounts and by business segment the impact of this integration is reported.

The reported values below include the full application of the IAS accounting principles as required by the regulations for listed companies: the effects of this application, that was obviously also considered for 2004, is reported upon in a separate part of the document.

The value of production at June 30, 2005 increased by 24.8%, as did the Ebitda (+16.5%), and the Ebit (+14.3%): the net result reports an increase of 5.1%, as shown in the following table:

(million of euro)	1 half 2004	Inc. %	1 half 2005	Inc. %	Change %
Sales	696,2	91,9%	881,5	93,3%	26,6%
Other revenues	11,0	1,4%	14,9	1,6%	35,6%
Increase in capitalised assets	50,0	6,6%	48,3	5,1%	-3,4%
Value of Production	**757,1**	**100,0%**	**944,7**	**100,0%**	**24,8%**
Operating costs	(526,5)	-69,5%	(672,5)	-71,2%	27,7%
Personnel costs	(97,7)	-12,9%	(117,3)	-12,4%	20,1%
Ebitda	**132,9**	**17,6%**	**154,9**	**16,4%**	**16,5%**
Amm. & Depr.	(49,7)	-6,6%	(59,8)	-6,3%	20,3%
Ebit	**83,2**	**11,0%**	**95,1**	**10,1%**	**14,3%**
Interests & Adjustment to financial assets	(14,1)	-1,9%	(23,2)	-2,5%	64,7%
Pre-tax Profit	*69,1*	*9,1%*	*71,9*	*7,6%*	*4,0%*
Tax	(24,5)	-3,2%	(25,0)	-2,6%	2,0%
Net Profit	**44,6**	**5,9%**	**46,9**	**5,0%**	**5,1%**

It should also be noted that the tariff interventions in the gas and electricity distribution sector negatively impacted on the Group margins compared to the same period in the previous year, as better illustrated in the analysis by business divisions.

The value of production increased from Euro 757.1 million to Euro 944.7 million in the first half-year of 2005, an increase of 24.8%; net of the integration effect of the companies of Ferrara, not included at June 30, 2004, the increase was 13.3% or Euro 110.9 million.

For the purposes of a better comparison of the economic indicators, the pro-forma first half-year of 2004 is shown below with the results from the companies of Ferrara.

(million of euro)	1 half 2004 pro forma	Inc. %	1 half 2005	Inc. %	Change %
Sales	769,1	92,2%	881,5	93,3%	14,6%
Other revenues	12,5	1,5%	14,9	1,6%	19,3%
Increase in capitalised assets	52,3	6,3%	48,3	5,1%	-7,6%
Value of Production	**833,8**	**100,0%**	**944,7**	**100,0%**	**13,3%**
Operating costs	(576,7)	-69,2%	(672,5)	-71,2%	16,6%
Personnel costs	(110,8)	-13,3%	(117,3)	-12,4%	5,9%
Ebitda	**146,3**	**17,5%**	**154,9**	**16,4%**	**5,9%**
Amm. & Depr.	(57,2)	-6,9%	(59,8)	-6,3%	4,5%
Ebit	**89,1**	**10,7%**	**95,1**	**10,1%**	**6,7%**
Interests & Adjustment to financial assets	(15,9)	-1,9%	(23,2)	-2,5%	46,0%
Pre-tax Profit	*73,2*	*8,8%*	*71,9*	*7,6%*	*-1,8%*
Tax	(26,6)	-3,2%	(25,0)	-2,6%	-6,1%
Net Profit	**46,6**	**5,6%**	**46,9**	**5,0%**	**0,6%**

At similar consolidation scope the increase in revenues, from Euro 769.1 million to Euro 881.5 million, is in relation to, for almost 50%, the increase in petroleum prices that was transferred onto the raw materials of the energy products with an impact on the gas for approximately Euro 50 million, and on the electricity for approximately 5 million. The remaining quota of the energy area is distributed between the volumes of gas sold for approximately Euro 30 million, the negative effect of the reduction of the distribution tariffs, that resulted in an overall effect on the first half-year of approximately Euro 10 million and the "contracts for difference" on the electricity market for approximately Euro 24 million. It should also be noted the increase of revenues in the Waste Management sector of approximately Euro 28 million, thanks principally to the activities of the new WTE plant at Bologna and the newly incorporated company Ecologia Ambiente. Finally, in relation to the water cycle the revenues increased by approximately Euro 8 million due to the new conventions with the ATO's.

The increase in the operating costs, equal to Euro 95.8 million (+16.6%), is due for approximately 83% to the increase in costs related to energy materials, to the higher volumes of gas and electricity sold and to the part relating to the "contracts for difference". The residual quota is due to the increase in the costs of production for the new activities in the waste management sector, Fea and Ecologia Ambiente in particular, and the water cycle.

The Personnel Costs increased from Euro 110.8 million to Euro 117.3 million in 2005 (+5.9%) with an improvement on the Value of Production in percentage terms of almost 1% compared to the first six months of 2004. The increase in the cost of labour relates to, in addition to personnel for the new plants in the Waste Management sector the extraordinary commitment requested by the commencement of the new client IT system that resulted in the intake of new temporary personnel (an average of 70 persons in the first six months) with a higher charge on the costs for the contact with the clientele.

The consolidated Ebitda of the Group in the first half of 2005, compared with the corresponding period in 2004, increased by 5.9% from Euro 146.3 million to Euro 154.9 million. If compared with the first half of 2004 excluding the Ferrara area, the increase in the Ebitda is 16.%. This result was obtained thanks to the positive performance in the Waste Management, Water Cycle and Other Services activities. The activities related to Gas and Electricity, on the other hand, decreased due to the decrease in the tariffs applied.

The Ebitda percentage decreased from 17.5% to 16.4% principally in relation to the above-mentioned increase in the revenue volumes in the Energy area (electricity and gas) and to the reduction of the relative distribution tariffs.

The Amortisation, Depreciation and Provisions increased from Euro 57.2 million in 2004 to Euro 59.8 million in 2005 (+4.5%), but decreased in percentage terms on the Value of Production from 6.9% to 6.3%.

The first half-year of 2005 ended with an Ebit of Euro 95.1 million, an increase of 6.7% compared to the same period in the previous year, despite the above-mentioned decrease in the distribution tariffs for gas and electricity, and to a lesser extent, to the delay in the realisation of the works on behalf of clients due to the implementation of the new IT system.

The Financial Charges increased from Euro 15.9 million to Euro 23.2 million, which in 2005 included Euro 3.1 million for the payment of the differential compared to the purchase prices of the energy commodities hedged through derivative instruments of an industrial nature and non-speculative. Of the remaining Euro 20.1 million, Euro 4.9 million relates to the notional charges related to the application of the finance method on the provisions (IAS No. 19 and 37), while the remaining part includes the effect of the increased bank debt related to the increase in working capital, connected to the implementation of the new invoicing system.

In view of the above matters, the period ended with a Net Result of Euro 46.9 million, a slight increase (+0.6%) compared to the same period in the previous year. The increase is 5.1% compared to the first half of 2004 excluding the Ferrara area.

Analysis of the capital employed and source if financing

Below is shown a reclassification of the Group balance sheet at June 30, 2005 compared with the results at December 31, 2004, which illustrates the evolution of the net capital employed and the source of financing:

(million of euro)	**Dec. 31, 2004**	**Inc. %**	**1 half 2005**	**Inc. %**	**Change %**
Fixed assets	1.723,9	106,0%	1.719,8	96,1%	-0,2%
Net Working Capital	63,7	3,9%	252,3	14,1%	296,1%
(Provisions)	(161,8)	-10,0%	(182,8)	-10,2%	13,0%
Net Invested Capital	**1.625,8**	**100%**	**1.789,3**	**100%**	**10,1%**
Net Equity	1.064,2	65,5%	1.042,5	58,3%	-2,0%
Long term financial debt	498,9	30,7%	567,0	31,7%	13,7%
Short term financial debt	62,7	3,9%	179,8	10,0%	186,8%
Net Financial Position	561,6	34,5%	746,8	41,7%	33,0%
Net Invested Capital	**1.625,8**	**100,0%**	**1.789,3**	**100,0%**	**10,1%**

The net capital employed increased in the first six months of 2005 by Euro 163,5 million, from Euro 1.625,8 million to Euro 1,789.3 million. The increase as illustrated in the table above is fully due to the increase in the net working capital that reflects the stoppage in billing relating to the commencement of the new client IT system. The billing recommenced normally in all areas, and is recovering the accumulated delays: the result for the half year period therefore includes both the accumulation of client receivables and the impossibility to issue reminders for late payments.

The tangible and intangible fixed assets at June 30, 2005 amounted to Euro 1,719.8 million compared to Euro 1723,9 million at the end of 2004 despite the important level of investments in the period.

The provisions increased prevalently:

– for the provision of the quota of post mortem expenses for the landfills;

– for the provision of the quota to restore the networks and plant granted in use to the Group and owned by the companies spun-off (asset companies).

The shareholders' equity, that increased from Euro 1.064,2 million to Euro 1,042.5 million includes the payment of the dividends of the previous year and, in accordance with the new regulations, includes the net profit after the estimate of the fiscal impact.

In relation to the above-mentioned increase in working capital, the net financial position increased from Euro 561.6 million at December 31, 2004 to Euro 746.8 million at the end of June 2005.

Despite this increase the solid asset backing of the Group is confirmed by the favourable debt ratio on the total sources of financing equal to 41.7%, sustained also by the quota of net financial position covering medium/long-term debt equal to 75.9% of the total.

It is recalled that the Group has a A+ rating from Standard & Poor's, the A+ rating on the medium-term, with stable outlook.

	31-dic-04	30-giu-05
Non-current securities and other financial receivables	18,9	
Bank payables – long term	-517,7	-571,7
Lease finance payables - payable beyond one year		-35,6
Financial assets		38,5
Derivatives		1,8
Medium/long-term debt	**-498,8**	**-566,9**
Lease finance payables - payable within one year		-10,9
Other financial receivables/payables	1,4	2,2
Bank payables – short-term	-270,7	-334,0
Cash and cash equivalent	172,4	182,4
Financial instruments - derivatives		-19,6
Financial assets - not constituting fixed assets	34,5	
Net short-term debt	**-62,4**	**-179,8**
Total net debt	**-561,2**	**-746,8**

Investments of the Hera Group

The Group investments, including the increase of goods in leasing (treated applying the criteria of IAS) and of the financial investments amounted to Euro 115.1 million compared to Euro 88.5 million in the previous year.
In particular, the investments in the period are shown below by business segment.

Total Investments (millions of Euro)	June 30, 04	June 30, 05
Gas Area	7.8	10.5
Electricity area	1.3	1.4
Integrated Water Cycle Area	27.2	27.6
Waste Management Area	12.2	34.2
Other Services Area	8.7	9.5
Central structures	29.1	24.9
Total tang. & intang. asset	**86.3**	**108.1**
Financial investments	**2.2**	**7.0**
Total investments	**88.5**	**115.1**

The investments in the gas service in the area served are in line with the corresponding period in the previous year, and principally refer to extensions, reclamations and improvements of networks and plants. The increase of investments by the company Medea refers to the commencement of the second part of the methane duct at Sassari.

Gas (millions of Euro)	June 30, 04	June 30, 05
Territory	7.2	7.8
Medea	0.6	2.7
Total Gas	**7.8**	**10.5**

The investments in the Electricity service refer in part (Euro 1.3 million) to the extension to the service and to the extraordinary maintenance of the plant principally located at Imola, and in part (Euro 0.1 million) due to the completion of the planning and design of the electricity production plant at Imola.

Electricity (millions of Euro)	June 30, 04	June 30, 05
Territory	0,9	1,3
CCGT	0,4	0,1
Total electricity	**1,3**	**1,4**

The investments relating to the integrated water cycle are in line with the corresponding period of the previous year which were impacted by the delay in the commencement of the new conventions agreed with the ATO's.

Integrated Water Cycle (millions of Euro)	June 30, 04	June 30, 05
Aqueduct	19.0	17.2
Purification	4.9	3.0
Sewerage	3.3	7.4
Total Water Cycle	**27.2**	**27.6**

In the waste management area the investments in the plants throughout the territory served is in line with the previous year. The significant increase by subsidiaries is due to the intervention financed through leasing on the Environmental Ecologic Centre at Ravenna (Euro 16.1 million). The increase of the investments on the waste-to-energy plant at Bologna (FEA) is due to the interventions to complete the plant, while the Euro 3.2 million on the waste-to-energy plant at Canal Bianco refers to the commencement of the work on the construction of the second and third waste incineration line.

Waste Management		
(millions of Euro)	June 30, 04	June 30, 05
Territory	3.8	3.3
Subsidiaries	4.5	18.4
FEA	3.4	8.9
WTE Canal Bianco		3.2
Other WTE	0.4	0.4
Total Waste Management	**12.2**	**34.2**

The interventions in the district heating service are principally related to the extension works of the service in the Bologna area (Euro 2.7 million), Ferrara (Euro 0.5 million) and Imola (Euro 0.7 million). The interventions in telecommunications refer to the continuation of the realisation of the Regional Telematic interconnection Plan through fibre optic lines. In the Public lighting field the interventions related to the installation of new light points and the extraordinary maintenance of those existing. The interventions in the other services are principally related to cemetery services and the management of thermal heat plants.

Other services		
(millions of Euro)	June 30, 04	June 30, 05
TLR	1.6	4.3
TLC	4.0	2.7
Public lighting	0.6	0.5
Other	2.6	2.0
Total Other Services	**8.7**	**9.5**

Also in the first half-year of 2005 the strong commitment continued in the implementation of the IT system with particular reference to the implementation of the SAP-ISU system and the relative interface with SAP-R3. The decrease in the interventions relating to the other investments in the central structures relates to the high investments already made in the first half of 2004 for the purchase of vehicles.

Central structures		
(millions of Euro)	June 30, 04	June 30, 05
Buildings	2.2	3.2
IT Systems	9.6	14.8
Other investments	17.3	6.9
Total	**29.1**	**24.9**

In relation to the increase of the financial investments, of note, is the recapitalisation of the company Tirreno Power in accordance with the plan agreed to meet for the plant re-powering, the acquisition of a shareholding in the company SGR that manages the distribution of methane in the Rimini area, and the incorporation of Hera Gas Tre for the transport of methane gas.

Equity investments		
(millions of Euro)	June 30, 04	June 30, 05
Tirreno Power	1.2	0.7
SGR		4.2
Hera Gas Tre		0.7
Other investments	1.0	1.4
Total financial investments	**2.2**	**7.0**


BOMAG

2.2.2 Regulatory framework

Principal modifications in the regulation of the markets

A - Energy: the changes in the regulatory framework

The first six months of 2005 saw an increase in the debate and initiatives on the centrality of the “Up Stream” phase in the substantial opening of the electricity and gas markets.

Infrastructure ownership and liberalisation of the market

Similar with that already undertaken for the natural gas sector, the regulatory Authority concluded a detailed investigation on the mechanisms of the formation of the price on the daily market, highlighting the inflationist effects of the dominant positions exercised in the areas where the market is subdivided. The investigation generated numerous regulations in favour of greater transparency in the formation of the prices, of the continual monitoring of the trading and of new information obligations required by the major generation companies; lastly, on August 4, the Authority commenced a consultation process on the sale of energy by the dominant companies in a “virtual power plant” manner, already experimented in other European markets (“Measures for the promotion of competition in the wholesale electricity market intended to reduce the level of interest to exercise market power”).

The mechanism of sale of virtual capacity consists “in the imposition of a temporary obligation, on the dominant operators, to cede a quota of available production capacity to third parties not related to the dominant operators, for pre-defined quantities and at prices determined on the basis of an agreed procedure in which the rules shall be verified by the Authority”; the temporary nature of the mechanism is due to the much awaited entry onto the market of new generation capacity not controlled by the dominant operators in the individual areas.

The merger process of Terna continues, spun-off from Enel and partially privatised, with the National Transmission Network Operator (Gestore della Rete di Trasmissione Nazionale - GRTN). The merger is planned to take place in November; the “Cassa Depositi e Prestiti” public lending institution, that shall acquire a significant quota in the new operator, has announced an appeal against the regulation of the Fair Competition Authority that places, as a solution to the formation of a dominant positions that would be created within Cassa Depositi e Prestiti, the condition that Cassa Depositi e Prestiti sells its holding currently held in Enel.

Measures for the promotion of competition are also expected for the natural gas market. On January 28, the Authority notified the legislator of its “Proposal for the promotion of competition in the gas market”: the notice underlined the importance to guarantee competition in the management of the national gas duct network and of the storage system and the removal of the obstacles to the formation of an appropriate excess of offer resulting from the limited capacity in the importation and storage infrastructures.

Among the measures proposed, the Authority contemplates the reduction of the quota held by Eni in the share capital of the company Snam Rete Gas (SRG) up to at least 5%, the simultaneous conferment to SRG of the international transport assets currently held by ENI, the exit of ENI from the share capital of STOGIT and the subsequent merger of STOGIT with SRG and the sale to third parties of the ENI long-term import contracts.

The scarce storage capacity available, demonstrated by the crisis in the last months of the winter, when there was recourse to the interruption of the interruptible clients, to the maximisation of the imports and to the strategic stocks, caused the Authority to reiterate its own position with the notice of August 18, in which it proposed competition in the management and improvements of sub-station storage.

Similar to the previous notice this also refers to the conclusions from the investigation on the state of the competition in the gas market (carried out jointly by AEEG and AGCM), as well as the analysis of the programmed investments in new storage capacity: the apparent unavailability of STOGI to strengthen the storage infrastructures contrasts with the objective incapacity of the system to meet the demands, that in 2005-2006 were over 2.2 billion cubic metres above the offer (for the availability at peak point, the differential between the demand and the offer was 94 million cubic metres per day).

It did not escape the attention of the Authority the importance to continue the liberalisation policies and to improve access to the infrastructures at a European level; the directive No. 55 of 2003, that liberalises the gas markets, in fact does not oblige Member States to render obligatory the "regulated access" model (regulated third party access – RTPA) adopted in Italy, that highlights the difficulties of independent operators, outside of large vertically integrated groups, who intend to transport and store gas in the different national markets.

Integration of the environmental aspects in the energy market

The level of legislation increased in favour of renewable sources and of the distributed generation, sectors of undoubted interested for the local utilities in general and for HERA in particular.

– In implementation of the relevant legislation (law No. 239 of August 23, 2004, the so-called Marzano law, and the legislative decree "renewable sources"), on February 28 the Authority for electricity and gas approved an important resolution, No. 34, which establishes the incentive conditions for electricity produced by plants from renewable sources and plants, powered by other sources, of a small size.

– On the basis of the contents of the legislative decree No. 387 of December 29, 2003 (incentives for renewable sources of energy), on July 28 the decree was approved "criteria for incentives of the production of electricity through photovoltaic conversion of solar energy": incentives are expected for the photovoltaic plants with a nominal power not lower than 1 kW and not above 1,000 kW connected to the electricity network, entered into service, following the new construction or total overhaul, on a date subsequent to September 30, 2005. The Authority and the GRTN are preparing the applicable regulations; the definition of further economic incentives are expected from the Regions and local entities.

– The Electricity Market Operator has defined, in agreement with the Authority, the regulations for the market of the energy efficiency securities (TEE).

– There is currently under study by the Production Activity Ministry, in collaboration with the Environment Ministry, the implementation decree of the Marzano law that provides for the attribution of green certificates for co-generated thermal energy and distributed through district heating networks.

A1 – Electricity: regulatory and tariff framework

The tariff regulation is in a condition of serious uncertainty following the sentence of the Lombardy Regional Administrative Court on May 13, that partially accepted the illegitimacy claimed by some operators against the law on the provisions for electricity (Resolution No. 5 of 2004) and of the procedure for the recognition of the specific company equalisation (Resolution No. 96 of 2004). The appeal contested, in particular, the prohibition of the utilisation of the acquisition price (for example, of ex Enel business units) in the valuation of the remunerated assets; an extensive interpretation by the court would extend to the electricity sector the principal of the "concrete data", adopted to certain conditions in the gas sector, for the valuation of the equity values in place of the consolidated standard method. In announcing the appeal to the Council of State against the sentence, whose effects are however suspended, the Authority has postponed the establishment of any procedure for the recognition of the specific costs of the operators (general equalisation and specific company equalisation) and has also put on hold the normal quarterly adjustments to the electricity tariffs.

An important introduction for the electricity distribution sector is the promotion of the progressive use of the digital meters, for the purposes of the availability of a wider choice in the commercial offer to the final clients; currently, the obligation of installation of hourly meters is contained for the users of medium voltage.

In relation to the organised trading, managed by the GME, in addition to the creation of a market for the efficient energy securities, it is noted the virtual completion of the "active demand" market (in that they compete in the formation of the price) of all the requests that transit on the day ahead market. GME has announced the upcoming opening of the trading of emission quotas and the creation of a market of forward contracts (Block Italian Power Exchange Market - BIPEX), that will permit trading of the supply of electricity in advance, for determined periods of time.

Introduction of the trading on forward blocks will permit the operators to outline purchase strategies more reactive to prices than at present, contributing to the increase in competition.

A.2 - Natural gas: regulatory and tariff framework

Transport and re-gasification

Aligning the transport regulatory period to that of distribution (2005-2008), the Authority has approved with resolutions 166/05 and 179/05, respectively, the Criteria for determination of the natural gas transport tariffs and proposed tariffs of the companies concerned.

The yield of the capital invested was fixed at 6.7% with a productivity recovery equal to 2% (applied only to the operating costs and to the depreciation and no longer, as in the past, to the entire revenues); however, it is expected, there will be a mechanism to award the operators that make new investments in infrastructures (increasing the yield up to 2% pre-tax). There is confirmation of the 70%-30% division of the revenues for the capacity and raw material components and the entry-exit tariff model; an introduction is the proposed single national tariff for the transport on the regional networks.

In defining the Criteria for the re-gasification tariffs, resolution 178/05 reduced to 7.6% from the previous 9.15% the remuneration rate of the real pre-tax capital invested and contains incentives to the realisation of new terminals (guarantee of the coverage of the costs of the new realisations, including without the presence of utilisers that commit the new capacity with long-term contracts; awarded remuneration and higher tariffs in force for a duration above the regulation period; entry tariffs on the transport network for the operators that utilise long-term capacity).


HERA

Distribution and sales

The tariff regulation in the period was significantly conditioned by the dispute between the operators and the Authority on Resolutions No. 170/04, that establishes the criteria for the determination of the distribution tariffs in the regulatory period 2004-2008, and No. 248/04, that modified the updating of the variable payment relating to the wholesale commercialisation impacting on the quarterly adjustment of the "raw material" component.

Following the sentence No. 531 of March 11, 2005, with which the Lombardy Regional Administrative Court partially cancelled Resolution No. 170 of 2004, the Authority commenced (with Resolution 62/05 which was contested by some operators based on the fact that the court compliance appeared only partial) the procedure for the review of the tariff regime. This procedure resulted in the approval of Resolution No. 122/05, with which the operators are recognised the remuneration of the investments not considered by the previous No. 170/04; on the other hand the Authority has still not intervened on the other principal aspect of the dispute, the quantification of the productivity recovery (5%, a level considered too high by the industry, applied during the full regulatory period to the operating costs and to the depreciation).

The Authority then published, on August 4, the re-formalisation of the distribution tariff options and, simultaneously, issued the regulations for the voluntary subscription to the "individual method" (that permits the distributors to request the remuneration of the excess costs compared to a threshold standard: in the event of a refusal of the request or rather an unfavourable result in terms of revenues, the operators concerned can in any case opt for the standard method).

The Lombardy Regional Administrative Court suspended, on January 25, and definitively cancelled on June 28 the above-mentioned Resolution No. 248/04 that, intervening on the adjustment method of the raw material cost in relation to the price of fuel on the international markets, had contained the tariff increase deliberated at the end of 2004 to 2% (equal to a higher average annual spending of Euro 16 per user). In the absence of this intervention, the tariff increase would have been 3.7%, equal to an average increase in spending per user of Euro 29 on an annual basis.

The new adjustment method of the costs of the raw material would have permitted the partial neutralisation of the effect in the crude oil prices; the resolution contained, in addition, a translation mechanism to the importers/wholesalers of the losses incurred by the sellers that were not able to renegotiate the difference between the sales price (short term adjusted) and procurement costs (whose adjustment is possible through intervals not lower than one year).

On September 5, the Authority announced an appeal to the Council of State against the sentence cancelling Resolution No. 248/04.

From the arguments of the judge of first appeal, who had considered, due to the recent energy market reforms (Marzano law), overruling the competence of the Authority in the area, such as in relation to procurement and sales, not operating in a natural monopoly regime, the Authority had incurred a substantial reduction in its overall capacity to intervene in the regulation of the market. There followed a notice to the legislator in which it is hoped "an intervention by the government in the appeal procedure" and that represents "the opportunity of a parallel intervention, legislative and of a precautionary nature, in order to reassert that the recent law for the reorder of the energy system has not limited the regulatory powers of the Authority".

B - Local public services: change in the regulatory framework

The law of December 15, 2004, No. 308, delegates to the Government the responsibility to reform, reorganise and rationalise the entire environmental legislation (waste management, protection of the territory and of the waters, evaluation of the environmental impact, large combustion plants) including through the inclusion into Italian legislation, among others, of the European community directives on the protection and management of the waters.

The legislative decrees implementing the resolutions are been studied by the Environmental and Protection of the Territory Ministry, who has appointed a special commission of experts to examine and evaluate the tests. It is still not clear the consequences on the organisation of the local public services of the new legislation; the greatest impact should be within the solid urban waste sector, for which the Government proposes a new definition (apparently in contrast with the European Community orientation, compared to the European Court of Justice and already intervening pronouncing against Italy) and the return to the tax nature for the payment of the service.

There were no significant issues on the operational models; however, the draft of the important legislative decrees, those on the management of the waste and on the protection and management of the waters, contain sufficient safeguards in relation to the operational models already adopted, where the relative conventions are adopted and the regional regulations applied (this is the case of HERA, and in general the Emilia Romagna).

There is a multiplication in the disputes between the State and Regions for the attribution of the legislative and regulative powers on the organisation of the local services. With sentence No. 335 of July 27, 2005 the Constitutional Court pronounced on the constitutional legitimacy proposed by the President of the Council of Ministers in relation to some articles of the Emilia Romagna Region Law No. 7 of April 14, 2004, concerning provisions on environmental matters. The government contested, in particular, the attribution at regional level of the regulatory power in relation to tariffs; rejecting the appeal, the Supreme Court confirmed the legitimacy of the regulations made by the regional legislator.

The consequences of the sentence are still not clear. The Court confirmed the prevalence of the State's substantial competence for that part of the tariff regulatory activity functional to the protection of competition and, at the same time, recognised that for the part not relating to the protection of competition (of exclusive state competence, where not that of the European Community) the competence of the Region shall be admitted.

A balanced reading of the pronouncement would lead one to believe that, although confirming the power of the State to "direct" and where appropriate, uniform the tariff systems in the protection of a balanced and competition economy, the Regions are permitted sufficient flexibility to introduce tariff variants in the regulations and aspects not attributable to competition, such as the protection of the environment and incentives for the quality of the service.

In the same sentence the Constitutional Court pronounced against another regulation approved by the Emilia Romagna Region, that introduced an additional tax for the conferment to landfills of solid urban wastes. For this matter the Court considered that the Region does not have the right to intervene on an important taxation matter and strictly attributed the powers to the State.

B.1 - Regulatory and tariff framework in the solid urban waste sector

Law No. 311 of December 30, 2004 (finance law for 2005) intervened, in line with the previous legislative interventions, in extending the terms for the adjustment of the local entities to the provisions in favour of the adoption of the tariff regime in place of the tax regime (TARSU). In particular, an extension was made to January 1, 2006 of the transitory period for the Municipalities that, in 1999, registered a coverage rate of the costs of urban hygiene services above 55%; for the Municipalities with a lower coverage the expiry of the transitory period was fixed to January 1, 2008.

Despite the systematic deferment of the expiry for the introduction of the urban hygiene tariff, in the territory served by HERA the discussions continued with the local entities in relation to the advanced introduction of the tariff method, implicitly contained in the regional legislation. In the Conventions agreed with the ATO's, HERA is committed to prepare the appropriate simulations in order for the valuation of the impact of the tariff, in view of its upcoming introduction.

Currently there are 35 Municipalities with approximately 900,000 inhabitants that have adopted the environmental hygiene tariffs in accordance with DPR 158/1999 equal to 50% of the area served by HERA; if there are no provisions contrary to the regulations to be approved as mentioned in the introduction, by the end of 2005 the tariff system will be adopted in a further 40 municipalities, extending the application of the tariffs to almost all of the area (93%) served.

The ten year conventions are in force as per regional law 25/1999, with the exception of the Authority in the province of Ravenna; in March, in particular, the Convention agreed in 2001 was updated by the then AMIA and GEAT, subsequently merged into HERA, in order to uniform the safeguard duration to ten years. The underlying economic agreements guarantee the certainty and, at the same time, the sustainability of the full coverage of the costs of the territorial management.

B.2 - Regulatory and tariff framework in the integrated water service

Despite the transitory period, provided for by the Galli law for the full application of the so-called "normalised" tariff method, formally concluded on June 30, 2004, the CIPE did not intervene to update the transitory tariffs of the integrated water service for the years 2003-2004 (the last adjustment Resolution, No. 131 of February 2002, applied the economic effects up to June 2003). Numerous initiatives of solicitation towards the Government were undertaken by the individual companies and by the associations; the matter is under examination by the Economy Ministry.

The normalised method is, in any case, applied in the most advanced business operations; among these, the territories managed by HERA, that signed Agreements with all of the Agencies in the provinces served. The residual duration of the rights is on average 20 years; the tariff is established for the three-year period 2005-2007, considered transitory, with reserve of review and adjustment at the end of the three year period.

2.2.3 *Tariffs*

Gas distribution: tariff framework

In the first half-year of 2005, continuing on from 2004, there is some uncertainty in terms of tariffs, currently not completely resolved. In particular:

– resolution 170/04 that had defined the tariffs for the thermal year 04-05 was contested by some Distributors and in part repealed and replaced by 122/05 that defines the base criteria for updating the 2004-05 tariffs and to define the 2005-06 tariffs

– the 2004-05 tariffs in accordance with resolution 122/05 will be finalised and sent to the Authority for approval by October 2005.

The tariff revenues from Gas Distribution relating to the first half of 2005 were determined with reference to the tariffs approved with resolution 170/04. Prudently, the expected positive effects deriving from the new tariffs defined in accordance with 122/05 were not considered.

In relation to the revenue tariffs from gas distribution in the first half of 2005 there was a decrease in the average unitary revenue of 15% compared to the same period in the previous year. This reduction resulted from the tariff reduction imposed by Resolution No. 170/04, that on a 12 months basis is around 8-9%, and by the different tariff structure changing the weight of the fixed and variable components modified the average unitary revenues over the year.

Electricity distribution

The first half of 2005 recorded a decrease in the unitary average revenue of approximately 7% compared to the same period in the previous year normalised to the 2005 parameters. This decrease is in part due to the following negative effects:

– to the recovery of productivity (X-factor) equal to 3.5% inserted in the 2005 tariffs defined in accordance with the Authority Resolution No. 5/04;

– to the different distribution of the time zones (the half year just ended saw the full application of the time zones introduced with Resolution No. 5/04, while in the first half of 2004 the old time zones in force as per CIP 45/90 were still in force) that resulted in a decrease of 6% and 9% on the average unitary client MT and AT tariffs respectively;

– to the higher consumption per client and a different mix.

Integrated water cycle

The tariff framework relating to the integrated water cycle presented in 2005 a situation of considerable stability based on the agreements already defined with AATO that provide for an average tariff increase of 3.1% throughout the territory:

Tariff increase expected by year 2005

ATO BO	ATO RA	ATO FC	ATO RN	ATO FE	AVERAGE Hera
2,5%	3,1%	3,5%	3,0%	5,1%	3,1%

Urban hygiene

The Urban hygiene in 2005 also saw the formulisation of the ATO agreements throughout the territory with the exception of Ravenna. The average increase of revenues contained in the agreements at parity of other conditions (volumes collected and services provided) is equal to 2%, applied differently throughout the territory:

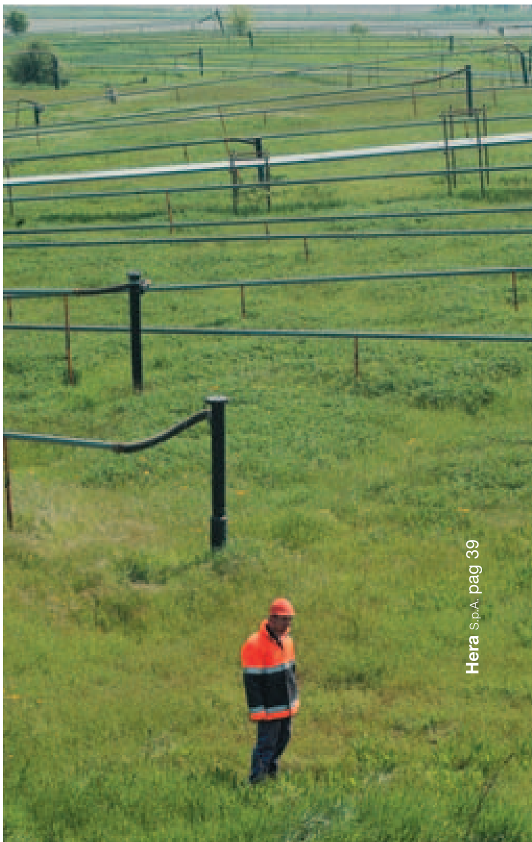
Tariff increase expected by year 2005

ATO BO*	ATO RA**	ATO FC	ATO RN***	ATO FE	AVERAGE Hera
2,00%	2,00%	2,00%	1,80%	1,60%	1,90%

*Weighted average of tariff increase among Municipalities served by Hera BO (1,6%) and Municipalities served by Hera IF (4,5%)

** Estimate included in the financial report attending the agreement closing

*** Weighted average among the served Municipalities



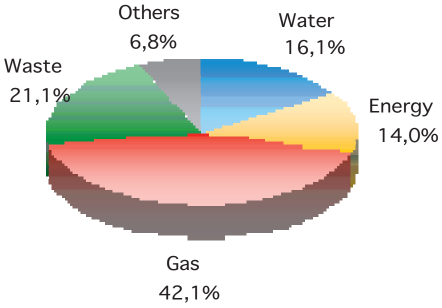
2.2.4 Analysis by Business Area

Below is provided an analysis of the results in the business areas in which the Group operates: distribution and sale of methane gas and LPG, distribution and sale of electricity, Integrated Water Cycle (Aqueduct, Purification and Sewerage), Waste Management (Collection and Treatment of waste) and Other Services (District Heating, Heat Management, Cemetery Services and Public Lighting).

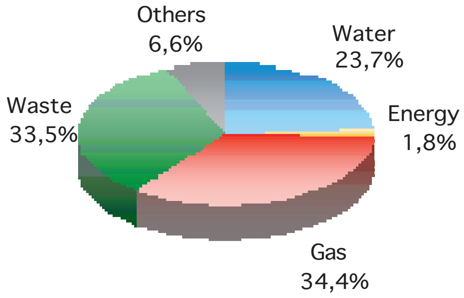
The data relating to the period ended June 30, 2005 is compared to the same period in 2004. This comparison illustrates the results in each business with the composition in terms of Revenues and Ebitda in the following graphs:

COMPOSITION OF THE BUSINESS PORTFOLIO

Revenues at 30-06-2005



Ebitda at 30-06-2005



An analysis of the results by business area is presented below. The income statements by business area include general costs and inter-divisional transactions valued at current prices and, for 2004, the data relating to the Ferrara companies is included.

Analysis of the Gas business

The business division, which includes the distribution and sale of gas, accounts for approximately one-third of the Group Ebitda, as shown in the following table, which reports a reduction in percentage terms in line with expectations:

(million of euro)	1 half 2004	1 half 2005	Change %
Ebitda Gas	**61,0**	**53,2**	**-12,8%**
Ebitda Hera Group	146,3	154,9	5,9%
in percentage terms	41,7%	34,4%	

The results are summarised below

(million of euro)	1 half 2004	Inc. %	1 half 2005	Inc. %	Change %
Sales	324,6	97,2%	394,6	97,9%	21,5%
Increase in capitalised assets	9,4	2,8%	8,6	2,1%	-8,8%
Value of Production	**334,0**	**100,0%**	**403,1**	**100,0%**	**20,7%**
Operating costs	255,4	76,5%	328,6	81,5%	28,7%
Personnel costs	17,6	5,3%	21,3	5,3%	20,9%
Ebitda	**61,0**	**18,3%**	**53,2**	**13,2%**	**-12,8%**

The sales in the Gas business increased by 21.5% from Euro 324.6 million to Euro 394.6 million in the first six months of 2005, principally in relation to the increase in the cost of raw material, transferred on to the sales price, and to the increase in the volumes sold, and also thanks to trading activities which contributed to revenues for approximately Euro 34.0 million.

The increase in the sales described above largely compensated the tariff reduction on the distribution quota imposed by the authorities that, also in relation to the different composition of the fixed and variable components, impacted in the comparison between the quarters for approximately Euro 7.5 million.

The distribution tariffs decreased on average, half-year on half-year, by 15% from 5.74 to 4.88 Euro/cent per cubic metre. The cost of the raw material changed in the same period by 11.0%, as a result of the increase in the cost of petroleum.

The increase in the personnel costs is principally due to the greater presence in the commercial area consequence to the increased competitive pressures from some competitors in the area and to the previously mentioned commencement of the IT client system that considerably increased the number of contacts with the clientele.

The principal factors in determining the performance of the distribution and sale of gas business are shown below:

	1 half 2004	1 half 2005	Change %
Customers (thousand units)	793.353	807.094	1,7%
Distributed volumes	1.137,2	1.143,2	0,5%
Volume sold (thousand units)	1.128,9	1.303,4	15,5%

The volumes shown in the table include Euro 176 million cubic metres sold to wholesalers (trading)

The Ebitda in the Gas business, in the first half-year of the current year, is impacted by the decrease in the distribution tariffs, with a direct effect on margins of approximately Euro 7.5 million, and is also affected by the general increase in commercial costs. It should also be noted the delay on the works, consequent of the commencement of the new client IT system, that resulted in a loss of revenues but that should be recovered in part in the coming months. In relation to these effects the margin of the business decreased from Euro 61.0 million to Euro 53.2 million.
Not including the pro-forma contribution at June 30, 2004 of the Ferrara area, the margin in the area decreases from Euro 55.7 million to Euro 53.2 million (-4,5%).
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Analysis of the Electricity business

The sales of electricity continue to represent a marginal quota in terms of profitability for the Group as shown in the table below:

(million of euro)	1 half 2004	1 half 2005	Change %
Ebitda Electricity	**5,1**	**2,8**	**-44,5%**
Ebitda Hera Group	146,3	154,9	5,9%
in percentage terms	3,5%	1,8%	

This activity, that in 2004 recorded higher growth rates to complete, in line with the overall strategy of the Group, the energy services provided to the clients and strengthen the commercial competitive capacity of the Group (“Dual Fuel” policy), stabilised in 2005, impacting on the margin in the area as shown in the following table:

(million of euro)	1 half 2004	Inc. %	1 half 2005	Inc. %	Change %
Sales	103,5	98,5%	131,0	99,0%	26,6%
Increase in capitalised assets	1,6	1,5%	1,3	1,0%	-16,4%
Value of Production	**105,1**	**100,0%**	**132,4**	**100,0%**	**25,9%**
Operating costs	98,2	93,4%	128,3	96,9%	30,7%
Personnel costs	1,9	1,8%	1,3	1,0%	-31,8%
Ebitda	**5,1**	**4,8%**	**2,8**	**2,1%**	**-44,5%**

The table that summarises the volumes by type of clientele, in addition to illustrating the level of activities on the non-eligible market, shows that the commercial action was consolidated towards the liberalised market

	1 half 2004	1 half 2005	Change %
Volume sold (GW/h)	**1.134,5**	**1.141,6**	**0,6%**
non-eligible customers	95,2	94,9	-0,4%
eligible customers	1.039,2	1.046,7	0,7%

The increase in the revenues equal to Euro 27.5 million is due, in addition to the previously mentioned increase in the costs of the energy commodities related to the consistent increase in the price of petroleum, to the accounting of the relative "contracts for difference" that created higher volumes of revenues and costs of approximately Euro 24 million.

The reduction due to the Authority intervention in the distribution tariffs and hence the overall trading margin, impacted the Ebitda margin, that decreased from Euro 5.1 million to Euro 2.8 million.

Analysis of the Integrated Water Cycle business

The Hera Group covers a primary role in the competition for the national water sector and is among the primary operators in Italy thanks to its almost complete coverage in the 5 ATO areas of the Provinces of Ravenna, Forlì-Cesena, Rimini, Bologna and Ferrara.

(million of euro)	1 half 2004	1 half 2005	Change %
Ebitda Water	**34,6**	**36,7**	**6,0%**
Ebitda Hera Group	146,3	154,9	5,9%
in percentage terms	23,7%	23,7%	

From January 1, 2005 the Agreements with all of the ATO's are in force, in accordance with the provisions of the so-called Galli law, that permitted the application of the new tariff system and the completion of the coverage of the services related to the Integrated Water Cycle in the regions served. This tariff scheme, that defines both the increases for the 2005-2007 three-year period and the relative investment plans, provides in the first year of application, the complete absorption of the new correlated costs, in particular for the completion of the territory and for the operational costs of the ATO's.

Also in relation to this, the margin recorded in the first half of 2005, compared to the corresponding period in the previous year reports a constant increase, as illustrated in the following table:

(million of euro)	1 half 2004	Inc. %	1 half 2005	Inc. %	Change %
Sales	142,8	83,3%	151,9	84,2%	6,4%
Increase in capitalised assets	28,7	16,7%	28,4	15,8%	-1,0%
Value of Production	**171,5**	**100,0%**	**180,3**	**100,0%**	**5,1%**
Operating costs	103,6	60,4%	109,4	60,7%	5,5%
Personnel costs	33,3	19,4%	34,2	19,0%	2,9%
Ebitda	**34,6**	**20,2%**	**36,7**	**20,4%**	**6,0%**

The first half-year of 2005, compared to the same period in 2004 reports, in line with the expectations, an increase in revenues primarily related to the increased services provided, especially in the sewerage area and to the tariff scheme approved by the ATO's.

Therefore, in the first half-year of 2005 there was a reduction in the works carried out on behalf of third parties that is in part related to the commencement of the new client system, in particular in relation to the connections.

Principal quantitative data of the business division are shown below:

	1 half 2004	1 half 2005	Change %
Volumes sold			
Acqueduct	100,0	98,9	-1,1%
Depuration	87,2	86,9	-0,3%
Sewerage	73,9	84,0	13,7%

As illustrated in the table comparing the periods, the decrease in consumption had an impact, obviously, penalising the usage of the plants and, consequently, the margin.

The Ebitda at June 30, 2005 increased to Euro 36.7 million compared to Euro 34.6 million in the same period in the previous year.

Analysis of the Waste Management business

The Waste Management business represents an increasingly important part of the overall Group, reaching a share of over one third of the gross operating margin as shown in the following table:

(million of euro)	1 half 2004	1 half 2005	Change %
Ebitda Waste	**36,4**	**51,9**	**42,4%**
Ebitda Hera Group	146,3	154,9	5,9%
in percentage terms	24,9%	33,5%	

The waste treatment and disposal of solid urban and special waste plant places the Group among the most important in the sector at a European level and was further strengthened by the acquisition of the plant at the Ravenna Ecologic Centre and the entry into service of the new waste-to-energy plant at Bologna that, in addition to increasing the waste treatment capacity, produces electricity at subsidised tariffs (CIP6).
As already mentioned in the Integrated Water Cycle division, the Group operates in five ATO's of the Provinces of Ravenna, Forlì-Cesena, Rimini, Bologna and Ferrara. With four of these Agencies, the final agreements were signed in accordance with the regulations, while the ATO for Ravenna is the process of completion.

Below is shown an analysis of the results in the Waste Management business:

(million of euro)	1 half 2004	Inc. %	1 half 2005	Inc. %	Change %
Sales	170,2	99,6%	197,4	99,0%	16,0%
Increase in capitalised assets	0,6	0,4%	2,0	1,0%	230,3%
Value of Production	**170,8**	**100,0%**	**199,4**	**100,0%**	**16,7%**
Operating costs	89,7	52,5%	98,7	49,5%	10,1%
Personnel costs	44,8	26,2%	48,9	24,5%	9,2%
Ebitda	**36,4**	**21,3%**	**51,9**	**26,0%**	**42,4%**

The data of the first half-year of 2005 was positively impacted by the increased plant mentioned in the introduction compared to the previous year.

The revenues at the end of June recorded an increase of 16.0%, from Euro 170.2 million in 2004 to Euro 197.4 million in 2005. Not including the pro-forma contribution at June 30, 2004 of the Ferrara area, the margin in the area increases from Euro 32.1 million to Euro 36.7 million (+14.3%).

The increase is principally related to the revenues in the subsidiary Ecologia Ambiente (approximately Euro 9.3 million), that operates the plant acquired at Ravenna, and to the higher electricity sales, of the new Bologna plant (approximately Euro 8.5 million).

As noted from the following table the quantity of waste treated increased by 12.6%, thanks especially to the good result in the special waste area.
The quota of waste treated in the waste-to-energy plants increased which resulted in a containment of waste to landfills, further improving the management of the waste also in environmental terms.

Volume trated (tonnes)	**1 half 2004**	**Inc. %**	**1 half 2005**	**Inc. %**	**Change %**
Typologies					
Urban waste	618.365	49,8%	641.613	45,9%	3,8%
Special waste	623.351	50,2%	756.471	54,1%	21,4%
Plants					
Landfills	451.744	36,4%	467.644	33,4%	3,5%
Waste to Energy plants	179.520	14,5%	222.313	15,9%	23,8%
Selection plants	100.171	8,1%	227.380	16,3%	127,0%
Compost plants	85.115	6,9%	65.327	4,7%	-23,2%
Inert.chemical plants	334.753	27,0%	396.525	28,4%	18,5%
Other	90.413	7,3%	18.896	1,4%	-79,1%
Total volumes treated	***1.241.716***		***1.398.085***		***12,6%***

The Ebitda increased in the first six months by 42.4% from Euro 36.4 million to Euro 51.9 million. The increase was due in particular to the new plant installed as mentioned above that permitted higher levels of waste treated. The percentage margin increased nearly five percentage points from 21.3% in the first half of 2004 to 26.0% in the same period of 2005.
Similar to the other business areas, not including the pro-forma contribution at June 30, 2004 of the Ferrara area, the margin in the area increases from Euro 32.7 million to Euro 51.9 million (+58.4%).

Analysis of the Other Services

In 2005, the rationalisation and reorganisation of the Other Services continued, which commenced in 2004, with the integration, in particular, of the services carried out in the Ferrara area.
The percentage of the Other Services Division on the overall Group margin increased to 6.6% as shown in the following table:

(million of euro)	1 half 2004	1 half 2005	Change %
Ebitda Others	**9,2**	**10,3**	**11,3%**
Ebitda Hera Group	146,3	154,9	5,9%
in percentage terms	6,3%	6,6%	

The Other Services, that includes the services of District Heating, Public lighting, Heat Management and Cemetery Services, in the first half-year of 2005 recorded very positive results considering that, against the disposals of the first activities not considered strategic, there was an increase in revenues and in the margin:

(million of euro)	1 half 2004	Inc. %	1 half 2005	Inc. %	Change %
Sales	65,7	84,6%	63,3	88,8%	-3,7%
Increase in capitalised assets	12,0	15,4%	8,0	11,2%	-33,4%
Value of Production	**77,7**	**100,0%**	**71,3**	**100,0%**	**-8,3%**
Operating costs	55,2	71,0%	48,8	68,4%	-11,7%
Personnel costs	13,3	17,1%	12,2	17,1%	-7,9%
Ebitda	**9,2**	**11,9%**	**10,3**	**14,4%**	**11,3%**

The success of the reorganisation permitted the achievement of efficiency levels that saw these services increase the margin by over 21% (from 11.9% to 14.4%) comparing the two half year periods in consideration. Not including the pro-forma contribution at June 30, 2004 of the Ferrara area, the margin increases from Euro 7.4 million to Euro 10.3 million (+39.9%).

2.3
Commercial policy and customer care

In commercial terms, the Hera Group for 2005 has the objectives of:
- standardising the approach systems to the clients, in a coherent manner throughout the territory
- integrating the clients of Ferrara in the commercial strategy
- commercially exploiting the renewal of the IT systems
- consolidating the offer and sales system to the business clients
- structuring a solid and reliable control system
- completing the process of quality certification inserting also the subsidiary companies, in particular Hera Comm

In particular in the first half-year two researches on client satisfaction were carried out, one on the residential market and one on the business market, with the purpose of identifying the components of quality and the processes having the greatest impact on the satisfaction and consequently outlining the operating priorities of Hera. The quality perceived was measured on four fundamental services of the group, environmental hygiene, water, gas, and electricity, and on the contact channels and management of the clients.
In general the opinion of satisfaction was good, at a level comparable with that of private companies, while normally the satisfaction of companies from the public sector is lower. There were also differences noted between territories, which indicate that despite Hera being now perceived as a group, the level of service is not yet uniform.
Therefore during the six months a front end system was created that has standardised the tariffs, processes and instruments for the management of the clients, using as a base the new CRM system.
In the first half-year the competition on the gas residential market remained contained, although with signs of an increase, which saw a drive in strengthening the loyalty programme with greater promotional offers and the beginning of the new gas commercial offers. The loyalty programme for the business and condominium clientele was also created and will be launched in the second half of the year.

The commencement of the new IT systems at Bologna and Ravenna caused a strong increase in the workload of the call centre and offices, in addition to an awareness of the clients in relation to the billing and payments. This initially affected the levels of service but they are now returning to normal levels, following the strengthening of the call centre and the reorganisation of some offices.

On the Business market in the first half-year the dual fuel sales commenced in the indirect channels, with master agreements made with approximately 30 territorial associations, while the sales campaign in the direct channel has almost concluded. Condominiums that were lost during 2004 were also recovered. Important dual fuel supply contracts were signed, such as Coop Adriatica and Mercatone.
Finally, for electricity the instrument was created to estimate consumption for the energy exchange and contracts were agreed for the exact measurement of the clients. This permitted the commercialisation of the service to visualise online internet consumption.

2.4
Trading and procurement policy

In relation to the gas, the first six months of 2005 saw the normal application on the procurement contracts commencing from October 2004.
Relating to the shipping activity operated by Hera Trading, it is noted the impact of the climate emergency phase declared by SGR on indication from MAP following the particularly rigid temperatures recorded at the end of February until the middle of March.
All of the major operators of the system had to make recourse to strategic gas stocks. Hera Trading, combining the flexibility of the contracts together with trading operations with other small operators, was able to minimise the recourse to strategic stocks, as a consequence limiting the economic impact to STOGIT, impact already considered in the financial statements at June 30, 2005.
In relation to electricity, the first six months of 2005 were characterised by significant operating changes correlated to the complete commencement of the Electricity Exchange and to the replacement of the old trading contracts.
Since January 1, Hera Trading is operating on the Exchange with the offer to purchase and sell, and on the bilateral and adjustment platforms managed by the GRTN.
In addition, indirectly at the moment, Hera Trading has acquired and managed a quota of VPP in France and monthly participates at the auctions conducted by RTE relating to the France-Italy interconnection capacity.
Finally, following the tender at the end of 2004, from January 1, HERA TRADING is one of the suppliers of AU for the non-eligible market. The operation is intended as coverage of positions otherwise subject to price risk (fuel) and exchange.

2.5
Financial policy and rating

During the first half of 2005 the loans acquisition policy continued in order to assure the Company the most equilibrated and prudent position possible; in particular long-term loans were agreed to substitute other loans of over Euro 100 million, indirectly obtaining the effect of a lengthening in the payable and a rationalisation of the bank debt.

The maintaining of an equilibrated financial structure and good liquidity reserves, helped by standing credit lines of Euro 100 million, demonstrates that the high cash flow of the company in the form of depreciation and provisions, has permitted the self-financing of the current investment activities.
In addition, there is an equilibrated distribution of the debt between the different banks, of which there is no medium or long-term loan concentrated for more than 25% of the total.

To service the Public Tender Offer on the shares of Meta Modena a line dedicated for the maximum amounts requested has already been agreed with a primary bank; it should also be noted that this requirement, together with that for the investments in new plant already under construction or which will commence shortly, requires the Company to examine further forms of financing, also to take advantage of the current situation of low interest rates.

Continuing in relation to finance, the prudent policy of interest rate hedging was extended to the new loans in 2005, utilising in particular fixed rate IRS structures: as verified in the application of the IAS, there are no speculative positions on interest rates.

With a view to optimising the management of the working capital, an analysis was completed (through appropriate mandates) of the receipts and payments of the principal companies of the Parent Company HERA SpA., so as to minimise the utilisation of the bank cash pooling and to enable the concentration of short-term bank credit lines in Hera SpA.

Similar to that for the covering of the interest rate risks, instruments were utilised for coverage in relation to risks connected to foreign purchases of raw materials (in particular price and exchange risks); however there were are no speculative positions existing, as the size and duration of the coverage were based on the underlying supply contracts.

As a reward of the financial activities undertaken, Hera SpA was confirmed, also in light of the operation on Meta Modena, the Rating A+ on the long-term with stable outlook from Standard & Poor's.

2.6
Research and Development

The Research and Development projects that were undertaken in the first half of 2005 were similar to those of 2004 and can be divided into three areas:

1 – Improvement of the returns of the services managed
2 – Prevention and reduction of environmental risks
3 – Energy efficiency

Within the first area the MIG Project was undertaken: consisting of the realisation of a management model of the water networks, with the aim of optimising the use of the aqueduct sources, current and future, in terms of:
– *reliability*, placing the primary network in the conditions to guarantee water volumes necessary for the population also in the presence of serious difficulties such as exceptional drought, or accidental pollution of a water resource;
– *costs*, reallocating the volumes between the different sources with the scope of minimising the total production cost;
– *quality*, best utilising the available resources in order to guarantee pre-fixed qualitative levels;
– *environment*, limiting the levels taken from the natural water resources (water table).

The project was concluded within the planned time period (March 2005). The product of this project consists of a software that is currently in use. In fact, some strategic scenarios were already stimulated for the development of the primary aqueduct system in the Emilia area.

The MARECCHIA project: this project consists of the performance of a part of the activities relating to an overall study of the Marecchia river. Other parties, such as the Authority of the Marecchia Basin, the Emilia Romagna Region and the Rimini Province have carried out other studies in relation to this theme. In the first half of 2005 some activities were carried out in relation to the recording and study of the chemical isotopic and hydrodynamic characteristics of the Marecchia water table. These activities will continue until the end of 2005, however the analysis and elaboration of the first data acquired has already commenced.

X-WATER Project: the activity relates to a water meter reading experiment applied to a pilot section of the distribution network. This project should provide indications on the applicability of the reading of the physical losses of the network (through the control of the water balance in the section of the network under examination);
We will also use accurate customer trend analysis to evaluate consumer patterns, with regards to resources and the possible pricing implications linked to these patterns. The system has been up and running since May 2005. Technical and economical analyses have been made of the information acquired and transmitted by the system. Furthermore, we are working closely with the Departments of Structural Engineering, Transport, Water, Surveying, and Earth Mapping, (DISTART) at the University of Bologna, to work out how sensitive the system is to detecting water loss.

The MITp Project: this project, launched in April 2005, involves applying water simulation models to large sections of the drinking water distribution network. The aim is to gather information from this model that can help with research activities and in the reduction of water loss. In the Forlì area, the model will be applied to the water network that has Remote-Reading installed-(project X-WATER) to check for possible synergies between the two approaches.
As it stands, the areas in which this project will be applied have been defined (one for each LOC) as well as further details concerning the models.
The project will terminate at the end of 2005.

The second theme related to two projects.

SOV Project: this project began in 2002 and witnessed intense operational activity in 2004. It was financed by L. 46/82 (fund for technological innovation), and involves research into volatile organic substances, produced in the ceramic baking process, and is carried out in partnership with two businesses in the same sector. For Hera, the interest in the project resides especially in the identification of instruments and methods for the automatic and continual control of volatile organic substances produced in various processes in the production cycles of Hera. Notably in 2005, analytical activities were carried out in the laboratory and in the plants, and also the application of coverage was defined for the diverse methods to be trialled. As it stands, trials are operational in Hera plants and will end in July, when the SOV project will also terminate.

In the third area we see:

Fuel-Cell Project: The project consists of the construction of electricity and heat plants through combustion fuel cells from methane. The project obtained financing amounting to Euro 196,350 from the Emilia Romagna Region, in the framework of the Regional Programme for Industrial Research, Innovation and Technological Transfer. During the first half of 2005, research was carried out, as well as preliminary studies that allowed definition of the system's structure and the consumer typology most suitable for the successive test and trial phase. ENEA and ARCOTRONICS were identified as service suppliers and as scientific support and industrial prototypes. In 2005 we aim to construct, install the system and begin the trial phase which is set to end in June 2006.
A preliminary agreement has also been signed with our German partner VNG, for the joint trial of fuel-cell systems.

Project Gold Sludge: this project helps prevent and reduce environmental hazards, as well as improving energy efficiency, and involves evaluation of the Hera group's sewage-sludge disposal system, especially as regards energy recovery linked to this disposal process. In this study, evaluation will have to be made of the current system's recovery of energy from sludge, and possible opportunities and/or innovations will have to be highlighted to improve or augment that recovery. The study is being carried out alongside other activities of the R&D Networks Division relative to the problems linked to sewage disposal. During 2005 a consultant was appointed for the project.

Project Safe Water this project, that can contribute to improving management of services as well as preventing environmental hazards, has the aim of evaluating the pertinence of automatic and on-going analyses, using the Monet tool by ARS Srl to which Hera also supplied technological expertise. In particular the MONET instrument will be applied to controlling, creating and removing organic halogen compounds of neoformations (trialomethanes) in the potabilisation process at Hera's plant in Ravenna delle Bassette. In the first half of 2005, installation details were outlined as well as those of the instrument's functioning, and it's purchase was ordered.

2.7 Human Resources

At June 30, 2005 the number of employees in the Hera Group was 5,045 (consolidated companies), with the following division by category: Senior Management (91), Managers (203), White-collar (2,046), Blue-collar (2,705). This was determined by the following movements: new staff members 88 of which 22 for new activity and 66 replacements. It is noted that the new arrivals essentially related to the change in mix with the insertion of qualified personnel; finally it is noted that there was an overall increase in the number of university graduates of 27 (from 464 equal to a percentage of 9.24% of the total of full time employees, to 491 equal to 9.73%).

Industrial Relations

The Group's aggregation and harmonisation process for staff workplace relations, which has been in existence since the creation of the Group, carried on throughout the first half of this year. Guidelines laid down by the company and the trade union through the Industrial Relations protocol, have allowed us to create uniformity of some regulatory and economic aspects in the Group's local context, particularly Ferrara and Ravenna.
In the second half of this year, the parties involved will decide upon areas of general interest, based upon business proposals already under discussion, and also with regards to recently introduced union proposals.

Training

During the first half of 2005, the training initiated in 2004 continued, and extended into the Ferrara region.

Training activities and refresher courses for technical and operational staff were particularly intensive, as well as training aimed at the maintenance and reinforcement of operating skills in areas of critical importance.

Several programmes, launched in 2004 have also been completed, the aim is to consolidate HERA Groups' identity and values, developing managerial skills (with particular reference to organisation and control, communication and management of the human factor, improvement of market managing and management of customer relations).

Significant investment was also made in the first half of 2005, supporting the implementation of new information systems in support of themes relating to quality, security and environmental problems. In particular due to requests from the relevant business departments, a biennial training programme on work place safety and work-place injury prevention was launched in accordance with legal obligations (fire safety, first aid, role of those in charge …).

Finally, other activities, for maintenance and development of critical competences are in an advanced phase of organisation (launch of the HERA Group career-path school), in support of organisational evolution (administrative and finance areas) in other words, to further reinforce staff abilities in the area of marketing, sales, and customer management. Further progress is expected in the second half of the year.

On the whole, approximately 60,500 man hours of training were provided (see table) that involved approximately 3,400 persons (65% of employees) for a total of 5,352 participations at training/professional events. The investment after costs for lost production in this period was Euro 598,000.

Training	Hours
Professional training and specialised courses	32,000
Quality, Security and Environment:	6,800
Managerial training	2,200
Information technology	19,500
Total	**60,500**

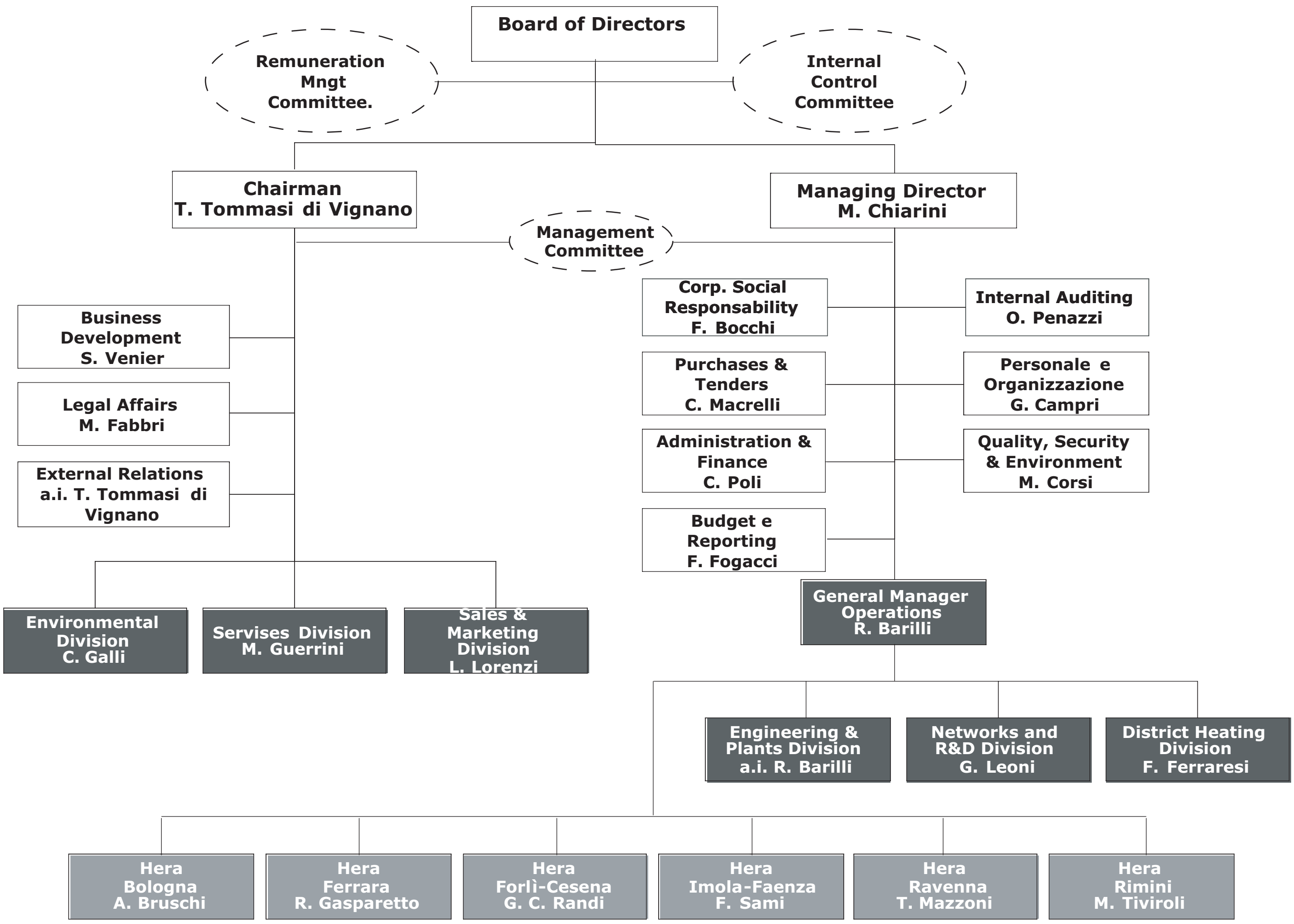
2.8
Organisation and IT Systems

In the first six months of 2005, the Group continued in the optimisation of the internal processes, continuing the principle of departmental centralisation and rationalisation of all common activity in order to obtain uniform treatment and economies of scale.

The two most significant events in the first half of the year were the revision of the Organisational Macrostructure on the one hand, and the launch of a new billing system (SAP-ISU) on the other.

Organisational Macrostructure

After the introduction of the new Board of Directors a new organization chart was introduced



With regards to the previous organisational structure the most important changes relate to the constitution of the General Operations Department which is in charge of coordinating the Local Operating Companies, together with the two Divisions (Networks and District Heating) who interact the most with the LOC's; a new Division for Engineering and Large Plant Production was established in order to better manage the large investment plan approved by the Group, especially, in the waste-to-energy sector.

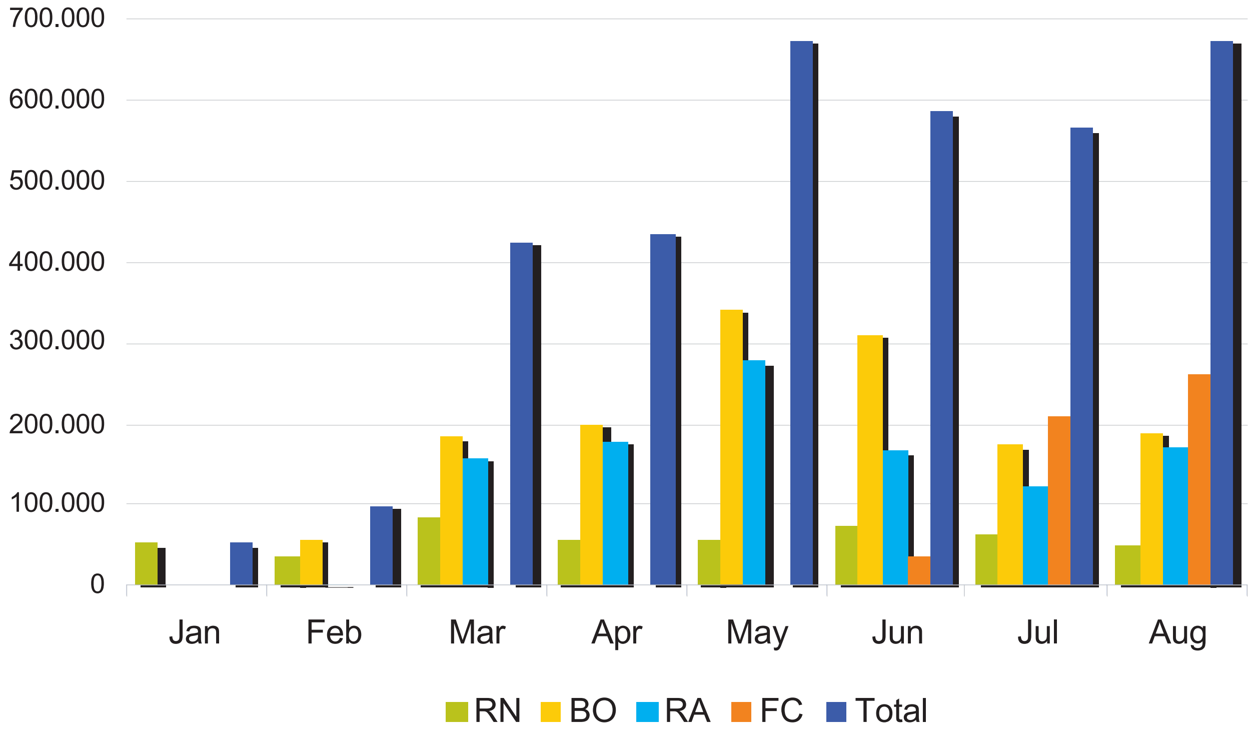
Another organisational body has been set up, which is directly coordinated by the Managing Director, with the role to develop the principals of Corporate Social Responsibility within the Group.

Launch of SAP-ISU

Following the experimental phase, carried out in the Rimini area from September 2004 onwards, the new billing system was launched in the Bologna and Ravenna areas (between January and February) and the Forlì/Cesena area (in May).

This inevitably lead to billing delays and a progressive slowing down of the system which then got back up to full operational levels from May/June onwards and began making progress once more from August. Below, details of bills issued in each month in the Rimini, Bologna, Ravenna and Forli Cesena areas are shown:

Number of bills



The consequences of the inevitable late arrival of bills, and reminder letters, had an impact increasing working capital, and the net financial position at June 30.

The implementation programme now sees the new billing system being applied to the Imola-Faenza area, while as far as the Ferrara area is concerned, this will take place as from the start of 2006.
However, with the most critical period over in the first half of 2005, it is now expected that billing and payments will get back to normal during the second half of the year.

2.9
Quality and Environment

In the first half of 2005, Hera strengthened its commitment to the area of quality, environment and
sustainability, continuing the realisation of pre-defined programmes and launching new ones.
The Hera Group's Quality Management system, certified during 2004, passed its first inspection in March 2005 by the certification body, thus consolidating its business-process management according to the most respected standards.
The Group's Integrated Environmental Quality Safety certification Programme, was then worked upon, with the construction of an environmental management system that foresees various phases of certification, in appliance with regulation UNI EN ISO 14001, from October, set to finish in the Spring 2006.
At the same time, a large-scale five year programme has been approved that will extend EMAS registration to the Group's entire Environment Sector. The business' duty to those with vested interests in it was truly put to the test with the realisation of a large-scale customer satisfaction survey in March 2005 which encompassed the whole area around the plant and all the services offered by Hera. The results obtained, although mainly positive, lead to the creation of a series of important improvement projects for the second half of the year.
In June, the 2004 Sustainability Report was published, providing further steps towards transparency and completion of data concerning Hera activities and its commitment to stakeholders.
Hera has also decided to document its commitment to sustainability with images by the well-known photographer, Gianni Berengo Gardin, housed in a mobile exhibition which will tour the major towns in the area between June and December 2005,.
In order to provide further organic growth to its activities in the field of Business Social Responsibility, Hera set up a Business Social Responsibility section in the first half of 2005, which reports directly to the Managing Director.
Another activity scheduled for the second half of the year, in order to increase response to and involvement by one of the Groups' major stakeholders is the creation of a business questionnaire, circulated amongst all of the 5,000 Hera members of staff.

2.10

Adoption of International Accounting Principles

Transition to IAS/IFRS International accounting principles.

The consolidated half-year report of the Hera Group at June 30, 2005 was prepared in accordance with article 81 of the Issuers Regulations No. 11971 of 1999, as modified by Consob Resolution No. 14990 of April 14, 2005, in conformity with international accounting principle No. 34 concerning interim financial reporting. The Hera Group adopted the international accounting standards (IAS/IFRS), from the year 2005, with transition date at January 1, 2004. The last consolidated financial statements prepared in accordance with Italian accounting principles relate to the year ended December 31, 2004. The adoption of the new principles resulted in changes to the accounting criteria whose impact and relative procedures are described in detail in the appendix to the present report. In particular it is noted, the adoption of the following international accounting principles and the consequent effects that they will generate.
IAS 16, applied to the tangible fixed assets. At the transition date the Hera Group recorded some category of assets on the basis of the revalued value considered as substitute to the cost (fair value as deemed cost) and the higher value was credited directly to reserves. The recording of the higher value was made on the basis on an estimate made by an independent expert's evaluation report. For the categories revalued the residual useful lives were recorded indicated by the evaluation report that did not result in significant differences from those relating to the depreciation rate used in previous years.

IAS 19, applied to the employee leaving indemnity provision and some types of benefits recognised to employees. These liabilities were determined on the basis of actuarial assumptions estimating the amount of the future benefits that the employees had matured at the balance sheet date. The valuations of the liabilities made by an independent actuary, generated a positive effect on the reserves, on the first application and, overall, a positive effect on the income statement for the year 2004 and the first half of 2005 (data from the sum of the higher and lower provisions and the financial charge component that is recorded in the year consequent to the discounting).
IAS 36, permanent impairment in the value of asset. The application of the principal resulted in the write-down of assets relating to the telecommunications for the quota not recoverable through the future cash flows generated by the corresponding unit, appropriately discounted. There was therefore a negative effect on the reserves on the first application with a resulting positive effect due to the lower depreciation recorded in the income statement (year 2004 and first half of 2005).
IAS 37 applied to provisions for landfill closure and post landfill closure and to the restoration of the assets of third parties; the expenses that will arise in future years was discounted utilising market rates and these take into account the company risk component. The application of this principle generated a positive effect on the reserves on the first application with an effect, equally positive, on the income statement (year 2004 and half year of 2005); the positive effect results from the sum of the higher and the lower provisions and the financial charges component that is recorded each year consequent of the discounting.
IAS 38 applied to the intangible assets; some costs were capitalised in previous years and in particular formation and start-up costs and research and development costs. The application of this principle generated a negative effect on the reserves on the first application and a contracting effect on the income statement for the year 2004: positive for the lower amortisation on the capitalisations that were expensed and negative following the lower capitalisations applying the new principle.
IAS 32 and 39 financial instruments. The application of the principle to the hedging derivatives in place by the group (on interest rates and commodity), resulted in economic impacts substantially modest, confirming the non speculative nature of these operations.
The recording of the above-mentioned effects resulted in the recording of deferred fiscal assets and liabilities. The improved tax rate (at June 30, 2005, compared to December 31, 2004) is therefore due to the non recording of the deferred tax liability on some operations (in particular on the reversal of the amortisation of the goodwill), in accordance with international accounting principles (Ias 12).

2.11
Transactions with Related Parties

While there are no new aspects from those reported in the directors' report on operations of the Consolidated Financial Statements for 2004, the following should be noted:

– The Hera Group performs, in almost all of the territory of the municipality shareholders, local public services based on direct contracts with the municipalities;

– in the management of these services Hera makes use of networks, plants and assets owned by the group and manages other networks, plants and assets owned by the Local Public Bodies who are shareholders in Hera and by the Asset Companies whose shareholders are also shareholders in Hera.

Related companies

€/000	Credits	Liabilities	Revenues	Costs
Municipality of Bologna	20.755	3.350	31.448	458
Con. Ami	591	2.640	347	3.699
Romagna Acque	43	11.847	29	13.728
Unica Reti	715	1.527	51	4.122
Amg assets	33	36		
Amir Assets	2.511	1.477	40	819
Area Assets	56	692	16	1.604
Team assets	489	803	2	794
Total	**25.193**	**22.372**	**31.933**	**25.224**

2.12
Subsequent events after the period end

The subscription period to the public offer, prior to the agreement of the merger act, is between October 31, 2005 and November 22, 2005. The conditions of the Offer are subordinated to each of the following events:

(a) to the reaching by Hera SpA of a holding of at least 15% of the share capital of Meta SpA;
(b) that no event arises before the signing of the merger agreement, at national or international level, of extraordinary circumstances and/or events relating to the financial, equity, profitability, fiscal, regulative, corporate or legal situation of Meta SpA or of the Meta Group such as to significantly alter the equity, economic and/or financial profile of Meta SpA or, at consolidated level, of the Meta Group compared to that reported in the quarterly report of Meta SpA at March 31, 2005;
(c) that the merger deed is signed by November 29, 2005.

The offered document was published on September 16, following the approval given by Consob on September 7, 2005.

On September 23, 2005 the extraordinary Shareholders' Meetings of Hera SpA and Meta S.p.A approved the merger of Meta SpA into HERA SpA, the increase of the share capital of Hera SpA from the current Euro 839,903,881 up to a maximum of Euro 1,061,485,109 and the changes to the by-laws consequent of the above-mentioned operations.

From an industrial point of view, during July-September, the following operating initiatives were carried out:
– the restructuring of the corporate and organisational integration,
– the coordination of the commercial activities and raw material purchases for the year 2006,
– the qualification of the rationalisation and coordination initiatives of the various operating areas
– the commencement of the integration activities of the IT systems

in order to permit a more efficient commencement of the future territorial company Hera Modena within the organisational model of the Hera Group.

During the first weeks of September the preparation of the 2005-2008 new Industrial Plan commenced of the joint businesses which will be presented to the investors during the months of November – December 2005.

Other significant events

On July 19, 2005 VNG – Verbundnetz AG – and Hera signed a cooperation agreement for the creation of a joint operating company in the gas trading sector at a European level. The cooperation agreement outlines the characteristics and principles for the operation of the company which is expected to commence operations by the end of the current year.

In relation to the corporate structure the following preliminary purchase agreements were made:
– Argile Gas, on July 6, 2005, a company operating in the sale of natural gas in the municipality of Castello d'Argile;
– Gasgas and Tecnometano, on July 14, 2005, companies operating respectively in the sale and distribution of natural gas;

and, with regard to the programmes fixed in the 2004-2007 Industrial Plan, in August and September, the following non-core investments were sold:
– 25% of Locride Ambiente SpA to Ecologia Oggi Srl, already shareholder of the company, for a total amount of Euro 500,000;

– 49% of Amav Ambiente S.p.A to the municipality of Sant'Anastasia, already shareholder of the company, for a total amount of Euro 410,000.

On July 29, 2005 the dispute with Italgas SpA was settled in relation to the judicial and arbitrary process for damages to the gas plant operating in the municipality of Conselice, Folimpopoli, Lugo, Meldola and S. Agata sul Santerno. With the deed signed with Italgas SpA, Hera SpA ceded the businesses relating to the gas operations in the above-mentioned Municipalities.
The plant will remain the ownership of Hera SpA for twenty years and will be returned to the Municipalities at the end of this period.

Finally, the implementation of the new SAP-ISU IT system continues, which in recent months concerned the areas of Forlì-Cesena.

3 CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES OF THE HERA GROUP

Consolidated income statement as at June 30, 2005

	Note	30/06/2005 /000	31/12/2004 /000 (adjusted)	30/06/2004 /000 (adjusted)
Revenues	4	881,704	1,492,572	691,297
Change in inventories of finished products and products in work in progress		-181	9,187	4,857
Other operating revenues	5	14,870	27,106	10,950
Consumption of raw materials and consumable materials (net of the change of the inventories of raw materials and stocks)	6	-417,272	- 622,006	-310,096
Service costs	7	-201,567	-416,930	-177,334
Personnel costs	8	-117,373	-215,863	-97,701
Depreciation, amortisation and provisions		-59,844	-115,256	-49,738
Other operating expenses	9	-53,638	-92,152	-39,070
Capitalised costs		48,341	110,599	50,040
Operating profit		**95,040**	**177,257**	**83,205**
Quota of profits/(losses) of associated companies	10	-314	-3,029	-1,256
Financial income	11	3,222	6,071	1,887
Financial charges	11	-26,072	-32,755	-14,692
Pre-tax result		**71,876**	**147,544**	**69,144**
Income taxes	12	- 24,986	-61,083	-24,514
Discontinued activities				
Profit from discontinued activities				
Net profit/(loss) for the period		**46,890**	**86,461**	**44,630**
Attributable:				
To the shareholders of the Parent Company		40,617	80,994	41,974
To the minority shareholders		6,273	5,467	2,656
Earnings per share				
From operating activities:				
Basic		**0.056**	**0.103**	**0.056**
Diluted		**0.056**	**0.103**	**0.056**

Consolidated balance sheet as at June 30, 2005

	Note	30/06/2005 /000	31/12/2004 /000 (adjusted)	30/06/2004 /000 (adjusted)
ASSETS				
Non-current assets				
Tangible fixed assets	13	1,359,932	1,298,867	1,092,263
Intangible fixed assets	14	202,349	210,947	191,643
Goodwill and consolidation differences	15	150,476	151,610	95,987
Equity investments and securities	16	85,047	78,385	109,680
Financial assets	17	38,459	18,903	9,956
Deferred tax assets	18	42,575	35,079	30,971
Financial instruments - derivatives		1,783		
Other non-current assets	19	20,930	43,804	23,439
		1,901,551	**1,837,595**	**1 553,939**
Current assets				
Inventories	20	31,727	41,513	27,487
Trade receivables	21	710,897	597,452	489,507
Contract work in progress	22	15,038	14,671	16,737
Financial assets	23	2,183	36,827	10,464
Other current assets	24	49,460	44,922	39,333
Cash and cash equivalents	25	182,439	172,372	98,256
		991,744	**907,757**	**681,784**
TOTAL ASSETS		**2,893,295**	**2,745,352**	**2,235,723**

	Note	30/06/2005 /000	31/12/2004 /000 (adjusted)	30/06/2004 /000 (adjusted)
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital and reserves	26			
Share Capital		839,904	839,903	793,202
Reserves		140,597	114,988	79,211
Reserve for derivative instruments valued at fair value (cash flow hedge)		-10,948		
Retained earnings/(Accumulated losses)				1
Net profit/(loss) for the period		40,617	80,994	41,972
Group shareholders' equity		**1,010,170**	**1,035,885**	**914,386**
Minority interest share		32,372	28,346	24,484
Total shareholders' equity		**1,042,542**	**1,064,231**	**938,870**
Non-current liabilities				
Loans - payable beyond one year	27	571,662	489,063	325,738
Employee leaving indemnity and other benefits	28	82,690	82,634	68,448
Provisions for risk and charges	29	100,082	79,206	62,117
Deferred tax liabilities	30	54,230	53,036	45,493
Lease finance payables - payable beyond one year	31	35,585	28,668	20,902
Other non-current liabilities	32	87,239	91,135	87,645
		931,488	**823,742**	**610,343**
Current liabilities				
Banks and financing - payable within one year	27	333,958	271,832	171,439
Lease finance payables - payable within one year	31	10,895	62	
Trade payables	33	366,750	432,923	286,282
Taxes payable	34	122,970	86,670	171,064
Other current liabilities	35	65,197	65,892	57,725
Financial instruments - derivatives	36	19,495		
		919,265	**857,379**	**686,510**
Total liabilities		**1,850,753**	**1,681,121**	**1,296,853**
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		**2,893,295**	**2,745,352**	**2,235,723**

STATEMENT OF CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Share Capital €/000	Reserves €/000	Cash flow hedge derivative instrument reserves €/000	Profit for the period €/000	Group shareholders' equity €/000	Minority interest share €/000	Total €/000
Balance at January 1, 2005 adjusted (1)	**839.904**	**114.384**	**-8.887**	**80.994**	**1.026.395**	**28.346**	**1.054.741**
Fair value of hedges (cash flow hedge)			-2.061		-2.061		-2.061
Allocation of the 2004 net profit:							
dividends distributed				-50.394	-50.394	-2.247	-52.641
allocation to reserves		8.974		-8.974			
retained earnings		21.626		-21.626			
Other movements		-4.387			-4.387		-4.387
Net profit/(loss) for the period				40.617	40.617	6.273	46.890
Balance at June 30, 2005	**839.904**	**140.597**	**-10.948**	**40.617**	**1.010.170**	**32.372**	**1.042.542**

(1) for a better understanding of the formation of the opening balances reference should be made to the schedules contained in the appendix to the present explanatory notes.

Consolidated cash flow statement at June 30, 2005

(in €/000)

Management activity			
Cash flow			
Group and minority interest net profit	46.890		
Depreciation and write-downs of tangible assets	39.951		
Amortisation and write-downs of intangible assets	10.442		
Total cash flow	**97.283**		
Changes in deferred tax assets and liabilities	(6.302)		
Employee leaving indemnity and other benefits: provision (utilisation)	56		
Provisions for risks and charges: provision (utilisation)	20.876		
Other non-current liabilities: provisions/(utilisation)	(3.896)		
Working capital			
Change in trade receivables	(113.445)		
Change in inventories	9.419		
Change in other current assets	(4.538)		
Change in trade payables	(66.173)		
Change in taxes payable	36.300		
Change in other current liabilities	(695)		
Change in working capital	**(139.131)**		
Cash generated from management activity		**(31.114)**	a)
Investment activities			
Divestment/(investment) in tangible fixed assets net of divestments/investments	(101.016)		
Divestment/(investment) in intangible fixed assets net of divestments/investments	(710)		
Change in non-current receivables	(19.556)		
Other non-current assets	22.874		
Cash generated/(absorbed) from investment activity		**(98.407)**	b)
Financing activities			
Medium/long term loans	82.599		
Change of the net equity accounts	(15.938)		
Change in securities and investments in equity holdings net of divestments	(6.662)		
Change in current portion of medium/long term loans	62.126		
Dividends distributed	(52.641)		
Change in finance lease payables	17.749		
Change in financial instruments - derivatives	17.712		
Cash generated/(absorbed) from financing activity		**104.945**	c)
		(24.577)	**a)+b)+c)**
Change in the net financial position			
Short-term financial position at the beginning of the period*	209.199		
Short-term financial position at the end of the period*	184.622		
	(24.577)		

* The account includes exclusively the liquid funds and current financial assets

Explanatory notes

1. INTRODUCTION

HERA S.p.A. (the Company) is a limited liability company incorporated in Italy at the Bologna Company's Registry Office. The addresses of the registered office and of the locations in which the main activities of the Group are carried out are indicated in the introduction to the interim accounts. The main activities of the company and of the subsidiaries of the Group are described in the Directors' Report on operations.

In the comparison of the income statement accounts at June 30, 2004 and June 30, 2005 it was necessary to take into account that the former do not include the contribution of the Agea group; the merger by incorporation of the Agea group into Hera S.p.A. took place on December 31, 2004 with retrospective effect as at January 1, 2004.

The consolidated balance sheet and income statement and the data included in the explanatory notes are expressed in thousands of Euro except where indicated otherwise.

CONSOLIDATION SCOPE

The Consolidated Half-Year Report of the Hera Group includes the Parent Company Hera SpA and its subsidiaries. The control is obtained when the parent company has the power to determine the financial and operational policies of a company so as to obtain benefits from its activities.

The investments in subsidiaries whose size is insignificant, where the voting rights are subject to serious and long term restrictions and the subsidiary companies held for the exclusive purpose of their successive disposal are excluded from the full consolidation method.

The investments in associated companies classified under non-current assets whose values are not insignificant are valued under the net equity method. The inactive companies, in liquidation or of irrelevant size are valued at cost.

The companies held exclusively for the purpose of their disposal are excluded from the consolidation and valued at fair value.

There are no companies consolidated under the proportional method.

During the period the following changes took place to the consolidation scope. In particular:
– not included in the consolidation scope of the Group, the company Amga Energia S.r.L. fully consolidated at December 31, 2004, in that it was sold to third parties on January 27, 2005;
– included under the full consolidation method is the company Hera Ferrara S.r.L., consolidated under the net equity method at December 31, 2004, as it became operative as of January 1, 2005;
– the company Tre A WEB, consolidated under the net equity method at December 31, 2004, is not included in the consolidation scope of the Group as it was sold on April 15, 2005;
– the company SGR Servizi Spa, entered the Group on May 17, 2005 when the subsidiary Hera Comm SrL acquired 20% of the share capital from the company Gas Rimini S.p.A. The company is consolidated under the net equity method;
– the companies Amav Ambiente S.p.A., Locride Ambiente S.p.A. and Delta WEB S.p.A. (for a value corresponding to 30%) are classified, compared to December 31, 2004, under current assets in the account "financial assets" as the parent company in the third quarter of 2005 has placed these companies for sale;

In addition, the company Hera Gas Tre S.p.A. of Hera S.p.A. is valued at cost as incorporated on April 27, 2005 and still not operative; the company Hera Energie Bologna S.r.L., in which Hera Comm S.r.L. holds 67%, is valued at cost as it was incorporated on June 30, 2005 and still not operative.

The list of the companies consolidated under the full consolidation method and valued under the net equity method, as well as the investments in subsidiary and associated companies excluded from the consolidation scope are shown at paragraph 17 of the present notes.

2. ACCOUNTING POLICIES AND CONSOLIDATION PRINCIPLES

In accordance with article 81 of the Issuers' Regulations No. 11971, as amended by Consob Regulation No. 14990 of April 14, 2004, the Half-Year Report was prepared in accordance with the international accounting standards concerning interim financial statements (IAS 34), adopted in accordance with the procedure as per article 6 of the EC Regulation No. 1606/2002.

From January 1, 2005 the Group has adopted the new International Financial Reporting Standards (IFRS) issued by IASB, the updating of the pre-existing standards (IAS), as well as the documents of the International Financial Reporting Interpretations Committee (IFRIC) considered applicable to the operations undertaken by the Group from the current year. These standards are those in force at the date of the present report and that is assumed will be in force at December 31, 2005. However, these standards may not be those applicable at December 31, 2005 due to new orientations of the European Commission in relation to their standardisation, or the issue of new standards or interpretations by the competent authorities and, therefore, the results for the half-year could change in order to utilise the comparative data for the consolidated financial statements at June 30, 2006." The adoption of the IFRS has resulted in changes to the accounting criteria whose impact and the relative implications are described in the APPENDIX which also include the reconciliation schedules of the shareholders' equity and of the net profit at January 1, 2004 and at December 31, 2004.

It is considered necessary to specify that for the purposes of the preparation of the half-year consolidated financial statements at June 30, 2005 the associated companies provided the financial statements applying the national accounting standards without therefore application of the international standards; the effects on the conversion to the international accounting standards on the balance sheet and income statement of the Group would not have been significant.

The financial statement items have been valued in accordance with the general criteria of prudence and accruals and on a going concern basis. For the accounting entries made, prevalence is given to the economic operation rather than its legal form.

For the purposes of the preparation of the consolidated balance sheet and income statement the financial statements at June 30, 2005 were used of the individual companies appropriately reclassified and adjusted, where possible in virtue of the information available, in order to uniform them to the accounting principles and valuation criteria of the Parent Company.

In the preparation of the consolidated balance sheet and income statement the assets and liabilities as well as the income and expenses of the companies included in the consolidation are fully included. The payables and receivables, revenues and charges, the gains and losses arising between companies in the consolidation are eliminated. The carrying value of the participation is eliminated against the corresponding quota of the subsidiary's net equity.

The difference between the carrying value of the participations and the corresponding quota of net equity is recorded in the consolidated net equity. In the case of acquisitions, the above-mentioned difference is attributed to the assets and liabilities; any remaining difference, if negative, is recorded in the account consolidation reserve, or, where it is the result of expected unfavourable economic results, in the account "consolidation provision for future risks and charges"; if it is positive, the difference is recorded as an asset under "consolidation differences". The amount of capital and reserves of subsidiaries relating to minority interests are recorded within shareholders' equity in the account "minority interest share". The portion of the consolidated result relating to minority interests is recorded in the account "Net profit (loss) for the period pertaining to minority interests".

The dividends from subsidiaries, in which the parent company has majority control in the Shareholders' Meeting, are recorded in the year in which they mature, as the financial statements of the parent company is approved by the Board of Directors of this latter after the approval of the financial statements of the subsidiary companies. The consolidation of the subsidiaries results in the elimination of the dividends recorded.

ACCOUNTING PRINCIPLES AND VALUATION CRITERIA:

Tangible assets – The tangible fixed assets are recorded at purchase or production cost including accessory charges, or valued based on expert's valuations of the company's assets, net of the relative depreciation fund and any losses in value. The cost of production includes directly and indirectly attributable expenses (for example: transport, customs duties, expenses for the preparation of installation, assembly costs, notary and land registry fees). Cost includes any professional fees, and for some assets, the financial charges capitalised until its entry into service. The costs include the reclamation costs of the site where the asset is located, if in accordance with the provisions of IAS 37.

At the transition date to the IFRS – January 1, 2004 – the Group adopted the fair value criteria as substitute of the cost (fair value as deemed cost) for the tangible fixed assets applying this selectively to some categories of assets; the higher value resulting was credited directly to reserves. The adoption of the fair value is made on the basis of an independent expert's valuation report that has made possible, among other matters, the identification of single components of plant and machinery of significant value and with different useful lives, in accordance with the component approach of IAS 16.

Maintenance costs of an ordinary nature are charged fully to the income statement. The cost for improvements, modernisation and transformation of an incremental nature are allocated as an asset.

The book value of tangible fixed assets is subject to the verification of any loss in value either on an annual basis or when events or changes indicate that the carrying value can no longer be recovered (for details se e paragraph "loss of value - impairment).

The depreciation begins when the assets are ready for use. Tangible assets are depreciated on a straight-line basis on economic/technical rates considered representative of the residual possible future use of the asset. The assets composed of components, of significant amounts and with different useful lives are considered separately in the determination of the depreciation. The depreciation is calculated, on a straight line basis, based on the estimated useful life of the relative assets applying the following percentage rates:

General services	min %	max %
Land	0.00	0.00
Buildings	1.50	3.00
Light constructions	5.00	10.00
General plant	7.50	15.00
Minor equipment	5.00	10.00
Office furniture and machines	6.00	12.00
EDP	10.00	20.00
Vehicles and internal means of transport	10.00	20.00
Motor vehicles	12.50	25.00
Measurement and laboratory instruments	5.00	10.00
Remote control	10.00	20.00
Electric cabins	3.50	7.00

Purification service	min %	Max %
Land	0	0
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 plants	5.00	10.00
Specific ITFI plants	5.00	10.00
Specific plants	5.00	10.00
Lifting plant	6.00	12.00
Laboratory equipment	5.00	10.00
Network	2.50	5.00
Electric cabins	3.50	7.00
Minor equipment	5.00	10.00
Furniture	6.00	12.00

District heating and gas service	min %	Max %
Land	0	0
Stage one units – Abstraction		
-Buildings	2.75	5.50
- General plant	7.50	15.00
- Specific plant	5.00	10.00
Stage two units – district – specific plant	5.00	10.00
User reduction units – specific plants	4.00	8.00
Network distribution	4.00	8.00
Outlets	4.00	8.00
Meters	5.00	10.00
Cathodic protection	4.00	8.00
Electric cabins – specific plant	3.50	7.00
Co-generation and district heating		
- Production – buildings	2.75	5.50
- Production – general plants	4.50	9.00
- Production – specific plants	4.50	9.00
- Distribution network	4.00	8.00
- Heat exchange unit	4.50	9.00
- Electric cabins	3.50	7.00
Minor equipment	5.00	10.00

Water service	min %	Max %
Land	0	0
Buildings/Civil works	1.75	3.50
Wells		
- Buildings/Civil works	1.75	3.50
- General and specific plant	1.25	2.50
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 plants	4.00	8.00
Reservoirs	2.00	4.00
Pipelines and distribution network	2.50	5.00
Intakes and connections	2.50	5.00
Meters	5.00	10.00
Electric cabins – specific plant	3.50	7.00
Automobiles	10.00	20.00

Waste Management Service	min %	Max %
Land	0.00	0.00
Buildings	1.50	3.00
Secondary building units (warehouse)	1.50	3.00
General plant	7.50	15.00
Specific IIR plants	5.00	10.00
Specific BIOGAS plants, storage +IRE	5.00	10.00
Specific waste composting plants	5.00	10.00
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
Hygienic equipment	5.00	10.00
Light constructions	5.00	10.00
Motor vehicles	12.50	25.00
Controlled landfills		

Land is not depreciated. The landfills are depreciated on the basis of the percentage utilised.

The gains and losses deriving from the sale or disposal of assets are determined as the difference between the sales revenue and the net book value of the asset and are charged to the income statement.

Leasing – leasing contracts are classified as finance lease contracts when the terms of the contract are such that they substantially transfer all of the risks and benefits of ownership to the lessee. The assets subject to finance lease contracts are recorded under tangible fixed assets and are recorded as assets of the Group at their fair value at the acquisition date, or, if lower, at the current value of the minimum lease payments and are depreciated based on their estimated useful life as for other assets owned. The corresponding liability to the lessor is included in the balance sheet. The lease payments are divided between the capital and interest quota and the financial charges are directly charged to the income statement of the period. All other leases are considered operating leases and the relative leasing costs are recorded based on the conditions of the contract.

Intangible assets – The intangible assets are recorded when identifiable and the costs can be determined reliably in the expectation that these assets will generate future economic benefits. These assets are recorded at cost determined in accordance with the criteria indicated for tangible fixed assets and when related to finite useful life are amortised on a straight line basis over their estimated life. The amortisation commences when the asset is available for utilisation or in any case begins to produce economic benefit for the business. When the intangible assets have however an indefinite useful life they are not subject to amortisation but to an impairment test annually even in the absence of indicators that indicate a loss in value.

The costs of research and development of new products and/or processes are normally charged to the income statement in the year in which they are incurred, in line with the prudence principle.

Advertising costs are charged directly to the income statement.

The industrial patents and intellectual property rights are representative of identifiable assets, separable and capable of generating future economic benefits under the control of the entity; these rights are amortised over the relative useful lives.

The rights of concessions and licenses principally consist of rights for the management of local public services and are amortised on a straight line basis over the lesser period between the economic/technical life of the assets granted and the duration of the concession. The residual value of the intangible assets corresponding to the water concessions conferred by the companies spun off and/or merged, however, are amortised considering the residual average duration of management in view of the concessions currently in force with the Authorities. The residual value of intangible assets corresponding to the concessions of the methane gas distribution networks from the companies merged and/or spun-off are amortised considering the residual duration of the transitory management period as per the current legislative in force.

The gains and losses deriving from the disposal of intangible assets are determined as the difference between the value of disposal and the carrying value of the asset and are recorded in the income statement at the moment of the disposal.

Business combinations - IFRS 3 is applicable to the business combinations that arise after March 31, 2004. The Company has applied this standard for the acquisition of the Agea Group.

IFRS 3 requires that the business combinations are recorded in accordance with the purchase method. In particular the cost of the business combination is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group, in exchange for control of the company acquired, plus any costs directly attributable to the business combination; with exception of the non-current assets that are classified as held for sale in accordance with IFRS 5, which are recorded and valued at fair value less the sales cost.

Goodwill acquired in a business combination is recognised as an asset and initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the excess is immediately recognised in the income statement.

The Group, availing of the exemption permitted by IFRS, did not apply in retrospective manner IFRS 3 to the business combinations before the transition date to the IAS/IFRS standards, that are therefore recorded at the same values determined on the basis of the previous accounting standards.

The goodwill deriving from the consolidation represents the higher value of the cost of the business combination compared to the percentage pertaining to the Group of the assets and liabilities, valued at fair value, of the subsidiaries, associated companies and jointly controlled entities at the purchase date.

The goodwill deriving from the business combination of an associated company is included in the book value of the holding.

Loss in value ("Impairment") – At each balance sheet date, the Group takes into consideration the book value of its tangible and intangible fixed assets in order to determine if there are indications that these assets have incurred a reduction in value. When there are indications that there are reductions in value the recoverable amount of these assets are estimated to determine the amount of the write-down. When it is not possible to estimate the recoverable value of an asset individually, the Group makes the estimate of the recoverable value of the cash-generating unit to which the asset belongs. The future cash flows are discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The indefinite intangible assets (including goodwill) are verified annually and whenever there is an indication of a possible loss in value in order to determine if any loss in value has occurred.

The recoverable amount is the higher of its fair value less costs to sell and its value in use. In the calculation of the value in use, the estimated future cash flows are discounted on a pre-tax basis that reflects the market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount and the loss in value is recognised in the income statement. If there is an indication that an impairment loss recognised for an asset other than goodwill may no longer exist or may have decreased, the carrying amount of the asset (or of the cash-generating unit), shall be increased to its recoverable amount, but shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior year. A reversal of an impairment loss for an asset shall be recognised in the income statement, unless the asset is carried at revalued amount, in which case it shall be treated as a revaluation increase.

Equity investments and securities – The equity investments stated in this account refer to investments of a permanent nature.

– Equity investments in associated companies – An associated company is a company in which the Group has significant influence, (but not full or joint control), through the participation in financial and operating policy decisions of the investee. Investments in associated companies are accounted for using the equity method, with the exception of those classified as held for sale, or when they are not of a significant value; in this case they are maintained at cost. In accordance with the equity method, the investments are initially recognised in the balance sheet at cost, and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee, net of any impairment loss of the individual companies. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment at the acquisition date is recognised as goodwill. The goodwill is included in the carrying value of the investment and is subject to an impairment test.

– Other equity investments and securities – the other equity investments and the securities belong to the category as per IAS 39 "financial assets available for sale". They consist of instruments representative of net equity and are valued at fair value. When the market price, or the fair value cannot be determined they are valued at adjusted cost for permanent impairment in value whose effects are recognised in the income statement.
If the reasons for the recognition of the impairment loss no longer exist, the previously recognised impairment loss shall be reversed. The reversal shall not result in a carrying amount that exceeds what the amortised cost would have been, had the impairment not been recognised, at the date the impairment is reversed. The amount of the reversal shall be recognised in the income statement. The risk deriving from any losses exceeding the carrying value of the investment is recorded in a specific account up to the amount the parent company is committed to comply with legal or implicit obligations in relation to the investee or in any case to cover the losses.
The financial assets for which there is the positive intention and ability of the company to hold to maturity are stated at cost represented by the fair value of the initial payment given on exchange, increased by the transaction costs. After the initial recognition, the financial assets shall be measured at amortised cost using the effective interest method.

Other non-current assets – They are stated at their nominal value adjusted for any loss in value.

Contract work in progress – When the result of a contract can be estimated reliably, the contract work in progress is measured on the basis of the contractual payments matured with reasonable certainty, in accordance with the percentage of completion method (so-called cost-to-cost), resulting in the reporting of revenues, expenses and profit which can be attributed to the proportion of work completed. The positive or negative difference between the value of the contracts and the payments on account received is stated respectively in the assets or liabilities of the balance sheet. The contract revenues, in addition to the contractual payments, include the variances, price revisions and the recognition of the incentives up to the amount it is probable that they represent effective revenues that can be determined reliably.

When the outcome of a contract cannot be estimated reliably, the revenues shall be recognised only to the extent of contract costs incurred that it is probably will be recoverable. The contract costs shall be recognised as an expense in the period in which they are incurred.

An expected loss on the contract shall be recognised as an expense immediately.

Inventories - Inventories shall be measured at the lower of cost, inclusive of incidental expenses, and net realisable value. The cost is determined in accordance with the weighted average cost method. The net realisable value is determined on the basis of current costs of the inventory at the period end less the estimated cost necessary to realise the sale.

Stocks of obsolete or slow-moving articles are written down bearing in mind their possible utilisation or sale, through the provision of a specific obsolescence provision.

The inventories of materials in work in progress and of finished products are measured at weighed average cost of production of the period, that includes the raw materials, consumption materials, direct and indirect production costs excluding the general expenses.

Trade receivables – The trade receivables are stated at the nominal value reduced by a doubtful debt provision to reflect the estimate of the losses on receivables.

Financial assets – The financial assets are recognised and unrecognised from the financial statements on the basis of the trading date and are initially measured at cost, including the transaction costs. After initial recognition, the financial assets that the Group has the positive intention and ability to hold to maturity are stated at amortised cost using the effective interest method, net of impairment loss to reflect losses in value. The financial assets other than those held to maturity are classified as held for trading or available for sale and are measured at the end of each period at fair value.

Cash and cash equivalents - The account relating to the cash and cash equivalents includes cash, bank current accounts and deposits repayable on demand and other high liquid short-term financial investments readily convertible into cash and that do not have a significant risk in the change in value.

Loans – The financial liabilities, with the exception of the derivatives, are recognised initially at cost, corresponding to the fair value of the liability plus transaction costs that are directly attributable at the issue of the liability. After initial recognition, the financial liabilities shall be measured at amortised cost using the original effective interest rate.

Employee leaving indemnity and other employee benefits – The liabilities relating to the defined benefit plans (such as the Employee Leaving Indemnity) are determined net of any plan assets, on the basis of actuarial assumptions, and on an accruals basis in line with the employee service necessary to obtain the benefits; the measurement of the liability is made by independent actuaries. The actuarial gains and losses are recognised in the income statement as a cost or revenue when the cumulative net value of the "actuarial" gains and losses not recognised for each plan at the end of the previous period are above 10% the highest value of the obligations referred to in the defined benefit plans (so-called corridor method).

Provisions for risk and charges – The provisions for risks and charges include the provisions recognised in the financial statements on the basis of present obligations (such as resulting from past events) to which the group considers it is probable that the obligation will be settled. The provisions are recognised on the basis of the best estimate of the costs required to meet the obligation, at the balance sheet date and are discounted when the effect is significant and when the necessary information is available. In this case the provisions are determined discounting the future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability that have not been reflected in the best estimate of the expenditure. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. If the liability relates to an intangible fixed asset (example restoration of sites), the counterparty of the provision is recognised under the asset to which it refers; the recognition of the charge to the income statement is made through the depreciation process of the tangible fixed asset to which the expense refers to.

Trade payables – They refer to commercial transactions.

Other current liabilities – They refer to transactions of a various nature and are stated at nominal value.

Derivative financial instruments – The Group holds derivative instruments in order to cover its exposure to the risk of interest rate changes and to the risk in methane gas and electricity price changes. In line with the strategy chosen, the Group does not carry out operations and derivatives for speculative purposes.

The operations that, in compliance with the risk management policies, satisfy the requisites imposed by the accounting standard for the treatment of "hedge accounting" are designated as "hedging", while those that, although made with intention to cover, do not satisfy the requisites required by the standard are classified as "trading".

For accounting purposes, the hedging operations are classified as a "fair value hedge" if they are made against the risk of change in the market value of the underlying asset or liability; or as a "cash flow hedge" if they are made against the risk of change in the derivative cash flows either from an existing asset or liability, or from a future operation.

In relation to the derivative instruments classified as "fair value hedge", that comply with the conditions for the accounting treatment as hedging operations, the gains and losses deriving from the determination of their market value are recognised in the income statement. Also recognised in the income statement are the gains or losses deriving from the "fair value" adjustment of the underlying element of the hedge.

For the instruments classified as "cash flow hedge" that comply with the conditions for the accounting treatment as hedging operations, the gains and losses deriving from their market valuation are recognised directly to net equity.

The changes in the fair value of the derivative instruments that are not qualified as hedges are recognised in the income statement when they arise.

Grants – the capital grants are recognised in the income statement over the period correlated to the relative costs; in the balance sheet they are stated as deferred income. The operating grants, including contributions received from users for connections, are considered as revenues for services in the period and are therefore recognised in accordance with the accruals principle.

Recognition of the revenues – The revenues and costs 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 divided between revenues deriving from operating activities and financial income that matures between the date of sale and the date of payment.

In particular:

– the revenues from energy, gas and water sales are recognised 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);

– the revenues for services rendered are recognised on the basis of the services provided and in compliance with the relevant contracts;

– the revenues for sale of goods are recognised at the moment in which the Group transfers to the acquirer the significant risks and rewards connected to the ownership of the asset,

– costs are recognised in accordance with the accruals principle.

The financial income and charges – The financial income and charges are recognised based on the accruals principle.

Income taxes – The income taxes are calculated on the basis of the best possible estimate, in relation to the information available, of the forecast result for the year (up to the end of the assessable period); account is also taken of the effects deriving from the implementation of the national fiscal consolidation by the Group. The deferred tax assets and liabilities are calculated on the temporary assessable differences and on the differences that are generated on the application of the international accounting standards.

Conversion criteria of foreign currency accounts – The functional and presentation currency adopted by the HERA Group is the Euro. Foreign currency transactions are recognised, initially, at the exchange rate at the date of the transaction. The assets and liabilities in foreign currencies, with the exception of fixed assets, are recognised at the exchange rate at the balance sheet date and the relative exchange gains and losses are recognised in the Income Statement; any net gain arising is recognised in a specific non-distributable equity reserve until the gain is realised.

Earnings per share – Earnings per share is represented by the net profit of the period attributable to the shareholders in possession of ordinary shares taking into account the weighed average of the ordinary shares in circulation of the period. The diluted earnings per share is obtained through the adjustment of the weighed average of the shares in circulation, taking into account all the potential ordinary shares.

4. Revenues

The revenues from sales and services at June 30, 2005 amount to Euro 896,393 thousand, and are divided as follows:

	30/06/2005	30/06/2004	Changes
	€/000	€/000	€/000
		(adjusted)	
Revenues from sales and services	881,704	691,297	190,407
Change in inventories of products in work in process,	-1,847	757	-2,604
semi-finished and finished products			
Change in contract work in progress	1,666	4,100	-2,434
Other income and revenues	14,870	10,950	3,920
Total	**896,393**	**707,104**	**189,289**

For the analysis of the performance of sales by segment reference should be made to the Directors' Report on operations.
The company operates mainly in Italy.

5. Other operating revenues

The other operating revenues at June 30, 2005 amount to Euro 14,870 thousand, and are divided as follows:

	30/06/2005	30/06/2004	Changes
	€/000	€/000	€/000
		(adjusted)	
Insurance reimbursements	3,251	1,005	2,246
Sale of materials and stock to third parties	130	0	130
Quota of capital grants	1,243	1,941	-698
Operating grants and differentiated waste	2,292	2,375	-83
Over-accruals of prior years and similar	183	0	183
Rent	693	281	412
Utilisation of provisions	1,318	2	1,316
Ordinary gains	609	899	-290
Reimbursement of costs	637	686	-49
Others	4,514	3,761	753
Total	**14,870**	**10,950**	**3,920**

The "Insurance reimbursements" report an increase compared to the previous year principally due to the execution of a guarantee policy by a subsidiary company Frullo Energia Ambiente SrL of Euro 2,500 thousand.
The account "Utilisation of provisions" report an increase of Euro 1,316 thousand compared to the previous period, due for Euro 735 thousand, to higher utilisation of post-mortem landfill provisions by the Parent Company Hera S.p.A..

6. Consumption of raw materials and consumable materials (net of the change of the inventories of raw materials and stocks)

	30/06/2005 €/000	30/06/2004 €/000 (adjusted)	Changes €/000
Methane for sale and lpg net of change in stocks	264,510	187,078	77,432
Fuel for heat management	1,501	30	1,471
Electricity ready for sale	96,365	64,392	31973
Water	14,056	12,892	1,164
Materials for maintenance: operations and spare parts	16,566	11,793	4,773
Electricity	8,471	7,154	1,317
Fuels and lubricants	4,130	2,508	1,622
Methane for industrial use	1,436	777	659
Water for industrial use	890	158	732
Chemical products	3,807	3,368	439
Materials for consumption and various	5,540	19,946	-14,406
Total	**417,272**	**310,096**	**107,176**

For an analysis of the raw material and material consumption costs reference should be made to the Directors' Report on operations.

In particular the account "Materials for consumption and various" included at June 30, 2004 an amount of Euro 10,988 thousand relating to lease-back operations made by the subsidiary Uniflotte S.r.L. that recorded a similar amount in the account revenues from sales and services in the same period. This operation was not undertaken in the first half of 2005.

7. Service costs

The composition of this account is as follows:

	30/06/2005 €/000	30/06/2004 €/000 (adjusted)	Changes €/000
Industrial utilities: for water, methane, heat and energy services	2,845	1,440	1,405
Expenses on works and maintenance	72,988	64,922	8,066
Transport and storage	34,714	31,461	3,253
Insurance costs	5,223	3,924	1,299
IT and CED services	130	1,575	-1,445
Cleaning and security	1,924	1,538	386
Waste transportation, disposal and collection services	42,610	37,126	5,484
Announcements, insertions and advertising	2,426	2,315	111
Transport costs	380	357	23
Technical, organisational, legal and fiscal consultants	11,765	8,083	3,682
Directors and statutory auditors fees	2,034	1,735	299
Meter reading	1,124	492	632
Postal and telephone	1,751	2,079	-328
Selection, training and other personnel expenses	3,939	3,100	839
Others	17,714	17,187	527
Total	**201,567**	**177,334**	**24,233**

8. Personnel costs

The composition of personnel costs in the two periods is as follows:

	30/06/2005 €/000	30/06/2004 €/000 (adjusted)	Changes €/000
Salaries and wages	83,126	69,185	13,941
Social charges	28,623	24,300	4,323
Employee leaving indemnity	3,861	2,531	1,330
Other costs	1,763	1,685	78
Total	**117,373**	**97,701**	**19,672**

lThe average number of employees in the periods under consideration, divided by category, is as follows

	30/06/2005	30/06/2004	Changes
Executives	88	72	16
Managers	200	155	45
White-collar	2,029	1,720	309
Blue-collar	2,734	2,487	247
Total	**5,051**	**4,434**	**617**

Overall the average per capita cost at June 30, 2005 was Euro 23 thousand with an increase of 4.5 % compared to June 30, 2004 (Euro 22 thousand).

At June 30, 2005 the number of personnel was 5,045 units.

9. Other operating expenses

The composition of the other operating expenses in the two periods is as follows:

	30/06/2005 €/000	30/06/2004 €/000 (adjusted)	Changes €/000
Fees to local public entities	25,583	19,650	5,933
Rental and hire	10,662	7,738	2,924
Other taxes	1,681	2,777	-1,096
Leasing	2,188	617	1,571
Associations	1,054	496	558
Special landfill levy	5,643	4,550	1,093
Loss on sale of ordinary assets	306	629	-323
Receivable losses not covered by provision fund	1,971	11	1,960
Other minor charges	4,550	2,602	1,948
Total	**53,638**	**39,070**	**14,568**

9.1 Capitalised costs

The composition of the account in the two periods is as follows:

	30/06/2005	30/06/2004	Changes
	€/000	€/000	€/000
		(adjusted)	
Increases for internal constructions	48.341	50.042	-1.699
Total	**48.341**	**50.042**	**-1.699**

10. Quota of profits/(losses) of associated companies

The adjustments relate to the valuation of investments in associated companies under the equity method.

	30/06/2005	30/06/2004	Changes
	€/000	€/000	€/000
		(adjusted)	
Profits pertaining to associated companies	926	1.025	-99
Losses pertaining to associated companies	-1.240	-2.281	1.041
Total	**-314**	**-1.256**	**942**

11. Financial income and charges

Financial income is comprised of:

	30/06/2005	30/06/2004	Changes
	€/000	€/000	€/000
		(adjusted)	
Interest on bank deposits	807	633	174
Interest on other short-term receivables	59	262	-203
Interest on customersi	432	49	383
Adjustment derivative interest	472		472
Other financial income	1.452	943	509
Total	**3.222**	**1.887**	**1.335**

The composition of interest and other financial charges are as follows:

	30/06/2005	30/06/2004	Changes
	€/000	€/000	€/000
		(adjusted)	
Interest on bank current accounts	4.552	3.593	959
Interest on medium/long term loans	8.992	6.323	2.669
Interest due to other lenders	8	197	-189
Valuation at fair value of derivative instruments	2.003	2.954	-951
Others	10.517	1.625	8.892
Total	**26.072**	**14.692**	**11.380**

The account “others” at June 30, 2005 includes Euro 4,546 thousand for the effect of the application of the discounting on the employee leaving indemnity, on the risk funds and on the application of the finance leasing.

12. Income taxes

The composition of this account is as follows:

	30/06/2005	30/06/2004	Changes
	€/000	€/000	€/000
		(adjusted)	
Current and deferred taxes	24.986	24.514	472
	24.986	**24.514**	**472**

The total percentage of taxes in the period on the pre-tax result was equal to 35.45%.

It is noted that in accordance with article 27 of law No. 62 of April 18, 2005, that has established the procedure for the recovery of the state aid declared illegal by the decision 2003/193 of June 5, 2002 by the EU Commission, Hera SpA has presented the declarations of revenue relating to the assessable period relating to the exemption period. The local tax office has already completed the verifications on the above-mentioned declarations and will proceed with the assessment notice for the payment of the taxes due.
It should be noted, that in accordance with the agreements signed between the shareholders on the corporate integration that resulted in the incorporation of Hera SpA and as reported in the Information Prospectus on the quotation, “the Local Entities will indemnify Hera SpA for any cost, loss or damage incurred by Hera in relation to obligatory legislation that revokes the tax benefits to which the company and the participating companies in the integration companies have received”. Consequently Hera SpA did not provide for an additional provision in the accounts.

13. Tangible fixed assets

The tangible fixed assets are recorded net of the accumulated depreciation provision and consist of:

Euro thousands	Land and buildings	Plant and machinery	Other assets	Investments in progress	Total tangible fixed assets
Purchase cost					
Balance at 31/12/2004	223.950	1.086.902	204.969	250.684	1.766.505
Increases	2.701	31.949	7.504	52.115	94.269
Disposals	-341	-152	-7.003	-18.693	-26.189
Changes in the consolidation area	0	-430	0	0	-430
Other changes	1.876	11.761	-61	-2.038	11.538
Balance at 30/06/2005	**228.186**	**1.130.030**	**205.409**	**282.068**	**1.845.693**
Accumulated depreciation					
Balance at 31/12/2004	-32.030	-324.425	-111.183		-467.638
Depreciation for the year	- 3.375	-28.010	-8.566		-39.951
Disposals	84	16	5.614		5.714
Changes in the consolidation area		85			85
Other changes	98	15.510	421		16.029
Balance at 30/06/2005	**-35.223**	**-336.824**	**-113.714**		**-485.761**
Net value					
At December 31, 2004	191.920	762.477	93.786	250.684	1.298.867
At June 30, 2005	192.963	793.206	91.695	282.068	1.359.932

For the analysis of the investments in the period reference should be made to the specific section in the Directors' Report on operations.

14. Intangible assets

The intangible assets consist of:

Euro thousands	Industrial rights & intellectual property	Concessions, licenses, trademarks and similar	Other	Investments in progress and payments on account	Total intangible fixed assets
Purchase cost					
Balance at 31/12/2004	**20.962**	**245.085**	**23.595**	**39.254**	**328.896**
Increases and other movements	794	1672	0	5.816	8.282
Disposals	0	0	0	0	0
Other movements and reclassifications	0	0	-7.572	0	-7.572
Balance at 30/06/2005	**21.756**	**246.757**	**16.023**	**45.070**	**329.606**
Accumulated amortisation					
Balance at 31/12/2004	**10.189**	**97.960**	**9.800**	**0**	**117.949**
Amortisation for the year	1.977	6.256	1.075	0	9.308
Disposals	0	0	0	0	0
Other changes	0	0	0	0	0
Balance at 30/06/2005	**12.166**	**104.216**	**10.875**	**0**	**127.257**
Net value					
as at June 30, 2005	9.590	142.541	5.148	45.070	202.349
as at December 31, 2004	10.773	147.125	13.795	39.254	210.947

At June 30, 2005 the Industrial patents and intellectual property rights, equal to Euro 9,590 thousand, relate principally to costs incurred for the purchase and implementation of the SAP R/3 and SAP/ISU IT programmes. These costs are amortised over a period of five years.

At June 30, 2005 the concessions, licenses, trademarks and similar rights amount to Euro 142,541 thousand, a decrease of Euro 4,584 thousand compared to the previous year, and consist largely of the value of concessions in the Parent Company relating to the gas, water and purification plants.

At June 30, 2005 the fixed assets in progress, equal to Euro 45,070 thousand, principally relate to costs incurred on IT projects not yet completed.

15. Goodwill

The residual net goodwill at June 30, 2005 equal to Euro 150,476 thousand principally relates to:

– the residual goodwill of the integration operation in 2002 that saw the creation of Hera S.p.A. equal to Euro 86,516 thousand;
– goodwill relating to the integration operation in Hera S.p.A. of Agea S.p.A. in 2004 equal to Euro 45,240 thousand. This goodwill, recognised as an asset and initially valued at cost, represents the excess of the acquisition cost compared to the group quota in the fair value of the assets and the liabilities recognised. In particular, in relation to the fair value of the shares of Hera S.p.A. issued following the share capital increase for the merger by incorporation of Agea S.p.A., the value of the shares was determined on July 27, 2004 identified as the date in which the effective control of Agea S.p.A. took place;
– goodwill relating to the subsidiary Ecologia Ambiente arising in 2004 following

the conferment of a business unit from Ambiente S.p.A of Euro 10,267 thousand;
– residual goodwill deriving from the consolidation of the subsidiary Medea of Euro 3,069 thousand;
– residual goodwill deriving from the consolidation of the subsidiary Nuova Geovis of Euro 1,775 thousand.

In accordance with IFRS 3, as from 2004 the goodwill is no longer subject to amortisation and an impairment test is made on the residual value at the end of the period.

16. Equity investments and securities

The equity investments consist of:

	30/06/2005 €/000	31/12/2004 €/000 (adjusted)	Changes €/000
Investments in subsidiaries not consolidated:			
Hera Immobiliare S.r.l.	100	68	32
Immobiliare Berti Pichat S.r.l.	14	5	9
Ambiente 3000 S.r.l.	76	35	41
Inter.imm S.r.l.	20	37	-17
Consorzio Energia Servizi	3	3	0
Geat Service in liquidazione	163	327	-164
Sbi S.r.L.	51	116	-65
Hera Ferrara S.r.l.	0	10	-10
Ideametropoli in liquidazione	43	0	43
Hera gas Tre S.p.A.	705	0	705
Hera Energie Bologna S.r.l.	335	0	335
Total	**1.510**	**601**	**909**
Investments in associated companies:			
Asa S.p.A.	587	672	-85
Acantho S.p.a.	5.145	5.736	-591
Agea Reti S.r.l.	7.738	7.739	-1
Tre-A-Web	0	381	-381
Amav Ambiente S.p.A	0	218	-218
Aspes Multiservizi S.p.A	13.821	13.084	737
Delta Web	71	94	-23
Ferrara Tua	215	164	51
Locride Ambiente S.p.A	0	393	-393
Penisola Verde S.p.A	80	79	1
SET S.p.A	23.341	23.250	91
Viviservizi S.r.l.	178	178	0
Yele S.p.A	195	185	10
SGR Servizi S.p.A	4.822	0	4.822
Other investments	597	647	-50
Total	**56.790**	**52.820**	**3.970**

	30/06/2005 €/000	31/12/2004 €/000 (adjusted)	Changes €/000
Investments in other companies:			
Energia Italiana S.p.A.	24.695	23.980	715
Galsi	450	450	0
Ambiente Mare	300	300	0
Calenia	1.095	15	1.080
Other companies	205	217	-12
Total	**26.745**	**24.962**	**1.783**
Total equity investments	**85.045**	**78.383**	**6.662**
Securities			
Fixed income securities	1	1	0
Variable income securities	1	1	0
Total Securities	**2**	**2**	**0**
Total equity investments and Securities	**85.047**	**78.385**	**6.662**

Investments in subsidiaries not consolidated

The increases principally relate to:

– incorporation on April 27, 2005 of the company Hera Gas Tre S.p.A. (a company that transports natural gas);
– incorporation on June 30, 2005 of the company Hera Energie Bologna Srl by the subsidiary Hera Comm Srl (a company operating in the provision of all of the activities relating to the supply to third parties, directly or indirectly, of energy services and heat management).

From January 1, 2005 the company Hera Ferrara S.r.L. became operative that at June 30, 2005 was held 100%.

Investments in associated companies

The changes recorded in the period principally relate to the share of profit and losses pertaining to the Group.

During the year a holding of 20% was acquired in the company SGR Servizi S.p.A for a total value of Euro 4,162 thousand. The company operates in the provision of meter reading and billing.

The holdings in Locride Ambiente S.p.A , Amav Ambiente S.p.A. and Delta Web (for 30%) at June 30, 2005 were reclassified within the assets, in the account “other financial assets”, as sale contracts were agreed with third parties by the parent company during the third quarter of 2005.

The holding in the company Tre A-Web was sold on April 15, 2005.

Investments in other companies

On June 30, 2005 the parent company subscribed, for its quota, to the share capital increase in the holding Energia Italiana S.p.A. for an amount of Euro 715 thousand.

On May 23, 2005 the parent company made a future share capital increase in the holding Calenia Energia S.p.A. for an amount of Euro 1,080 thousand.

17. Financial assets

At June 30, 2005 this account amounts to Euro 38,459 thousand and principally consist of loans made to associated companies; Delta WEB Euro 878 thousand, Rio D'Orzo Euro 150 thousand and SET Euro 18,150 thousand and of deposits paid of Euro 17,730 thousand (of which Euro 12,000 thousand relates to the deposit on the business unit rental contract between the companies owner of the networks Acosea Reti S.r.L. and Hera S.p.A.). This amount entered into the parent company following the incorporation of the "business unit" from Acosea S.p.A..

18. Deferred tax assets

At June 30, 2005 the account amounted to Euro 42,575 thousand (Euro 30,971 thousand at June 30, 2004). The deferred tax assets are generated from the temporary differences between the accounting and fiscal assessable income and the differences arising from the application of the IAS/IFRS. These receivables are recoverable on the reversal of the temporary differences.

The composition at June 30, 2005 takes into account the deferred tax assets originating from the differences between statutory and assessable income are those generated from the application of IAS/IFRS; this latter relates to the application of IAS 36 and 38, for approximately Euro 12,500 thousand (relating respectively to the write-down of the TLC due to the impairment test and to the adjustment of the intangible fixed assets no longer capitalised), and IAS 19 for Euro 1,800 thousand (relating to the discounting of the employee benefits).

19. Other non-current assets

The other non-current assets at June 30, 2005 amount to Euro 20,930 thousand and principally refer to the residual quota of the substitute tax paid in the previous years that will be recognised in subsequent years as the fiscal benefit deriving from the amortisation (only for fiscal purposes) of the goodwill generated on the mergers carried out in previous years of Euro 14,725 thousand, tax receivables of Euro 1,423 thousand and receivables from clients of Euro 4,689 thousand.

20. Inventories

The inventories consists of:

	30/06/2005	31/12/2004	Changes
	€/000	€/000	€/000
		(adjusted)	
Raw materials and stocks	27.321	35.241	-7.920
Semi-finished products and work in progress	2.419	2.675	-256
Finished products	1.917	3.509	-1.592
Payments on account	70	88	-18
Total	**31.727**	**41.513**	**-9.786**

The inventories at June 30, 2005 amount to Euro 31,727 thousand (Euro 41,513 thousand at December 31, 2004) net of the inventory obsolescence provision of Euro 867 thousand (Euro 843 thousand at December 31, 2004). The inventory of raw material, ancillary and consumables principally consists of spare parts and equipment mainly for the maintenance and operations of the plant as well as methane gas storage by the subsidiary Hera Trading S.r.L. of Euro 7,670 thousand.

21. Trade receivables

The trade receivables at June 30, 2005 amount to Euro 710,897 thousand (Euro 597,452 thousand at December 31, 2004). The receivables from users for consumption estimated represents the quota of the bills that will be invoiced after the balance sheet date. The values are shown net of a doubtful debt provision that at June 30, 2005 is equal to Euro 15,905 thousand (Euro 15,385 thousand at December 31, 2004). The doubtful debt provision is considered adequate and prudent in relation to the net realisable value of the receivables. The provision is made taking into consideration the historical analysis of the recovery of receivables. The amount of the provision is recognised in the income statement. The movements in the period were as follows:

	31/12/2004	Provisions	Util.	Changes in the consolidation area	30/06/2005
€/000					
Provision for doubtful debts	15,385	1,389	-839	-30	15,905
Total	**15,385**	**1,389**	**-839**	**-30**	**15,905**

22. Contract work in progress

The contract work in progress at December 31, 2004 amounted to Euro 14,671 thousand compared to Euro 15,038 thousand at June 30, 2005.

23. Financial assets

The financial assets at June 30, 2005 amounted to Euro 2,183 thousand and consist of loans granted to companies of the Group. At December 31, 2004 the account amounted to Euro 36,827 thousand and related to investments held for sale of Euro 19,680 thousand, securities of Euro 14,805 thousand and receivables for loans to collect of Euro 2,343 thousand.

24. Other current assets

The other current assets consist of:

	30/06/2005	31/12/2004	Changes
	€/000	€/000	€/000
		(adjusted)	
Direct/indirect taxes	5.445	5.330	115
Irpeg/Irap income tax advances	1.398	848	550
Withholdings on interest	213	10	203
Tax receivables	487	1.787	-1.300
Grants	1.604	2.485	-881
Advances to suppliers/employees	4.584	12.044	-7.460
Receivables from social security institutions	858	417	441
Insurance reimbursements	174	173	1
Other receivables	27.786	21.828	5.958
Loans to receive	1.372	0	1.372
Investments held for sale	627	0	627
Securities	4.912	0	4.912
Total	**49.460**	**44.922**	**4.538**

The values at December 31, 2004 relating to the account “loans to receive”, “investments held for sale” and “securities” were not present as reclassified from financial assets.

25. Cash and cash equivalents

Includes cash and cash equivalents, cheques held in the main offices, deposits held at banks, postal offices and credit institutions of Euro 108 thousand. Also includes the deposits at the Bank and Credit Institutions generally available for current operations as well as postal current accounts of Euro 182,331 thousand (with an increase compared to the previous year of Euro 10,031 thousand).

26. Share capital and reserves

Share Capital

The share capital, at June 30, 2005, is equal to Euro 839,903,881, entirely paid-in and is represented by 839,903,881 ordinary shares of a nominal value of Euro 1 each.

Share premium reserve

In the first half of 2005 this amounted to Euro 42,203 thousand, with an increase of Euro 29,950 thousand compared to the previous reserve, due to the application of IFRS 3 relating to the merger with Agea S.p.A.

Legal reserve

At June 30, 2005 the reserve amounted to Euro 10,184 thousand: the increase of Euro 2,969 thousand compared to December 31, 2004 is due to the allocation of 5% of the profit in the previous year, as per article 2430 of the civil code.

Revaluation reserve

The revaluation reserves were created on the basis of the following legislative provisions (in Euro thousands):

Law 74/1952	€/000	110
Law 576/1975	€/000	127
Law 72/1983	€/000	438
Law 413/1991	€/000	33
Law 342/2000	€/000	2,339
Total	**€/000**	**3,048**

Extraordinary reserve

At June 30, 2005 this amounted to Euro 13,074 thousand, the increase compared to the previous year is due to: for Euro 6,005 thousand to the allocation of the profit in the previous year, as deliberated by the Shareholders' Meeting of April 28, 2005 on the approval of the Annual Accounts.

Reserve for share swap surplus

In the first half of 2005 this amounts to Euro 17,244 thousand with a decrease of Euro 13,000 thousand due to the reclassification in the share premium reserve for the application of IFRS 3 relating to the merger with Agea S.p.A.

Other reserves

In the first half of 2005 this was a negative amount of Euro 9,098 thousand.

IAS/IFRS Reserve

In the first half of 2005 this amounts to Euro 64,168 thousand and is the sum of the adjustments and reclassifications resulting from the adoption of the IAS/IFRS international accounting standards as well as the reclassification of the capital grant reserve of Euro 6,000 thousand.

Cash Flow-Hedge Reserve

In the first half of 2005 this was a negative amount of Euro 10,948 thousand following the fair value valuation of the derivative instruments.

The statement below shows a summary between the differences between the financial statements of the Parent Company and the consolidated financial statements on the items impacting the net result and net equity.

Reconciliation between the parent company and consolidated financial statements
(in Euro/000)

	Net result	Net Equity
Balances as per financial statements at June 30, 2005 of the parent company	14.186	928.892
Net equity valuation of companies recorded at cost	-202	-5.221
Elimination of the companies consolidated fully and recording of the relative net equities adjusted for Ias/Ifrs	33.304	122.435
Allocation of consolidation differences		4.844
Elimination of intercompany conferment	32	-7.978
Reversal of intercompany dividends	-430	-430
Total	46.890	1.042.542
Allocation of minority interest quota	-6.273	-32.372
As per consolidated financial statements at June 30, 2005	40.617	1.010.170

27. Medium/long-term and short-term banks and loans

At June 30, 2005 the medium/long-term loans amounts to Euro 571,662 thousand and principally relate to loans and financing underwritten by the Parent Company.

At June 30, 2005 the short-term loans amounted to Euro 333,958 thousand and included payables to shareholders for loans of Euro 1,229 thousand, bank payables of Euro 331,160 thousand and payables to other lenders for the short-term portion of Euro 1,569 thousand.

Below is provided the list of the main loans in place at June 30, 2005.

Bank loans	Short-term portion	Long-term portion
CARISBO MP 1014982	322	6.368
INTESA MP 2137255-01	2.000	6.000
CRCES MP 2900034577	977	6.178
INTERB MP 33956	744	7.496
INTESA MP 2080802	-	9.000
UNICRED MP 4508510	2.426	11.375
MPS MP 741259725	983	13.049
MPS MP 741213890	1.363	13.420
B. OPI MP 72562-00	2.400	19.200
B. OPI MP 73147-00	3.846	42.308
INTESA MP 651469792	3.328	43.386
MEDIOC. MP 01067798	-	51.000
UNIPOL MP 6091000003	-	65.000
INTESA MP 889150 (giugno 2005)	3.294	46.706
MEDIOC. MP 1067798/1 (marzo 2005)	-	9.000
TOTAL BANK LOANS	**21.682**	**349.487**

The medium long-term bank loans also include the financing underwritten by the subsidiary FEA Srl (residual payable of Euro 89,044 thousand). These loans are guaranteed by mortgages and special privileges in favour of the bank pool that subscribed the no recourse project financing, to guarantee the financing. The repayment of this loan, with final due date of December 31, 2017, contractually establishes half yearly repayments at interest rates of “Euribor 6 months + spread 1.15%”.

28. Employee leaving indemnity and other employee benefits

This account relates to the provisions made for employee leaving indemnities in accordance with legislation, net of advances paid to employees, calculated considering the total receivable that the employee will mature at the date when presumably leaving the company (based on assumptions and utilising actuarial techniques) and quantifying on an accrual basis the part of the future liability discounted at the balance sheet date.

In accordance with the Italian statutory provisions, the employee leaving indemnity is recorded in the financial statements in accordance with a method calculated based on the indemnity matured by each employee at the balance sheet date, on the assumption that all of the employees end their employment contract on that date. This method was up to now considered acceptable according to international accounting standards.
The International Financial Reporting Interpretations Committee (IFRIC) of the IASB has recently confronted the subject of the Italian Employee Leaving Indemnity provision and has concluded that, in application of IAS 19, this shall be calculated in accordance with a method in which the amount of liability for the benefits acquired shall reflect the date of expected leaving and must be discounted. This different accounting treatment of the Employee Leaving Indemnity in accordance with IAS 19 was recorded in the financial statements as a change in accounting principle. Consequently, the financial statements and the comparative figures reflect the effects of the application of the method described above.

	31/12/2004	Service cost	Financial	Util. and other	30/06/2005
Euro thousands			charges	movements	
Employee leaving indemnity provision	76,836	3,627	901	(4,230)	77,135
Gas stocks	3,314	3	39		3,356
Premungas provision	2,484	1	32	(318)	2,199
Total	**82.634**	**3.631**	**972**	**(4.548)**	**82.690**

The principal assumptions utilised in the actuarial estimates of the employee benefits are the following:

	2004	2005
Discount rate, average	4,1%	3,5%
Labour cost increase rate, average	2,8%	2,8%

29. Provisions for risk and charges

The analysis and the composition of the provision for risks and charges is as follows:

€/000	31/12/2004	Provisions	Util. & Other	Changes	30/06/2005
			movements		
Provision for agent's indemnity and similar	36				36
Other provisions for risks and charges					
Provision for legal and litigation expenses	3,649	928	-443		4,134
Provision for landfill closure	33,455	1,814	-856		34,413
and post-closure expenses					
Provision for restoration of third party assets	24,991	5,054			30,045
Other provisions:					
Provision for risks and charges	10,875	533	-1,110	-200	10,098
Provision for other risks	6,200	14	-9	15,151	21,356
Total	**79.206**	**8.343**	**-2.418**	**14.951**	**100.082**

The landfill closure and post-closure expenses provision relates to the provision made by the Group in order to meet future costs for the management of the landfills currently in use for closure and post-closure. Future payments, calculated for each landfill by a specific expert's valuation report, are discounted in accordance with the provisions of IAS 37. The increases of the provision consist of the financial component deriving from the discounting procedure, while the utilisations represent the payments made in the period.

The provision for the restoration of third party assets is made in accordance with current legislation and contractual obligations of the Group as leasee of the distribution network from the Asset Companies. These provisions were made based on the normal depreciation rates for the assets in question, rates which are agreed contractually in order to indemnify the lessor for the impairment to the assets utilised in the activities of the company and applied to the value of the assets received in rental.
The provision, in accordance with IAS 37 reflect the fair value of these payments that will be determined in future periods (generally on the expiry of the agreements underwritten with the authorities, in relation to the water service and of the expiry of the transitory period provided for the current legislation in relating to the gas distribution). The increase in the fund relates to the sum of the provisions in the period, including those discounted and the financial charges that reflect the component deriving from the discounting of the cash flows.

30. Deferred tax liabilities

At June 30, 2005 the account amounts to Euro 54,230 thousand (Euro 45,493 thousand at June 30, 2004). Provision for deferred income tax consists of temporary differences between the profits in the financial statements and the assessable income and from the different taxation arising following the application of IAS/IFRS. These liabilities are payable on the reversal of the temporary differences. The composition at June 30, 2005 takes into account the deferred tax liabilities originating from the temporary differences between the statutory profit and the assessable income and those generated from the application of IAS/IFRS; this latter relates to the application of IAS 17 (finance leasing, for approximately Euro 800 thousand), IAS 16 (revaluation to fair value of some assets for approximately Euro 16,500 thousand), IAS 37 (discounting of the post-mortem landfill provisions, for approximately Euro 9,100 thousand and the restoration of third party asset provisions, for approximately Euro 19,300 thousand), and IAS 19 (discounting of the employee leaving indemnity provision and other employee benefits of Euro 3,200 thousand).

31. Payables for finance leases

At June 30, 2005 the account amounted to Euro 46,480 thousand (Euro 26,730 thousand at December 31, 2004).

	Residual amount	Short-term portion	Long term portion
Payables for finance leases	46.480	10.895	35.585

This account represents the recording of the payables due to the IAS 17 finance leasing operations.

32. Other non-current liabilities

The other non-current liabilities amounted at June 30, 2005 to Euro 87,239 thousand (Euro 91,135 thousand at December 31, 2004) and the composition was as follows:

	30/06/2005 €/000	31/12/2004 €/000 (adjusted)	Changes €/000
Payables to social security institutions	67	17	50
Deposits	42,823	43,583	-760
Payables for contributions for outlets and connections	42,039	45,089	-3,050
Payments on account	1,527	1,546	-19
Trade payables	346	645	-299
Miscellaneous	437	255	182
Total	**122.970**	**86.670**	**36.300**

33. Trade payables

The trade payables, entirely of a commercial nature and including the provision for invoices to receive, amounted to Euro 366,750 thousand at June 30, 2005 and Euro 432,923 thousand at December 31, 2004. The net decrease is due to the correction of creditor and debtor accounts during the first half of 2005.

34. Taxes payable

Taxes payable amount at June 30, 2005 to Euro 122,970 thousand (Euro 86,670 thousand at December 31, 2004) and the relative composition is as follows:

	30/06/2005 €/000	31/12/2004 €/000 (adjusted)	Changes €/000
Payables for IRES and IRAP income taxes and consumption taxes	72,683	59,045	13,638
VAT payables	30,942	13,400	17,542
Employee withholding taxes	5,547	3,860	1,687
Substitute tax	74	80	-6
Sewerage fees	491	1,021	-531
Other taxes payable	13,234	9,264	3,970
Total	**122.970**	**86.670**	**36.300**

The increase in the income taxes and consumption tax, and the VAT payables, is principally due to the increase in payables connected to the increase in the invoicing.

35. Other current liabilities

The other payables amount at June 30, 2005 to Euro 65,197 thousand (Euro 65,892 thousand at December 31, 2004) and the relative composition is as follows:

	30/06/2005 €/000	31/12/2004 €/000 (adjusted)	Changes €/000
Payables to social security institutions			
INPS	2,346	1,810	536
INPDAP	6,119	5,444	675
INAIL	134	3	131
Other Institutions	3,363	5,081	-1,718
Dividends	3,286	7	3,279
Payables to employees	13,869	14,391	-522
Directors and Statutory Auditors	268	253	15
Deposits	31	31	0
Payables for utilities	2,167	332	1,835
Payables for Stalcio Plan	10,101	7,822	2,279
Others	23,513	30,718	-7,205
Total	**65.197**	**65.892**	**-695**

36. Financial derivative instruments (cash flow hedge

The fair value market valuation at June 30, 2005 of the interest rate swap to cover medium/long-term loans report a liability of Euro 11,771 thousand that represents the non payment in the future of the current variable interest instead of the interest rate agreed.
The fair value market valuation at June 30, 2005 of the derivative contracts covering the purchase sales contracts on commodities reports a liability for Euro 7,724 thousand.

37. Segment information (IAS 14)

	Gas	Electricity	Water cycle	Waste	Other services	Holding	Total	Consolidated financial statement
Value of Production	380,1	117,7	174,6	192,7	62,4	17,1	944,7	944,7
Inter-company revenues	12,0	14,1	0,7	2,5	8,1	4,4	41,8	
Value of Production	392,1	131,8	175,3	195,2	70,5	21,5	986,5	944,7
INDIRECT REVENUES	11,0	0,6	5,0	4,2	0,8	-21,5	0,1	
Final VoP	**403,1**	**132,4**	**180,3**	**199,4**	**71,3**	**0,0**	**986,6**	
EBITDA	**53,2**	**2,8**	**36,7**	**51,9**	**10,3**	**0,0**	**154,9**	**154,9**

38. Transactions with related parties

Below is reported the costs and revenues and receivables and payables that the Parent Company Hera SpA had with subsidiary and associated companies, as related parties. The costs and revenues and receivables and payables with the subsidiary companies were eliminated in the consolidated financial statements.

Subsidiary and associated companies

SUBSIDIARIES	
Costs	
Costs for the use of third party assets	4,374,091
Purchases in raw, ancillary and consumable materials and goods	21,178,334
Service costs	437,819,859
Interest expenses and other charges from Group companies	3,747
Other operating charges	97,073
TOTAL COSTS	**463,473,104**
Revenues	
Other income and revenues	3,535,639
Income from receivables recorded in non-current assets from Group companies	20,794
Income from investments	60,691
Revenues from sales and services	314,902,570
TOTAL REVENUES	**318,519,694**
Receivables from group companies	565,775,778
Payables to group companies	494,069,473
ASSOCIATE COMPANIES	
Costs	
Costs for the use of third party assets	975,000
Purchases in raw, ancillary and consumable materials and goods	168,464
Service costs	2,480,655
Interest expenses and other charges from Group companies	424
Other operating charges	2,213,573
TOTAL COSTS	**5,838,116**
Revenues	
Other income and revenues	30,873
Income from receivables recorded in non-current assets from Group companies	274,489
Income from investments	430,176
Revenues from sales and services	2,072,168
TOTAL REVENUES	**2,807,706**
Receivables from associated companies:	34,548,605
Payables to associated companies:	4,979,946

Related parties

€/000	Receivables	Payables	Revenues	Costs
Municipality of Bologna	20.755	3.350	31.448	458
Con. Ami	591	2.640	347	3.699
Romagna Acque	43	11.847	29	13.728
Unica Reti	715	1.527	51	4.122
Amg assets	33	36		
Amir Assets	2.511	1.477	40	819
Area Assets	56	692	16	1.604
Team assets	489	803	2	794
Total	**25.193**	**22.372**	**31.933**	**25.224**

TRANSACTIONS OF A FINANCIAL NATURE

The Parent Company Hera S.p.A operates as the centralised treasury of some companies of the Group, this relates principally to those created following the spin off of business divisions.
These transactions relate to current accounts between the Parent Company and the subsidiaries.
In addition the Parent Company has granted long/short-term loans to following companies:
Medea S.p.A. Euro 1,000 thousand
Ares S.p.A. Euro 348 thousand
Frullo Energia Ambiente S.r.l. Euro 1,224 thousand
Rio d'Orzo S.r.L. Euro 150 thousand
SET S.p.A. Euro 17,875 thousand
Ambiente 3000 Euro 150 thousand
Recupera S.r.L. Euro 700 thousand
Delta Web S.p.A. Euro 878 thousand

Hera S.p.A. also provides guarantees in favour of companies of the Group that directly assumes loans with banking institutions.

Among the transactions of financial nature are also included transactions relating of the group VAT and the fiscal consolidation.

TRANSACTIONS OF A COMMERCIAL NATURE

The Parent Company provides to the subsidiary and associated companies services of a administrative, financial, legal, and management nature in order to optimise the resources available providing economies of scale. These services are regulated by specific service contracts.

39. Subsequent events

The following corporate operations were completed after June 30, 2005:

ARGILE GAS S.r.L.
On July 6, 2005, Hera Comm S.r.L. acquired the entire share capital of the company ARGILE GAS S.r.L., a company operating in Italy and abroad in the sale of natural gas and other energy products.

Gas Gas S.r.L.
On July 14, 2005 Hera Comm S.r.L. acquired the entire share capital of the company Gas S.r.L., a company operating in the sale and distribution of natural gas.

Tecnometano S.r.L.
On July 14, 2005 Hera S.p.A. acquired the entire share capital of the company Tecnometano S.r.L., a company that installs and manages the heating plants and distribution of fuel liquid and methane gas.

Attivabologna S.r.l. consortile
On July 19, 2005, the Shareholders' Meeting deliberated to place the company in liquidation.

List of Consolidated Companies under the line-by-line method

(in Euro) Company	Registered Office	Share Capital	Percentage held		Total	Total holding
			Direct	Indirect		
Parent company:						
Hera S.p.A.	Bologna	839,903,881				
Subsidiaries:						
Adriatica Acque S.r.l.	Rimini (Rn)	89,033	52.25 %		52.25 %	52.25 %
Agea One S.r.l.	Cassana (Fe)	2,300,000	100.00 %		100.00 %	100.00 %
Akron S.p.A.	Imola (BO)	1,152,940	57.50 %		57.50 %	57.50 %
Ares S.p.A. consortile	Bologna	1,125,240	65.00 %		65.00 %	65.00 %
Attivabologna S.r.l. consortile	Bologna (Bo)	2,558,600		96.40 %	96.40 %	96.40 %
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 Ferrara S.r.l.	Cassana (FE)	810,000	100.00 %		100.00 %	100.00 %
Hera Forli-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	69.30 %		69.30 %	69.30 %
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 %
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 %
Hera Clion S.r.l.	Napoli	200,000	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 %
Nuova Geovis S.p.A.	Sant'Agata Bolognese (BO)	2,205,000	51.00 %		51.00 %	51.00 %
Recupera S.r.l.	Cassana (FE)	413,200	75.50 %		75.50 %	75.50 %
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 %	85.30 %
Sinergia S.r.l.	Forlì (FC)	579,000	59.00 %		59.00 %	59.00 %
Sotris S.p.A.	Ravenna	2,340,000	70.00 %		70.00 %	70.00 %
Uniflotte S.r.l.	Bologna	2,254,177	51.00 %		51.00 %	51.00 %

The subsidiary Adriatica Acque S.r.L. on April 26, 2005 decreased its share capital from Euro 239,435 to Euro 89,033 in order to cover the losses resulting from the years 2003 and 2004.

Included in the full consolidation is the company Hera Ferrara S.r.L., consolidated under the net equity method at December 31, 2004, as it became operative from January 1, 2005. The share capital increased from Euro 10,000 to Euro 810,000 subscribed and fully paid-in by Hera S.p.A.;

Attivabologna S.r.l. consortium on June 7, 2005, the subsidiary Hera Comm S.r.L. acquired the shareholding held by Con.Service, following this operation the shareholding increased from 91.74% to 96.40%.

The company Cales S.r.L. on February 11, 2005 deliberated the share capital increase from Euro 11,000 to Euro 250,000 resulting in an increase of Euro 239,000. The shareholders paid in 25% of this increase based on the percentage shareholdings held. There is also a change in the shareholding in Hera S.p.A. from 50.09% at December 31, 2004 to 50.01% at June 30, 2005.

With effect from January 1, 2005 the sale of the business unit of Amga Energia to Sinergia was completed, that resulted in a share capital increase in Sinergia from Euro 414,000 to Euro 579,000. The shareholding of Hera S.p.A. increased from 51% to 59%.

List of Companies Consolidated under the equity method

Company	Registered Office	Share capital	Percentage held		Total	Total holding
			Direct	Indirect		
Acantho S.p.A.	Imola (BO)	15,875,781	47.16 %		47.16 %	47.16 %
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 %
Amav Ambiente S.p.A.	Sant'Anastasia (NA)	103,200	49.00 %		49.00 %	49.00 %
Ambiente 3000 S.r.l.	Bologna	100,000	51.00 %		51.00 %	51.00 %
Asa S.p.A.	Castelmaggiore (BO)	1,820,000	20.00 %		20.00 %	20.00 %
Aspes Multiservizi S.p.A.	Pesaro	10,963,627	26.87 %		26.87 %	26.87 %
4Italy Energy & Environment S.p.a	Modena	50,000	25.00 %		25.00 %	25.00 %
Ferrara T.U.A. S.p.a.	Ferrara	260,000	20.00 %		20.00 %	20.00 %
DeltaWeb S.p.a.	Codigoro (Fe)	191,660	35.56 %		35.56 %	35.56 %
Estense global service	Ferrara	10,000	23.00 %		23.00 %	23.00 %
SET spa	Milano	120,000	39.00 %		39.00 %	39.00 %
Locride Ambiente S.p.A.	Sidereo Superiore (RC)	1,522,745	25.00 %		25.00 %	25.00 %
Oikothen s.c.ar.l.	Siracusa	1,101,730		46.10%	46.10 %	29.97 %
Penisola Verde S.p.A.	Sorrento (NA)	103,200	48.00 %		48.00 %	48.00 %
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 %
Viviservizi S.r.l. consortile	Bologna	451,500	48.00 %		48.00 %	48.00 %
Yele S.p.A.	Vallo della Lucania (SA)	103,400	35.00 %		35.00 %	35.00 %

The company SGR Servizi Spa, entered into the Group as on May 17, 2005 when the subsidiary Hera Comm SrL acquired 20% of the share capital of the company from Gas Rimini S.p.A. The consolidation method adopted was the equity method.

In execution of the extraordinary shareholders' resolution of Acantho S.p.A. of April 5, 2005 relating to the share capital increase from Euro 14,662,751 to Euro 15,875,781, on April 15, 2005 the conferment deed was completed in the share capital of Acantho S.p.A. by the shareholders of Tre A-WEB (Hera S.p.A., CON.AMI. Meta S.p.A. AIMAG) of their investments held in Tre A WEB S.p.A. Following this operation the shareholding structure was changed for the quota pertaining to Hera S.p.A. to 47.16% compared to 48% at December 31, 2004. The associated company Delta Web SpA is included under the net equity method only for 70% of the value, in that the remaining 30% was reclassified under current financial assets.

APPENDIX: TRANSITION TO INTERNATIONAL ACCOUNTING STANDARD (IFRS)

Contents

Introduction

The Hera Group adopted the international accounting standards, International Financial Reporting Standards, from the year 2005, with transition date to the IFRS at January 1, 2004. The last consolidated financial statements prepared in accordance with Italian accounting standards relate to the year ended December 31, 2004.

As required by IFRS 1 and by article 81 of the Issuers' Regulations No. 11971/1999 adopted by Consob with resolution No. 14990 of April 14, 2005, the present Appendix includes the reconciliation statements between the values recorded in accordance with the Italian accounting standards and those in accordance with IFRS, together with the notes to the adjustments.

These reconciliation schedules were prepared only for the purposes of the transition project for the preparation of the first full consolidated financial statements in accordance with standardised IFRS by the European Commission, and do not include comparative data and the necessary explanatory notes that would be required to represent in a true and fair manner the balance sheet, financial position and consolidated result of the Hera Group in conformity with IFRS standards.

It should also be noted that they were prepared in conformity with the International Financial Reporting Standards (IFRS) currently in force, including the recently adopted IFRS by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). These standards are those that it is assumed will be in force at December 31, 2005. However, these standards may not be those applicable at December 31, 2005 due to new orientations of the European Commission in relation to their standardisation or the issue of new standards or interpretations by the competent authorities and, therefore, the results presented could change in order to utilise these comparative data of the first full consolidated financial statements prepared in accordance with IFRS.

The most significant accounting policies and valuation criteria utilised in the preparation of the reconciliation schedules are those shown in the notes to the consolidated financial statements at June 30, 2005.

For the adoption of the international accounting standards the Group has applied the provisions of IFRS No. 1 – First adoption of the International Financial Reporting Standards, availing of the following exemptions:

– business Combinations: the Group did not apply IFRS 3 in retrospective manner to the business combinations before the transition date to IFRS;
– valuation of property, plant and equipment at revalued cost as substitute of the cost for some categories of assets selected;
– employee benefits: the Group has decided to record all the accumulated actuarial gains and losses existing at January 1, 2004, although having decided to utilise the corridor method for subsequent actuarial gains and losses;
– classification and valuation of the financial instruments: IFRS 1 permits to apply IAS 39 from the financial statements beginning at January 1, 2005. The group has decided therefore to avail of this exemption applying IAS 39 for the measuring and recognition of financial instruments.

In addition, in accordance with CONSOB Communication DEM 5025723 of April 15, 2005 the reconciliation schedules and relative notes were audited by Deloitte & Touche SpA and the audit report will be made available shortly after the approval of the half-year report by the Board of Directors of Hera S.p.A.

IAS/IFRS consolidated balance sheet at January 1, 2004 and December 31, 2004
IAS/IFRS consolidated Income Statement at December 31, 2004

The balance sheet at January 1, 2004 and December 31, 2004 and the income statement for the year 2004 are shown below that illustrate:

– the values in accordance with the reclassified Italian accounting standards according to the IAS/IFRS format;
– the adjustments in order to apply IAS/IFRS standards.

The figures are expressed in millions of Euro

BALANCE SHEET AS AT JANUARY 1, 2004

	Note	Italian accounting standards IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
ASSETS				
Non-current assets				
Tangible fixed assets	1	954	41	995
Intang. Assets and consolidation diff.	2	262	(17)	245
Goodwill	3	92	-	92
Equity investments and securities	111	-	111	
Financial assets		6	-	6
Deferred tax asset	4	15	15	30
Other non-current assets		19	-	19
		1,459	**39**	**1,498**
Current assets				
Inventories		29	-	29
Trade receivables		553	-	553
Contract work in progress		12	-	12
Financial assets		10	-	10
Other current assets		52	-	52
Cash and cash equivalents		93	-	93
		748	**-**	**748**
TOTAL ASSETS		**2.207**	**39**	**2.246**

	Note	Italian accounting standards IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
SHAREHOLDERS' EQUITY & Liabilities				
Share capital and reserves				
Share Capital		793	-	793
Reserves		28	42	70
Net profit (loss) for the period		49	-	49
Group shareholders' equity				
Minority interest share		24	2	26
Total shareholders' equity		**895**	**44**	**939**
Medium/long term liabilities				
Loans - payable beyond one year		342	-	342
Employee leaving indemnity and other benefits	5	68	1	69
Provisions for risk and charges	6	105	(47)	58
Deferred tax liabilities	7	2	41	43
Lease finance payables payable beyond one year		10		10
Other non-current liabilities		42	-	42
Current liabilities				
Banks and financing - payable within one year		199	-	199
Payables for contract work in progress				-
Trade payables		384	-	384
Taxes payable		67	-	67
Other current liabilities		91	-	91
Financial instruments - derivatives	-	-	-	
Total liabilities		**1,312**	**(5)**	**1,307**
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		**2.207**	**39**	**2.246**

BALANCE SHEET AS AT DECEMBER 31, 2004

	Note	Italian accounting standards IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
ASSETS				
Non-current assets				
Tangible fixed assets	1	1,259	40	1,299
Intangible assets and consolidation difference	2	235	(20)	215
Goodwill	3	118	29	147
Equity investments and securities		78	-	78
Financial assets		19	-	19
Deferred tax asset	4	20	15	35
Other non-current assets		44	-	44
		1,773	**64**	**1,837**
Current assets				
Inventories		42	-	42
Trade receivables		597	-	597
Contract work in progress		15	-	15
Financial assets		37	-	37
Other current assets		45	-	45
Cash and cash equivalents		172	-	172
		908	-	908
TOTAL ASSETS		**2.681**	**64**	**2.745**

	Note	Italian accounting standards IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
SHAREHOLDERS' EQUITY & LIABILITIES				
Share capital and reserves				
Share Capital		840	-	840
Reserves		56	59	115
Net profit (loss) for the period		57	24	81
Group shareholders' equity		953	83	1,036
Minority interest share		26	2	28
Total shareholders' equity		**979**	**85**	**1,064**
Medium/long term liabilities				
Banks and financing - payable beyond one year		489		489
Employee leaving indemnity and other benefits	5	85	(2)	83
Provisions for risk and charges	6	146	(67)	79
Deferred tax liabilities	7	5	48	53
Payables for finance leases		29	-	29
Other non-current liabilities		92	(1)	91
Current liabilities				
Banks and financing - payable within one year		272	-	272
Trade payables		433	-	433
Taxes payable		87	-	87
Other current liabilities		66	-	66
Total liabilities		**1,702**	**(21)**	**1,681**
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		**2.681**	**64**	**2.745**

INCOME STATEMENT AS AT DECEMBER 31, 2004

	Note	Italian accounting standards IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
Operating activities				
Revenues		1,493	-	1,493
Change in inventories of finished products and products in work in progress		9	-	9
Other operating revenues		27	-	27
Consumption of raw materials and consumable materials (net of the change of the inventories of raw materials and stocks)	8	(620)	(2)	(622)
Service costs	9	(411)	(6)	(417)
Personnel costs	10	(220)	4	(216)
Depreciation, amortisation and provisions	11	(156)	41	(115)
Other operating expenses		(92)	-	(92)
Capitalised costs		111	-	111
Operating profit		141	36	177
Quota of profits/(losses) of associated companies		(3)	-	(3)
Financial income		6	-	6
Financial charges	12	(27)	(6)	(33)
Pre-tax result		117	30	148
Income taxes	13	(55)	(6)	(61)
Net profit/(loss) for the period		62	24	86
Attributable:				
To the Shareholders of the Parent Company		(56.8)	(24.2)	(81)
To the minority shareholders		(5.2)	(0.2)	(5.4)

NOTES TO THE MAIN IAS ADJUSTMENTS IN THE BALANCE SHEET ACCOUNTS AT JANUARY 1 AND DECEMBER 31, 2004

The main adjustments are reported below together with comments on the adjustments.

Balance sheet accounts – Assets

1) **Tangible fixed assets** (Euro +40.5 million at January 1, 2004 and Euro + 39.8 million at December 31, 2004); the adjustments relate to the following:

– the Group adopted the fair value criteria as substitute of the cost (fair value as deemed cost) for the tangible fixed assets applying them selectively to some category of assets; the higher value resulting was credited directly to reserves. The adoption of the fair value is made on the basis of an independent expert's report that has made possible, among other matters, the identification of single components of plant and machinery of significant amounts and with different useful lives, in accordance with the component approach as per IAS 16.
The total net effect deriving from the application of these standards results in an increase in intangible fixed assets of approximately Euro 50.8 million at January 1, 2004 and Euro 50.6 million at December 31, 2004.

– the IFRS require that the restoration charges of waste storage sites to be incurred at the end of the activity are estimated and recognised at their fair value under tangible fixed assets and subject to depreciation. A corresponding provision must be made for these charges under the provision of risks and charges, adjusting annually the fair value for the financial component. There was therefore an adjustment to the accounting values in that the Italian standards do not provide for the discounting of the provisions, or the capitalisation of these charges. The effect of this adjustment on the tangible fixed asset at January 1, 2004 and at December 31, 2004 were respectively equal to approximately Euro 6.1 million and Euro 4.7 million;

– the IFRS require the implementation of the impairment test that consists of reviewing the accounting value of tangible fixed assets to determine if there are any indications that these assets have incurred a reduction in value. Where these indications exist, the recoverable amount of these assets are estimated to determine the amount of the impairment loss. Where it is not possible to estimate the recoverable amount of an asset individually, the Group makes the estimate of the recoverable amount of the cash-generating unit to which the asset belongs. Following this test the Group made an adjustment of the tangible fixed assets for the TLC sector equal, at January 1, 2004, to Euro 16.4 million and Euro 15.5 million at December 31, 2004. The discount rate used for the cash flows generated by the TLC sector was 6.2%.

2) **Intangible fixed assets and consolidated difference** (Euro -16.9 million at January 1, 2004 and Euro 19.2 million at December 31, 2004); the adjustments refer to:

– formation and start-up costs. In accordance with the Italian accounting standards the costs for extraordinary corporate operations, incorporation costs and share capital increases can be allocated to assets in the balance sheet, while the IFRS requires that these amounts are recognised in the income statement. The application of this standard resulted in the reversal of formation and start-up costs of Euro 12.6 million at January 1, 2004 and Euro 14.2 million at December 31, 2004.

– research, development and advertising costs and other intangible assets. In accordance with the Italian accounting standards the long-term intangible assets in certain circumstances can be capitalised. The application of this standard resulted in the reversal of research, development and advertising costs and other intangible assets of approximately 4.3 million at January 1, 2004 and approximately Euro 7.5 million at December 31, 2004;

– consolidation differences. In accordance with IAS/IFRS standards these accounts are no longer amortised but are subject to a valuation in order to identify any loss in value. The application of this standard resulted in the write-back of the account of approximately Euro 2.5 million.

3) Goodwill – In accordance with IAS/IFRS standards, these accounts are no longer amortised but subject to a valuation in order to identify any loss in value.

The application of this standard resulted in a write-back to the goodwill account of approximately Euro 10.2 million corresponding to the quota of amortisation for the year 2004.

Business combinations - IFRS 3 is applicable to the business combinations that arise after March 31, 2004. The Company has applied this standard for the acquisition of AGEA SpA.

IFRS 3 requires that the business combinations are recognised in accordance with the purchase method. The cost of the business combination is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group, in exchange for control of the company acquired, plus any costs directly attributable to the business combination; with exception of the non-current assets that are classified as held for sale in accordance with IFRS 5, which are recognised and measured at fair value less the costs to sell. In particular, in relation to the fair value of the Hera shares issued following the share capital increase for the merger by incorporation of Agea s.p.a., this was determined as July 27, 2004, being the effective date of control of the Group in Agea s.p.a .

Goodwill acquired in a business combination is recognised as an asset and initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the excess is immediately recognised in the income statement.

The Group, availing of the exemption permitted by the IFRS, did not apply in retrospective manner IFRS 3 to the business combinations before the transition date to IAS/IFRS standards, that are therefore recognised at the same values determined on the basis of the previous accounting standards.

The application of IFRS 3 to the merger with the company Agea S.p.A. resulted in the recognition of higher goodwill of approximately Euro 18.7 million.

4) Deferred tax asset (Euro +14.9 million at January 1, 2004 and Euro + 14.7 million at December 31, 2004); this reflects the fiscal effects of the adjustments on the net equity.

5) Employee benefits – According to the Italian accounting standards, the benefits after the employee service period are recognised on an accrual basis over the employee service period, in conformity with legislation and labour contracts applicable. According to IFRS, the benefits after the employee service period (example pensions, life insurance and medical assistance, etc) are defined

on the basis of plans, still not formalised, that based on their characteristics are divided between "defined contribution" plans and "defined benefit" plans. In the defined contribution plans the obligation of the entity is limited to the payment of the contributions to the State. The defined benefit plans are pension, assurance and medical plans that provide for the obligation, including implicit, of the entity to provide the benefits not formalised in favour of the former employees.
Considering the uncertainty relating to the moment in which the amounts will be paid, the employee leaving indemnity is similar to defined benefit plans. The related charges, determined on the basis of actuarial assumptions, are provided on an accrual basis in line with the employee service period necessary to obtain the benefits. The change of the standard resulted in the reduction of the employee leaving indemnity provision of approximately Euro 5.2 million at January 1, 2004 and approximately Euro 7.7 million at December 31, 2004 and the recording of a "gas discount" and "premungas" provision totalling Euro 5.9 million at January 1, 2004 and Euro 5.8 million at December 31, 2004. The discount rate used was on average 4.7%.

6) **Discounting of provisions for risks and charges** – in accordance with IAS 37, when the liability refers to deferred payments over time the liability shall be discounted at a pre-tax rate, that reflects the current market assessment of the time value of money and the specific risks connected to the liability. The provision increases each year to reflect the passage of time resulting in the recognition of financial charges on an accruals basis. In the Hera Group this standard was applied to the restoration provision on third party assets and to the landfill closure and post-closure provision. The application of this standard resulted in the reduction of the above-mentioned provisions totalling Euro 47 million at January 1, 2004 and totalling Euro 67 million at December 31, 2004.

7) **Deferred tax liabilities** (Euro +41.3 million at January 1, 2004 and Euro +48.3 million at December 31, 2004); this reflects the fiscal effects of the adjustments on the net equity.

NOTES TO THE MAIN IAS ADJUSTMENTS MADE TO THE INCOME STATEMENT AT JUNE 30, 2004

8) **Raw material purchase costs** – the adjustment equal to approximately Euro 2.2 million represents the part exceeding the utilisation of the landfill post closure provisions compared to the valuation reports that, on the basis of IAS 37 were discounted. The analysis of these "utilisations" did not however modify the estimate of the future discounted costs.

9) **Service costs** (Euro +5.9 million) – the adjustment refers principally to the recording in the income statement of the capitalised costs in the intangible fixed asset accounts in 2004 following the application of IFRS that require these to be charged directly to the income statement.

10) **Personnel costs** (Euro -4.2 million) – the adjustments relate to the different accounting (financial-actuarial) of the benefits due to employees (employee leaving indemnity, company pensions and gas discounts).

11) Amortisation, depreciation and provisions.

The main adjustments are summarised in the following table:

Euro Millions	
Goodwill amortisation	(10.2)
Amortisation of intangible assets	(9.2)
Depreciation of tangible assets (IAS 16, IAS 37)	1.1
Total	**18,3**

The above adjustments reflect:

- decreases, of Euro 10.2 million, attributable to the reversal of goodwill amortisation;
- decreases, of Euro 9.2 million attributable to the reversal of the amortisation on the intangible assets no longer permitted by IAS/IFRS;
- increases of Euro 1.1 million, due to the definition of some category of tangible assets of the fair value as substitute of the cost and of the consequent definition (and recalculation) of the significant components for the categories of assets concerned, due to the reversal of the depreciation on the assets written down in application of IAS 36 and due to the depreciation on the costs of reclamation of the site in which the tangible assets are located in accordance with IAS 37.

The adjustments to the provisions amount to Euro +22.3 million relating to the reversal of the landfill post closure provisions of Euro 7.4 million and the restoration of third party assets provisions of Euro 22.6 million, and the recognition of the discounting of the restoration of third party assets provisions of Euro 7.7 million.

12) Financial charges (Euro +6 million) – the adjustment principally includes

- Euro 2,4 2.4 million due to the discounting of the landfill post-closure provisions;
- Euro 1.7 million due to the discounting of the employee benefits;
- Euro 1.9 million due to the discounting of the restoration of third party assets provisions.

13) Income taxes (Euro +6 million) – this amount reflects the fiscal effects of the adjustments on the income statement.

14) Reconciliation schedule of the shareholders' equity.

Together with the reconciliation schedules of the balance sheets and income statement reported above, a reconciliation statement is provided of the shareholders' equity at January 1, 2004 and at December 31, 2004 and of the net profit for 2004.

	Note	Net Equity at January 1, 2004	Net Equity at December 31, 2004	Income statement 2004
Italian Accounting Standards		**894,5**	**979,0**	**62,0**
Adjustments:				
Tangible fixed assets	1	40.5	39.8	(1.1)
Intang. Assets and consolidation diff.	2	(16.9)	(19.2)	3.2
Goodwill	3	-	10.2	10.2
IFRS 3	3	-	18.7	
Employee leaving indemnity and employee benefits	5	(0.7)	1.9	2.5
Provisions for risk and charges	6	47.8	66.6	15.8
Other current liabilities			0.6	-
Fiscal effects of the adjustments	**4 – 7**	**(26.4)**	**(33.5)**	**(6.0)**
Effetto rettifiche IAS		**44,3**	**85,1**	**24,6**
Principi contabili IAS/IFRS		**938,8**	**1.064,1**	**86,6**

Reclassifications of balance sheet and income statement accounts

The main reclassifications made to the balance sheet at January 1, 2004 and at December 31, 2004 and to the income statement of 2004 and already inserted in the column "Italian accounting standards IAS reclassified".

Balance sheet

Intangible fixed assets

In the balance sheet the leasehold improvements were reclassified from intangible fixed assets to tangible fixed assets for a net value of Euro 5.8 million at January 1, 2004 and Euro 26.9 million at December 31, 2004. In accordance with IFRS the leasehold improvements not economically separable must be classified in accordance with the nature of the asset to which it refers.

Non-current receivables

The improvements made on the assets included in the business rental contract were reclassified from non-current receivables to tangible fixed assets for Euro 38.8 million at January 1, 2004 and Euro 68.8 million at December 31, 2004 and the relative restoration provision of third party assets of Euro 1.6 million at January 1, 2004 and Euro 3.8 million at December 31, 2004.

Prepayments and accruals

They are recorded in the relative accounts of other assets and/or other liabilities.

Income statement

Extraordinary income and charges

The international accounting standards expressly established that it is not permitted to indicate separately in the income statement the extraordinary income/charges. Therefore, in the consolidated income statement of 2004, these accounts were reclassified in the ordinary activities.

Effects deriving from the application of IAS 32 and IAS 39 at January 1, 2005

As illustrated in the previous paragraphs the international accounting standards IAS 32 and IAS 39 adopted by the European Commission were applied from January 1, 2005; the application of this resulted in the recognising of liabilities of Euro 13.3 million, assets of Euro 0.7 million, reduction of intangible fixed assets of Euro 1.5 million, deferred tax assets of Euro 5.2 million, deferred tax liabilities of Euro 0.4 million and a corresponding reduction of the shareholders' equity of approximately Euro 9.4 million.

The reconciliation of the shareholders' equity at January 1, 2005 deriving from the application of the IAS 32 and 39 is as follows:

Euro Millions	
Shareholders' Equity at January 1, 2005	**1.064,1**
Valuation at fair value of the financial derivative instruments	(9,4)
Adjusted shareholders' equity at January 1, 2005	**1.054,7**

Reconciliation schedules of the balance sheet and income statement at June 30, 2004

The reconciliation schedules at June 30, 2004 are provided below. It should be noted that these figures were not audited.

BALANCE SHEET AS AT JUNE 30, 2004

	Note	Italian accounting standards IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
ASSETS				
Non-current assets				
Tangible fixed assets	1	1,053	39	1,092
Intang. assets and consolidation diff.	2	213	(16)	197
Goodwill	3	86	5	91
Equity investments and securities		110	-	110
Financial assets		10	-	10
Deferred tax asset	4	17	14	31
Other non-current assets		23	-	23
		1,512	42	1,554
Current assets				
Inventories		27	-	27
Trade receivables		490	-	490
Contract work in progress		17	-	17
Financial assets		10	-	10
Other current assets		39	-	39
Cash and cash equivalents		98	-	98
		682	-	682
TOTAL ASSETS		**2.194**	**42**	**2.236**

	Note	Italian accounting standards IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
SHAREHOLDERS’ EQUITY & LIABILITIES				
Share capital and reserves				
Share Capital		793	-	793
Reserves		37	43	79
Net profit (loss) for the period		32	10	42
Group shareholders' equity		862	53	915
Minority interest share		23	2	25
Total shareholders’ equity		**884**	**55**	**939**
Medium/long term liabilities				
Loans - payable beyond one year		326	-	326
Employee leaving indemnity and other benefits	5	70	(1)	69
Provisions for risk and charges	6	117	(55)	62
Deferred tax liabilities	7	2	44	46
Lease finance payables - payable beyond one year		21	-	21
Other non-current liabilities		88	-	88
Current liabilities				
Banks and financing - payable within one year		171	-	171
Trade payables		286	-	286
Taxes payable		171	-	171
Other current liabilities		58	-	58
Total liabilities		**1,309**	**(12)**	**1,297**
TOTAL SHAREHOLDERS’ EQUITY & LIABILITIES		**2.193**	**42**	**2.236**

INCOME STATEMENT AS AT JUNE 30, 2004

	Note	Italian accounting standards IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
Operating activities				
Revenues		691	-	691
Change in inventories of finished products and products in work in progress		5	-	5
Other operating revenues		11	-	11
Consumption of raw materials and consumable materials (net of the change of the inventories of raw materials and stocks)		(310)	-	(310)
Service costs	8	(176)	(1)	(177)
Personnel costs	9	(100)	2	(98)
Depreciation, amortisation and provisions	10	(65)	15	(50)
Other operating expenses		(39)	-	(39)
Capitalised costs		50	-	50
Operating profit		67	16	83
Quota of profits/(losses) of associated companies		(1)	-	(1)
Financial income		2	-	2
Financial charges	11	(12)	(3)	(15)
Pre-tax result		56	13	69
Income taxes	12	(21)	(3)	(24)
Net profit/(loss) for the period		35	10	45
Attributable:				
To the Shareholders of the Parent Company		31.9	10.0	41.9
To the minority shareholders		2,5	0,1	2,6

The main adjustments are reported below together with comments on the adjustments

Balance sheet accounts - Assets

1) Tangible assets (Euro + 39.1 million at June 30, 2004); the adjustments relate to:

– total net effect deriving from the application of the fair value, (as specified in the previous notes). This effect results in an increase in the tangible fixed assets of approximately Euro 49.6 million;

– the IFRS require that the restoration charges of waste storage sites to be incurred at the end of the activity are estimated and recognised at their fair value under tangible fixed assets and subject to depreciation. A corresponding provision must be made for these charges under the provision of risks and charges, adjusting annually the fair value for the financial component. There was therefore an adjustment to the accounting values in that the Italian standards do not provide for the discounting of the provisions, or the capitalisation of these charges. The effect of this adjustment on the tangible fixed assets was approx. Euro 5.4 million:

– the IFRS require the implementation of the impairment test that consists of reviewing the accounting value of tangible fixed assets to determine if there are any indications that these assets have incurred a reduction in value. Where these indications exist, the recoverable amount of these assets are estimated to determine the amount of the impairment loss. Where it is not possible to estimate the recoverable amount of an asset individually, the Group makes the estimate of the recoverable amount of the cash-generating unit to which the asset belongs. Following the impairment test the Group made an adjustment on tangible fixed assets for the TLC sector of Euro 15.9 million.

2) Intangible assets (Euro -16.1 million at June 30, 2004); the adjustments relate to:

– formation and start-up costs. In accordance with the Italian accounting standards the costs for extraordinary corporate operations, incorporation costs and share capital increases can be allocated to assets in the balance sheet, while the IFRS requires that these amounts are recognised in the income statement. The application of this standard resulted in the reversal of formation and start-up costs of Euro 11.2 million;

– research, development and advertising costs and other intangible assets. In accordance with the Italian accounting standards the long-term intangible assets in certain circumstances can be capitalised. The application of this standard resulted in the reversal of research, development and advertising and other intangible assets of Euro 4.9 million;

3) Goodwill – In accordance with IAS/IFRS standards, these accounts are no longer amortised but subject to a valuation in order to identify any loss in value.

The application of this standard resulted in a write-back to the goodwill account of approximately Euro 4.9 million corresponding to the reversal of the quota of amortisation for the period.

4) Deferred tax asset (Euro +14.3 million at June 30, 2004); this reflects the fiscal effects of the adjustments on the net equity.

5) Employee benefits - According to the Italian accounting standards, the benefits after the employee service period are recognised on an accrual basis over the employee service period, in conformity with legislation and labour contracts applicable.
According to IFRS, the benefits after the employee service period (example pensions, life insurance and medical assistance, etc) are defined on the basis of plans, still not formalised, that based on their characteristics are divided between "defined contribution" plans and "defined benefit" plans. In the defined contribution plans the obligation of the entity is limited to the payment of the contributions to the State.
The defined benefit plans are pension, assurance and medical plans that provide for the obligation, including implicit, of the entity to provide the benefits not formalised in favour of the former employees. Considering the uncertainty relating to the moment in which the amounts will be paid, the employee leaving indemnity is similar to defined benefit plans. The related charges, determined on the basis of actuarial assumptions, are provided on an accrual basis in line with the employee service period necessary to obtain the benefits. The change of the standard resulted in the reduction of the employee leaving indemnity provision of approximately Euro 6.7 million at June 30, 2004 and the recording of a "gas discount" and "premungas" provision totalling Euro 5.7 million at June 30, 2004 – this was classified under " provision for risks and charges".

6) Discounting of provisions for risks and charges – in accordance with IAS 37, when the liability refers to deferred payments over time the liability shall be discounted at a pre-tax rate, that reflects the current market assessment of the time value of money and the specific risks connected to the liability. The provision increases each year to reflect the passage of time and is recognised as an interest charge. In the Hera Group this standard was applied to the restoration provision on third party assets and to the post-closure provision. The application of this standard resulted in the reversal of these provisions totalling Euro 54.9 million at June 30, 2004.

7) Deferred tax liabilities (Euro +43.7 million at June 30, 2004); this reflects the fiscal effects of the adjustments on the net equity.

NOTES TO THE MAIN IAS ADJUSTMENTS MADE TO THE INCOME STATEMENT AT DECEMBER 31, 2004

8) **Service costs** (Euro 1.6 million) - the adjustment refers principally to the recording in the income statement of the capitalised costs in the intangible fixed asset accounts at June 30, 2004 following the application of IFRS that require these to be charged directly to the income statement.

9) **Personnel costs** (Euro -2.5 million) - the adjustments relate to the different accounting (financial-actuarial) of the benefits due to employees (employee leaving indemnity, company pensions and gas discounts).

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

The main adjustments are summarised in the following table:

Euro Millions	
Goodwill amortisation	(4,9)
Amortisation of intangible assets	(2,4)
Depreciation of tangible assets (IAS 16, IAS 37)	1,4
Total	**(5,9)**

The above adjustments reflect:

– decreases, of Euro 4.9 million, attributable to the reversal of goodwill amortisation;
ß decreases, of Euro 2.4 million, attributable to the reversal of the amortisation on the intangible assets no longer permitted by IAS/IFRS;
– increases, of Euro 1.4 million, due to the definition of some category of tangible assets of the fair value as substitute of the cost and of the definition and recalculation of the significant components for the categories of assets concerned, due to the reversal of the depreciation on the assets written down in application of IAS 36 and due to the depreciation on the costs of reclamation of the site in which the tangible assets are located in accordance with IAS 37.

The adjustments to the provisions amount to Euro +9.4 million relating to the reversal of the landfill post closure provisions of Euro 3.0 million and the restoration of third party assets provisions of Euro 9.7 million, and the recognition of the discounting of the restoration of third party assets provisions of Euro 3.3 million.

11) **Financial charges** (Euro 2.9 million) - the adjustment principally includes:

– Euro 1.2 million due to the discounting of the landfill post-closure provisions;
– Euro 0.8 million due to the discounting of the employee benefits;
– Euro 0.9 million due to the discounting of the restoration of third party assets provisions.

12) **Income taxes** (Euro 3.1 million) - this amount reflects the fiscal effects of the adjustments on the income statement.

13) **Reconciliation schedule of the shareholders' equity**
Together with the reconciliation schedules of the balance sheets and income statement reported above, a reconciliation statement is provided of the shareholders' equity at January 1, 2004 and at December 31, 2004 and of the net profit for 2004.

	Note	Patrimonio netto 30 giugno 2004	Conto economico 2004
Italian Accounting Standards		**884,4**	**34,5**
Adjustments:			
Tangible fixed assets	1	39,1	(1,4)
Intangible assets	2	(16,1)	0,8
Goodwill	3	4,9	4,9
Employee leaving indemnity and employee benefits	5	1,0	1,7
Provisions for risk and charges	6	54,9	7,3
Fiscal effects of the adjustments	4 – 7	(29,4)	(3,1)
Effect IAS adjustments		**54,4**	**10,2**
IAS/IFRS accounting standards		**938,8**	**44,7**

Reclassifications of balance sheet and income statement accounts

The main reclassifications made to the balance sheet at January 1, 2004 and at December 31, 2004 and to the income statement of 2004 and already inserted in the column “Italian accounting standards IAS reclassified”.

Balance sheet

Intangible assets

In the balance sheet the leasehold improvements were reclassified from intangible fixed assets to tangible fixed assets for a net value of Euro 4.9 million at June 30, 2004. In accordance with IFRS the leasehold improvements not economically separable must be classified in accordance with the nature of the asset to which it refers.

Non-current receivables

The improvements made on the assets included in the business rental contract were reclassified from non-current receivables to tangible fixed assets for Euro 51.8 million and the relative restoration provision of third party assets of Euro 2.8 million.

Prepayments and accruals

They are recorded in the relative accounts of other assets and/or other liabilities.

Income statement

Extraordinary income and charges

The international accounting standards expressly established that it is not permitted to indicate separately in the income statement the extraordinary income/charges. In accordance with IFRS, from the consolidated income statement of 2004, these accounts were reclassified in the ordinary activities.

In the column “Italian account standards IAS reclassified” the taxes at June 30, 2004 were recorded, of Euro 21.4 million, non recorded in the consolidated half-year report for 2004.

Deloitte.

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

Indipendent Auditor's Report on the IFRS reconciliations

AUDITOR'S REPORT ON THE IFRS RECONCILIATIONS, WITH DESCRIPTION OF THE EFFECTS OF THE TRANSITION TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

To the Board of Directors of
HERA S.p.A.

1. We have audited the accompanying IFRS reconciliations (IFRS consolidated balance sheet as at January 1, 2004, and December 31, 2004 and consolidated related income statement as at December 31, 2004 - hereinafter referred to as "IFRS reconciliations") and related notes of Hera S.p.A. explained in the Appendix "Transition to the International Accounting Standards (IAS/IFRS)" of the half yearly report. The source of these IFRS reconciliations are the consolidated financial statements of Hera S.p.A. as at December 31, 2004 prepared in accordance with the Italian regulations governing the criteria for their preparation, that we have audited and on which we issued our auditors' report on April 12, 2004. The IFRS reconciliations have been prepared as part of the company's conversion to International Financial Reporting Standards (IFRSs) adopted by the European Union. These "IFRS reconciliations" are the responsibility of the company's directors. Our responsibility is to express an opinion on these reconciliations based on our audit.

2. We conducted our audit in accordance with Auditing Standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS reconciliations are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS reconciliations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the IFRS reconciliations. We believe that our audit provides a reasonable basis for our opinion.

   The audit of the financial information of certain subsidiaries and associated companies included in the IFRS reconciliations, which represent approximately 6 %t of total consolidated assets and approximately 2 % of total consolidated revenues, is the responsibility of other auditors

3. In our opinion, the IFRS reconciliations, as identified in paragraph 1. above, have been prepared in all material respects in conformity with the criteria provided by art. 81 o 81 of Consob Regulation n. 11971 of May 14, 1999, adopted by Consob under Resolution n. 14990 of April 14, 2005.

4. In order to provide a better understanding of the IFRS reconciliation schedules, we draw attention to the following matters as described in more detail in the notes to the IFRS reconciliations:

   - Since IFRS reconciliation tables have been prepared only for the purpose of the conversion project for the preparation of the first consolidated financial statements according to IFRS recommended by the European Union, these do not include comparative data and the necessary explanatory note that would be required to present fairly the financial position of Hera Group in accordance with IFRS.

   - IFRS 1 reconciliation tables will represent published values for comparisons in the first full consolidated IFRS financial statements; these amounts may be subject to some necessary changes if certain international accounting principles are revised or changed before the financial statements above are published.

DELOITTE & TOUCHE S.p.A.

Signed by
Antonio Cocco
Partner

Bologna, Italy
October 5, 2005

This report has been translated into the English language solely for the convenience of international readers.

Indipendent Auditor's Report

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2005 PREPARED IN ACCORDANCE WITH ART. 81 OF THE CONSOB REGULATION ADOPTED BY RESOLUTION NO 11971 OF MAY 14, 1999 AND SUBSEQUENT MODIFICATIONS

To the Shareholders of
HERA S.p.A

1. We have reviewed the accompanying interim consolidated financial statements of Hera S.p.A. for the six-month period ended June 30, 2005, consisting of the consolidated balance sheet, income statement and related explanatory notes. These interim consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to issue a report on these interim consolidated financial statements based on our review. In addition, we have verified the consistency of the management discussion and analysis with the other data contained in the above interim consolidated financial statements.

2. Our review was carried out in accordance with the standards recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. Our review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and substantive verification procedures of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with established auditing standards. Accordingly, unlike our report on the year-end consolidated financial statements, we do not express an audit opinion on the half-yearly interim consolidated financial statements.

3. As far as comparative figures related to year ended December, 31 2004 are concerned, reference should be made to our auditor's report dated October 5, 2005.

   Comparative figures related to the six months ended June 30, 2004, restated under International Financial Reporting Standards, and related IFRS reconciliations, are based on financial data for six months ended June 30, 2004 prepared in accordance with previously applicable accounting standards, reference should be made to our review report dated September 14, 2004.

4. Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements mentioned in paragraph 1. above in order for them to be in conformity with the criteria provided by Consob regulations for the preparation of the half-yearly interim financial statements approved with Resolution n° 11971 of May 14, 1999 and subsequent modifications.

5. For a better understanding of the six monthly report, we draw attention to the following information included in the explanatory notes to the six monthly accounts:

   - Financial statements of the parent company Hera S.p.A. are prepared in accordance with the Italian law governing financial statements.

   - The consolidated accounts at June 30, 2005 and the IFRS 1 reconciliation tables were prepared taking account of the IFRS international accounting standards applying at the date of preparation and which, it is assumed, will be in force at 31 December, 2005. Certain international accounting principles may be revised or changed before the 2005 annual consolidated financial statements, the first complete set of consolidated financial statements prepared by the Hera Group in accordance with IFRS, are published. If this occurs, the figures contained in the first IFRS six monthly report and in the IFRS 1reconciliation tables could be subject to some necessary changes.

   - As a result of the agreements between the shareholders upon the corporate integration that led to the incorporation of Hera S.p.A., whereby the "Local Entities will indemnify Hera S.p.A. for any costs, losses or damages incurred by Hera in relation to obligatory legislation that revokes the tax benefits which the company and the participating companies in the integration have received"", no provision was made in the six monthly report at June 30, 2005 in relation to taxes due for the periods during which the tax exempt status applied. The Company is waiting to receive notices of assessment from the competent tax authorities following the tax returns filed by it in terms of Article 27 of Law no 62 of April 18, 2005.

   - On September 23, 2005, an Extraordinary Shareholders' Meeting of Hera S.p.A. approved the merger of company Meta S.p.A. into Hera S.p.A.. The merger will be completed by the end of the year upon the outcome of the Public Offering to purchase the remaining 29% of the share capital of Meta S.p.A. that may be accepted between October 31, 2005 and November 22, 2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Antonio Cocco
Partner

Bologna, Italy
October 10, 2005

This report has been translated into the English language solely for the convenience of international readers.

progetto: Koan moltimedia

Hera s.p.a.
Holding Energia Risorse Ambiente
Sede: Viale C. Berti Pichat 2/4 - 40127 Bologna
T. + 39 051.28.71.12 F. + 39 051.28.14.036

www.gruppohera.it

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