05

quarterly report
july – september

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

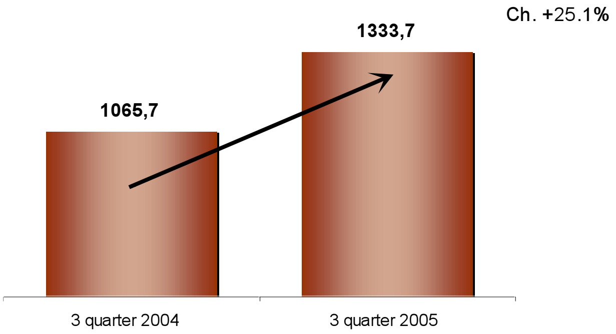
Committee for internal control	
Office	**Name**
Member	Ermanno Vichi
Member	Stefano Zolea
Member	Vander Maranini

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

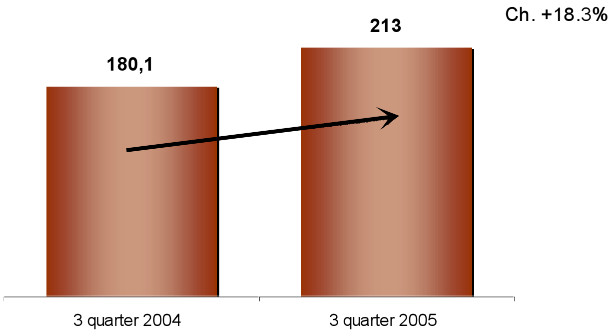
Independent audit firm
Deloitte & Touche SpA

1.3
Summary results

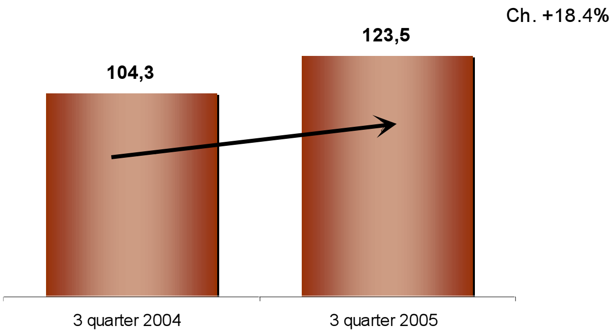
Value of Production
mln euro



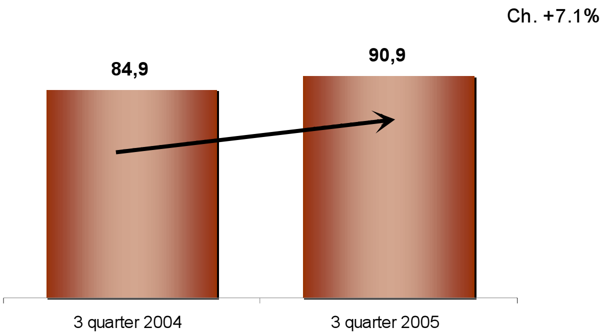
Ebitda
mln euro



Ebit
mln euro

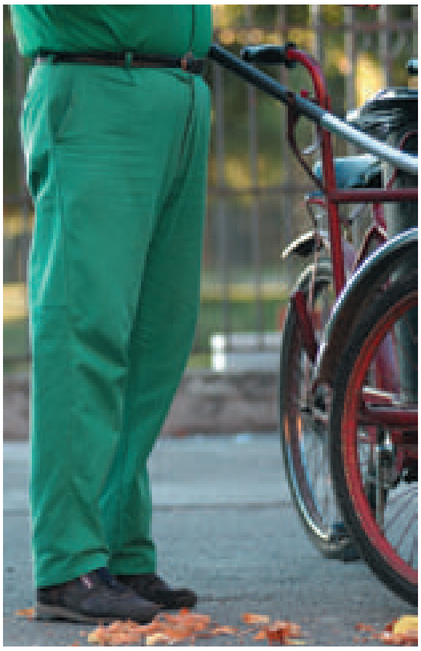


Net Profit
mln euro



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.

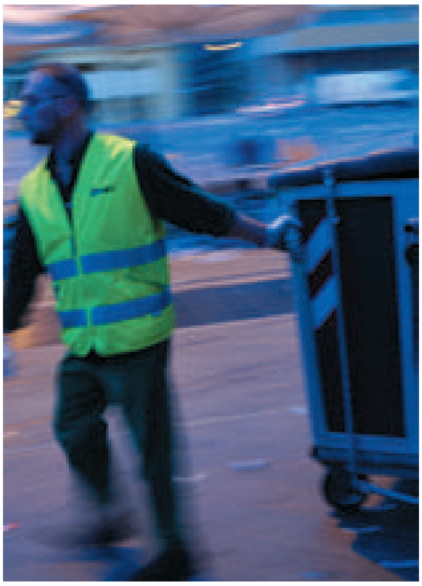
1.6
Description of the business

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.

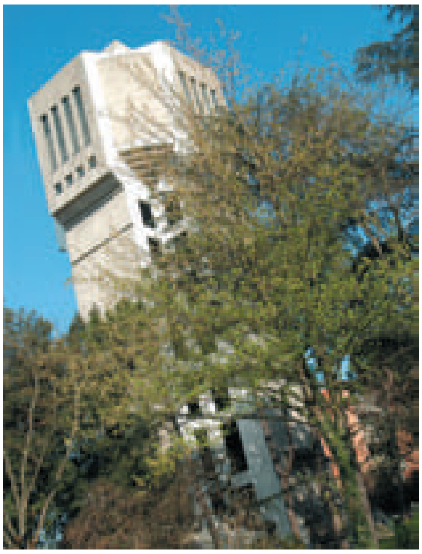
In addition, Hera is among the leading Italian operators in the use of heat from waste with waste-to-energy plants ("WTE") with 5 WTE plants that have a total treatment capacity of approximately 500,000 tonnes annually and an electricity generation capacity of 57 MW.

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 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.

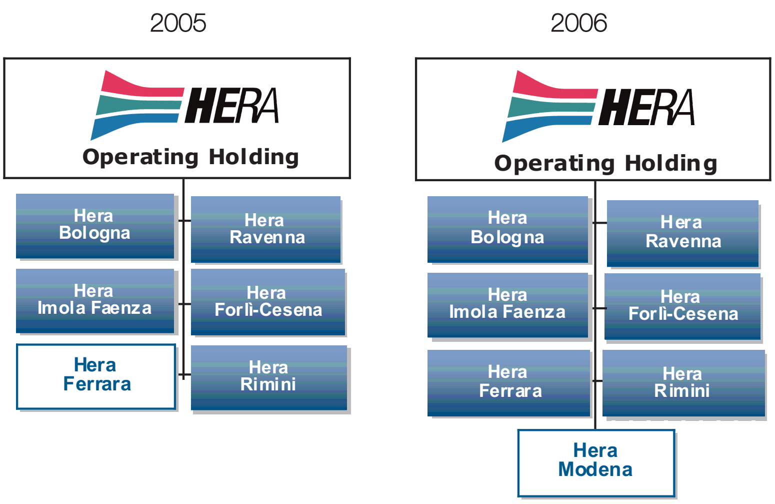
The Holding, operational and strategic centre for the whole Group, incorporates all of the operational and coordination activities, regrouped in divisions and organised by business areas, thus permitting the achievement of scale and cost synergies.

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.

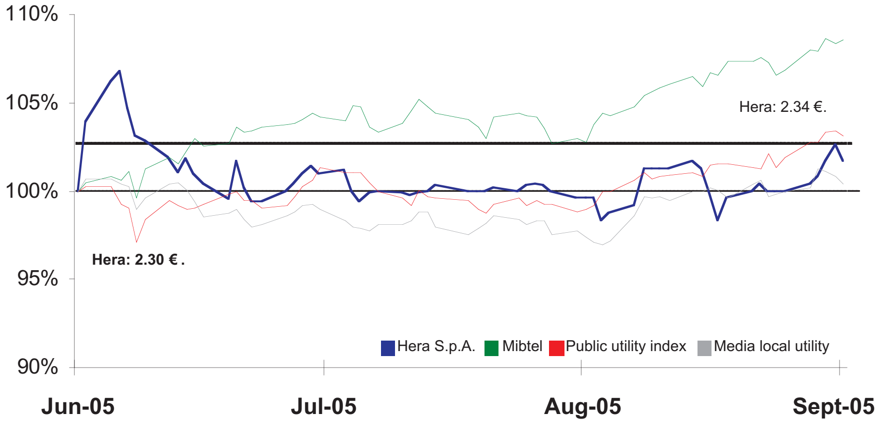


1.9
Hera on the Stock Exchange

Performance of the Hera share price

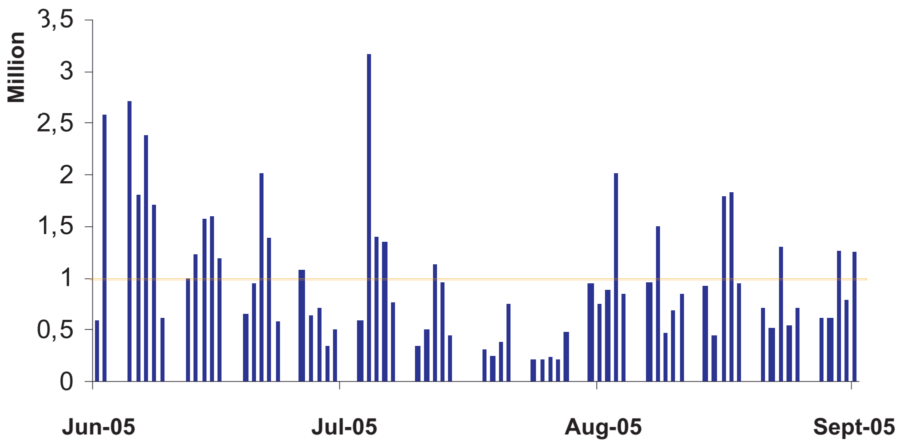
The Hera share price in the first half of the year recorded a performance of +8.5% recording an increase above the financial market performance. At June 30, 2005 the share price was Euro 2.3 per share and thereafter continued its increase thanks to the agreement on the merger reached in record time between 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

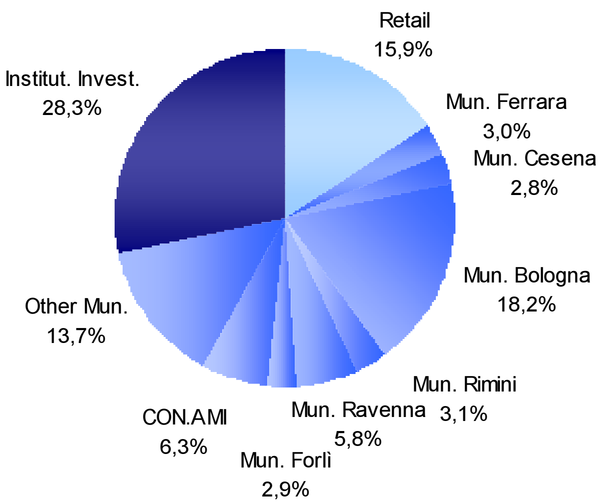
The Hera Group currently has a "coverage" amongst the widest in the sector in Italy that confirms the interest generated from the financial market.

Since the beginning of the year 15 independent analyst offices have regularly covered the Hera share (of which half international): 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 recently confirmed its 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.

In preparation for the publication of the new 2006-2008 industrial plan, analyst presentations have been organized along with a road show so that Hera representatives can meet investors located in the primary European and North American financial hubs.

The Investor Relations section available on the internet site of the Hera Group (www.gruppohera.it) was 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 Consolidated results of the Hera Group

The Hera Group reported a growth in its consolidated results for the third quarter 2005 compared to the same period last year.

This growth is also attributable to the merger with the Ferrara companies which took place at the end of 2004 and gave rise to a change in the Group's scope of consolidation. The analysis of the single items of the financial statements and the analysis by business segment highlight the impact of the merger.

The statement which follows, in line with the period closed at 30 June this year, has been prepared in full compliance with IAS as prescribed by the regulations governing listed companies. Obviously also the year 2004 has been adjusted in this respect.

The value of production at 30 September 2005 increased by 25.1%, as did the Ebitda (+18.3%), the Ebit (+18.4%) and the net profit (+7.1%) as shown the table below:

(millions of Euros)	3rd Qrt. 2004	% incid.	3rd Qrt. 2005	% incid.	% Change
Revenues	989.1	92.8%	1,256.9	94.2%	27.1%
Increase in capitalised assets	76.6	7.2%	76.8	5.8%	0.3%
Value of Production	**1,065.7**	**100.0%**	**1,333.7**	**100.0%**	**25.1%**
Operating costs	(741.9)	-69.6%	(948.2)	-71.1%	27.8%
Personnel Costs	(143.7)	-13.5%	(172.5)	-12.9%	20.0%
Ebitda	**180.1**	**16.9%**	**213.0**	**16.0%**	**18.3%**
Amort., deprec. & prov.	(75.8)	-7.1%	(89.5)	-6.7%	18.1%
Ebit	**104.3**	**9.8%**	**123.5**	**9.3%**	**18.4%**
Financial charges and					
financial adjustm. to assets	(19.4)	-1.8%	(32.6)	-2.4%	68.0%
Pre–tax profit	**84.9**	**8.0%**	**90.9**	**6.8%**	**7.1%**

In the third quarter of 2005 the value of production rose from Euro 1,065.7 million to Euro 1,333.7, million, equal to a 25.1% increase; taking into account the effect of the merger with the Ferrara companies, which at 30 September 2005 had not yet been completed, the increase has been equal to 14.6%, that is Euro 169.7 million.
For a better understanding of the economic indicators set out below, the table includes also the pro-forma statement of the third quarter of 2004 including the results of the companies of the Ferrara area.

(millions of Euros)	3rd Qrt. 2004	% incid.	3rd Qrt. 2005	% incid.	% Change
	pro-forma				
Revenues	1,083.9	93.1 %	1,256.9	94.2 %	16.0 %
Increase in capitalised assets	80.1	6.9 %	76.8	5.8 %	-4.1 %
Value of Production	**1,164.0**	**100.0 %**	**1,333.7**	**100.0 %**	**14.6 %**
Operating costs	(805.1)	-69.2 %	(948.2)	-71.1 %	17.8 %
Personnel Costs	(163.3)	-14.0 %	(172.5)	-12.9 %	5.6 %
Ebitda	**195.6**	**16.8 %**	**213.0**	**16.0 %**	**8.9 %**
Amort., deprec. & prov.	(86.9)	-7.5 %	(89.5)	-6.7 %	3.0 %
Ebit	**108.7**	**9.3 %**	**123.5**	**9.3 %**	**13.7 %**
Financial charges and					
financial adjustments to assets	(21.7)	-1.9 %	(32.6)	-2.4 %	50.2 %
Pre–tax profit	**87.0**	**7.5 %**	**90.9**	**6.8 %**	**4.5 %**

It can be clearly seen that, even removing the effect of the change in the scope of consolidation, all indicators have increased, confirming the improvement which has characterised the Group's past results.

Assuming a similar scope of consolidation, well over 40% of the growth in revenue from Euro 1,083.9 million to Euro 1,256.9 million is attributable to the increase in oil prices which had a knock-on effect on the price of raw materials of energy products. The remainder is due to sales of gas of approximately Euro 30 million, "contracts for difference" on the electricity market of approximately Euro 25 million and the increase in sales in the Waste management segment of approximately Euro 40 million, mostly linked to higher waste management volumes and the activities carried out at the new WTE plant based in Bologna as well as the newly established company called Ecologia Ambiente. The gas and electricity segments, instead, were adversely affected by a reduction in the distribution tariffs which, in turn, gave rise to an overall reduction in the third quarter of approximately Euro 9 million.

Approximately 84% of the increase in operating costs, which amounted in total to Euro 143.1 million (+17.8%), is attributable to the increase in the 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 remainder is attributable to the increase in costs of production incurred on the new activities in the Waste management segment, more specifically FEA and Ecologia Ambiente, and to the water cycle.

Personnel costs increased from Euro 163.3 million to Euro 172.5 million (+5.6%), with an incidence on the Value of Production that improved by more than one percentage point between the first nine months of 2005 and the same period of last year. The increase in the cost of labour is associated not only with the personnel in service at the new plants of the Waste management segment, the extraordinary commitment demanded since the launch of the new customer information system which entailed hiring temporary staff (70 staff on average) but also higher costs with regard to customer relationship management structures.

At the end of the third quarter of 2005, the Group consolidated Ebitda, increased by 8.9% compared to the corresponding period of 2004, rising from Euro 195.6 million to Euro 213.0 million. If the comparison with the third quarter of 2004 is made net of the Ferrara area, then the Ebitda rises to 18.3%. This result was obtained thanks to the positive performance of the Waste management, Water Cycle and Other Services segments. The activities related to the Gas and Electricity areas, on the other hand, declined despite the negative summer season, due to a reduction in the tariffs charged.

The percentage incidence of the Ebitda falls from 16.8% to 16.0%, as a result of the abovementioned increase in the sales volume in the Electricity segment (electricity and gas) and to the reduction in the related distribution tariffs.

Amortization, depreciation and provisions increased from Euro 86.9 million in 2004 to Euro 89.5 million in 2005 (+3.0%), with a reduction in the percentage incidence on the Value of production from 7.5% to 6.7%.

The third quarter of 2005 closed with an Ebit of Euro 123.5 million, a 13.7% increase compared to the same period last year, despite the abovementioned reductions in the tariffs of both gas and electricity, thanks also to the positive impact of the initiatives undertaken to improve efficiency and cut down costs which continued well into 2005 and the good results achieved by the new plants in the Waste management area.

Financial charges, which increased from Euro 21.7 million to 32.6 million, in 2005 include Euro 3.4 million for the payment of the differential compared to the purchase prices of energy commodities hedged against through non-speculative derivative instruments of an industrial nature. It is worth noting that this item includes also notional charges booked in accordance with the financial method that applies to provisions (IAS 19 and 37). Furthermore, financial charges related to the indebtedness towards the banks continued to rise significantly due to the increase in working capital associated with the implementation of the new invoicing system.

In the light of the above matters, the period ended with a Net Profit before tax of Euro 90.9 million, an improvement (+4.5%) compared to the same period in the previous year. The increase goes up to 7.1% compared to the same period, excluding the Ferrara area.

2.2 Investments of the Hera Group

The Group's investments, including the increase in leased assets treated according to IAS criteria and in financial investments, amounted to Euro 186.5 million compared to Euro 163.1 million of the previous year.
In particular, details of the investments are provided in the table below, for the reference period, analysed by activity segment.

Total investments (millions of euros)	**30 Sept. '04**	**30 Sept. '05**
Gas area	13.1	31.3
Electricity area	2.2	2.2
Integrated water cycle area	48.2	43.0
Waste management area	21.3	49.3
Other services area	19.4	13.5
Central structures	51.8	37.2
Total tangible and intangible asset	**156.0**	**176.5**
Financial investments	7.1	10.0
Total investments	**163.1**	**186.5**

The investments in the gas service in the area served are in line with the corresponding period in the previous year, and mainly refer to extensions, reclamations and improvements of networks and plants. The increase in investments by the Medea company refers to the commencement of the second part of the methane duct in Sassari, whilst plants were acquired for Euro 16.3 million.

Gas (millions of euros)	**30 Sept. '05**	**30 Sept. '05**
Territory	12.1	11.7
Medea	1.0	3.3
Purchase of plants		16.3
Total Gas	**13.1**	**31.3**

The investments in the Electricity service refer partly (Euro 2.0 million) to the extension to the service and to the extraordinary maintenance of the plants, principally located in the Imola area, and partly (Euro 0.2 million) to the completion of the planning and design of the electricity production plant in Imola.

Electricity (millions of euros)	**30 Sept. '05**	**30 Sept. '05**
Territory	1.6	2.0
CCGT	0.6	0.2
Total Electricity	**2.2**	**2.2**

The investments relating to the integrated water cycle were lower than those made in the corresponding period of the previous year as they were adversely affected by the delay occurred in enforcing the new conventions agreed with the ATOs (Water and Waste Authority Agencies).

Integrated water cycle (millions of euros)	**30 Sept. '05**	**30 Sept. '05**
Aqueduct	32.4	27.3
Purification	6.8	5.8
Sewerage	9.0	9.9
Total Water cycle	**48.2**	**43.0**

In the Waste management area the investments in the plants throughout the territory served were in line with those of the previous year. The main investments in subsidiary and associated companies and in WTE (Waste-to-energy) relate to the completion of the FEA plant (Euro 18.2 million) and the commencement of the works relating to the construction of the second and third waste incineration line of the Canal Bianco plant based in Ferrara (Euro 5.6 million).

Waste management		
(millions of euros)	30 Sept. '05	30 Sept. '05
Territory	6.5	5.7
FEA	5.5	18.3
Other subsidiaries and associated companies	7.5	19.3
WTE Canal Bianco	0.7	5.6
Other WTE	1.1	0.5
Total Waste Management	**21.3**	**49.3**

Works carried out with regard to district heating service relate mainly to the extension works carried out with regard to the service in the Bologna area (Euro 3.7 million), Ferrara (Euro 1.9 million) and Imola (Euro 1.1 million). The works carried out with regard to the telecommunications refer to the continuation of the implementation of the Regional Telematic Interconnection Plan through fibre optic lines. As regards Public lighting, works carried out relate to the installation of new lighting points and to the extraordinary maintenance of existing ones. Works carried out in connection with other services dropped dramatically and relate mainly to cemetery services and to the management of thermal heat plants.

Other services		
(millions of euros)	30 Sept. '05	30 Sept. '05
District heating	6.0	7.0
Telecommunication	6.7	3.4
Ill. Public lighting	2.1	0.8
Other	4.6	2.3
Total Other Services	**19.4**	**13.5**

The strong commitment to the implementation of the corporate IT system, and more specifically the SAP-ISU system and the related interface with SAP-R3, continued also throughout the first nine months of 2005. The reduction in works carried out with regard to other investments of the central structure is attributable to the gradual rationalisation being made by the Group.

Structure		
(millions of euros)	30 Sept. '05	30 Sept. '05
Buildings	3.8	4.3
IT Systems	17.7	20.7
Other investments	30.3	12.2
Total	**51.8**	**37.2**

As regards the increase in financial investments, of note are the re-capitalisation of Tirreno Power according to the plan agreed to cope with the plant re-powering, the acquisition of a shareholding in the SGR company that manages the distribution of methane in the Rimini area, the increase in the stake in Calenia Energia, the establishment of Hera Gas Tre to manage the transport of the methane gas.

Financial investments		
(millions of euros)	30 Sept. '05	30 Sept. '05
Tirreno Power	4.1	0.7
SGR		4.2
Calenia Energia		2.4
Hera Gas Tre		0.7
Other financial investments	3.0	2.0
Total financial investments	**7.1**	**10.0**

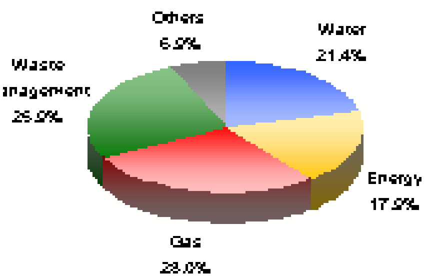
2.3
Analysis by Business Area

An analysis of the Group's results by business area is provided below: distribution and sale of Methane gas and LPG, distribution and sale of Electricity, Integrated Water Cycle (Waterworks, Purification, Sewerage), Waste management (Waste collection and treatment) and Other services (District heating, Public lighting, Heat management and Cemetery services).

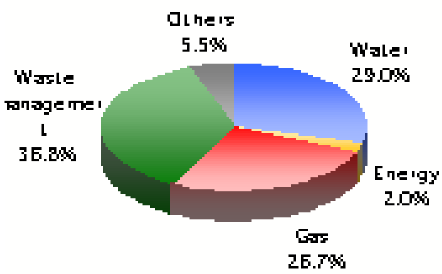
The economic data set out below relate to the period ended on 30 September 2005 and are compared with those of the same period for the year 2004. This comparison helps to highlight the trend of the results achieved by each segment, the analysis of which in terms of Revenues and Ebitda is provided in the following pie charts:

ANALYSIS OF THE BUSINESS PORTFOLIO

Sales at 30 Sept. 2005



Ebitda at 30 Sept. 2005



The results of operations by business area are analysed in the chapters which follow. The Income statements by business area include structure costs, inter-divisional transactions valued at current market prices and, for 2004, the data relating to the merged Ferrara companies.

2.3.1 Regulatory framework

This area, which includes the sale and distribution of gas, accounts for approximately one-third of the Group's Ebit at 30 September 2005, as shown in

(millions of Euros)	3rd Qrt. 2004 pro-forma	3rd Qrt. 2005	% change
Ebitda - area	**64.4**	**56.8**	**-11.9%**
Ebitda – Hera Group	195.6	213.0	8.9%
in percentage terms	32.9%	26.7%	

the table below:

(millions of Euros)	3rd Qrt. 2004 pro-forma	I% incid.	3rd Qrt. 2005	% incid.	% change
Revenues	388.2	96.3%	472.0	97.3%	21.6%
Increase in capitalised assets	15.0	3.7%	13.0	2.7%	-13.2%
Value of production	**403.2**	**100.0%**	**485.0**	**100.0%**	**20.3%**
Operating costs	313.5	77.8%	400.9	82.7%	27.9%
Personnel costs	25.3	6.3%	27.3	5.6%	8.0%
Ebitda	**64.4**	**16.0%**	**56.8**	**11.7%**	**-11.9%**

The results are summarised as follows:

Sales in the Gas area increased by 21.6%, from Euro 388.2 million to Euro 472.0 million in the first nine months of 2005, mainly as a result of the increase in the cost of raw materials, passed on to sales prices, and of higher volumes sold, thanks also to trading activities which contributed to revenues for approximately Euro 51.0 million.
The increase in sales mentioned above has been largely compensated by the cut in tariffs relating to the distribution quota imposed by the authorities, which also in relation to the summer season accounted for approximately Euro 7.7 million of the difference between the two financial periods hence confirming the value reported at 30 June 2005.

The distribution tariffs fell on average by 13%, from 5.73 to 5.01 Euro/cent on average per cubic metre.

The oil price increase caused the average price of raw materials to rise by approximately 15% in the first nine months of 2005 compared to the same period of 2004.

Personnel costs went up due to a higher degree of control over the commercial side of the segment as well as to the higher customer relationship management costs incurred since the launch of the new IT client system.

The changes in the main factors which contributed to the performance of the distribution and selling activities are shown below:

(millions of Euros)	3rd Qrt. 2004 pro-forma	3rd Qrt. 2005	% change
Customers (thousand units)	795,746	813,405	2.2%
Volumes distributed (millions of m^3)	1,297.5	1,315.9	1.4%
Volumes sold (millions of m^3)	1,394.1	1,565.2	12.3%
- of which sold to wholesalers (Trading)	*118.7*	*266.2*	*124.3%*

Ebitda in the Gas area, when comparing figures at 30 September 2004 and the same period of 2005, fell from Euro 64.4 million to Euro 56.8 million (- Euro 7.6 million, -11.9%). The result dropped due to the reduction in the distribution tariffs which directly affected the Ebitda by an amount equal to the overall change reported. Efficiency recoveries helped compensate for the aforementioned increase in commercial costs.

2.3.2 Electricity area

The sale of electricity continues to represent a marginal quota in terms of Group profitability as shown in the table below:

(milions of Euros)	3rd Qrt. 2004 pro-forma	3rd Qrt. 2005	% change
Ebitda - area	**5.7**	**4.3**	**-25.0%**
Ebitda - Hera Group	195.6	213.0	8.9%
in percentage terms	2.9%	2.0%	

This area, which in 2004 reported significant growth rates to complete, in line with the overall Group strategy, the energy services provided to customers and strengthen the competitive edge of the Group from a commercial point of view ("Dual fuel" policy", stabilised in 2005, affecting the margin of the segment as highlighted in the table which follows:

(millions of Euros)	3rd Qrt. 2004 pro-forma	% incid.	3rd Qrt. 2005	% incid.	% change
Revenues	155.3	98.7%	208.7	99.0%	34.4%
Iincrease in capitalised assets	2.0	1.3%	2.0	1.0%	0.5%
Value of production	**157.3**	**100.0%**	**210.8**	**100.0%**	**34.0%**
Operating costs	148.6	94.5%	204.2	96.9%	37.4%
Personnel costs	2.9	1.9%	2.3	1.1%	-22.1%
Ebitda	**5.7**	**3.6%**	**4.3**	**2.0%**	**-25.0%**

The table, which summarises volumes by customer type, highlights the minor impact by the activities on the non-eligible market and shows how the commercial strategy has consolidated towards the liberalised market:

(millions of Euros)	3rd Qrt. 2004 pro-forma	3rd Qrt. 2005	% change
Volumes invoiced (GW/h)	**1,699.6**	**1,721.2**	**1.3%**
of which non-eligible market	143.5	139.4	-2.9%
of which eligible..market	1,556.1	1,581.8	1.6%

The Euro 53.4 million increase in revenues was achieved partly as a result of the abovementioned increase in the cost of energy commodities correlated to the significant increase in oil prices, and partly as a result of the recording of the lots relating to the "contracts for difference" that generated greater volumes of revenues and costs of approximately Euro 24 million.

The reduction in the Ebitda, from Euro 5.7 million to Euro 4.3 million, is attributable to the reduction in margins imposed by the Authorities on the distribution tariffs and to a lower commercial margin associated with the changed customer mix.

2.3.3 *Integrated Water Cycle area*

The Hera Group plays a primary role in the competitive scenario of national water utility providers and is one of the top operators in Italy thanks to its almost complete coverage in the 5 ATOs of the Provinces of Ravenna, Forlì-Cesena, Rimini, Bologna and Ferrara.

(millions of Euro)	3rd Qrt. 2004 pro-forma	3rd Qrt. 2005	% change
Ebitda - area	**57.2**	**61.7**	**7.8%**
Ebitda – Hera Group	195.6	213.0	8.9%
in percentage terms	29.3%	29.0%	

The conventions agreed with all the ATOs according to the provisions of the so-called 'Galli law' came into force on 1 January 2005 and allowed the introduction of the new tariff scheme and the completion of the coverage of the services related to the Integrated Water Cycle in the area served. According to the new tariff system, which defines both the increases for the 2005-2007 three-year period and the related investment plan, all new costs related to the area, especially those incurred to achieve complete coverage of the territory and all ATOs operating costs will be fully absorbed in the first year.

Hence, the profitability reported in the third quarter of 2005 compared to the same period in the previous year shows reasonable growth, as shown in the following table:

(millions of Euros)	3rd Qrt. 2004 pro-forma	% incid.	3rd Qrt. 2005	% incid.	% change
Revenues	228.9	84.3%	250.0	84.5%	9.2%
Increase in capitalised assets	42.7	15.7%	45.8	15.5%	7.4%
Value of production	**271.5**	**100.0%**	**295.8**	**100.0%**	**8.9%**
Operating costs	165.5	60.9%	182.1	61.6%	10.1%
Personnel costs	48.8	18.0%	52.0	17.6%	6.4%
Ebitda	**57.2**	**21.1%**	**61.7**	**20.9%**	**7.8%**

The third quarter of 2005, compared to the same period of 2004, shows, in line with expectations, an increase in revenues that is mainly related to a corresponding increase in services provided, especially in the sewerage segment and to the tariff scheme approved by the ATOs.

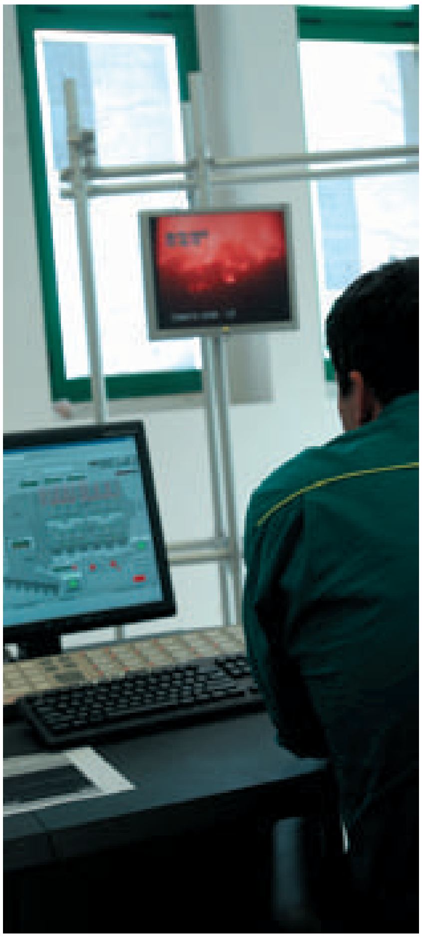
The third quarter of this year was adversely affected by a particularly rainy season that hit severely especially high tourist traffic areas. The impact of this climatic trend may be estimated to be equal to sales of more than 3 million cubic metres.

The main quantitative data relating to the segment are as follows:

(millions of Euros)	3rd Qrt. 2004 pro-forma	3rd Qrt. 2005	% change
Volumes invoiced in mln of m^3			
Aqueduct	158.2	154.9	-2.1%
Sewerage	118.6	134.8	13.7%
Depuration	139.5	139.6	0.1%

The table shows the impact of a drop in consumption from one period to the next which, as a result, adversely affected the exploitation of plants hence the margin.

Ebitda at 30 September 2005 rose to Euro 61.7 million from Euro 57.2 million reported for the same period last year.



Waste management area

The Waste management area represents an increasingly important part of the overall Group, reaching a share of one-third of the Ebitda as highlighted below:

(millions of Euros)	3rd Qrt. 2004 pro-forma	3rd Qrt. 2005	% change
Ebitda - area	**57.2**	**78.4**	**37.1%**
Ebitda – Hera Group	195.6	213.0	8.9%
in percentage terms	29.2%	36.8%	

The waste treatment and disposal of solid urban and special waste plant places the Group among the most important players in the sector at European level and its position was further strengthened by the acquisition of the plants of the Centro Ecologico based in Ravenna as well as by the new waste-to-energy plant coming into service in Bologna which, in addition to increasing the waste treatment capacity, produces electricity that can be sold at subsidised tariffs (CIP6).

As already mentioned earlier, as regards the Integrated Water Cycle area, the Group operates in five ATOs of the Provinces of Ravenna, Forlì-Cesena, Rimini, Bologna and Ferrara. The final agreements with all the Agencies have been completed according to the related legal provisions.

(millions of Euros)	3rd Qrt. 2004 pro-forma	% incid.	3rd Qrt. 2005	% incid.	% change
Revenues	262.3	99.8%	302.2	99.0%	15.2%
increase in capitalised assets	0.6	0.2%	3.1	1.0%	393.1%
Value of production	**262.9**	**100.0%**	**305.3**	**100.0%**	**16.1%**
Operating costs	139.3	53.0%	153.3	50.2%	10.1%
Personnel costs	66.4	25.3%	73.6	24.1%	10.8%
Ebitda	**57.2**	**21.8%**	**78.4**	**25.7%**	**37.1%**

An analysis of the Group's results achieved in the Waste management area is provided below:

The data of the first nine months of 2005 have been positively affected by the greater number of plants mentioned in the foreword compared to the previous year.

The revenues figure, at the end of September shows a 15.2% increase, from Euro 262.3 million to Euro 302.2 million in 2005.

The increase is mainly attributable to the revenues generated by the subsidiary Ecologia Ambiente, which manages the acquired plants based in Bologna, and also to higher electricity sales by the new Bologna plant.

The total amount of waste treated and disposed of rose from 2.0 to 2.6 million tons (+30.0%), thanks especially to the good results achieved in the special waste area.

The amount of waste treated by the waste-to-energy plants increased hence allowed a reduction in waste sent to landfills, further improving waste management also in terms of environmental impact.

The Ebitda for the first nine months of the year increased by 37.1%, from Euro 57.2 million to Euro 78.4 million. The increase was achieved mainly thanks to the greater number of plants mentioned earlier which enabled the Group to treat a higher quantity of waste. Of note is the margin percentage which went up by almost four points increasing from 21.8% of the first nine months of 2004 to 25.7% of the same period in 2005.

2.3.4 Other services area

In 2005 the rationalisation and reorganisation of the Other services area which had commenced in 2004 continued, with the addition, in particular, of the services carried out in the Ferrara area.
The percentage of the Other services segment on the overall Group margin is equal to 5.6%, in line with the previous year, as shown in the following table:

(millions of Euros)	3rd Qrt. 2004 pro-forma	3rd Qrt. 2005	% change
Ebitda - area	**11.0**	**11.8**	**7.3%**
Ebitda – Hera Group	195.6	213.0	8.9%
in percentage termsl	5.6%	5.6%	

In the first nine months of 2005, the Other services segment, which includes District heating, Public lighting, Heat management and other minor services, achieved very positive results considering that, the initial disposal of non-strategic assets was matched by an increase in margin:

(millions of Euros)	3rd Qrt. 2004 pro-forma	% incid.	3rd Qrt. 2005	% incid.	% change
Revenues	88.7	81.7%	80.7	86.2%	-8.9%
Increase in capitalised assets	19.8	18.3%	12.9	13.8%	-35.0%
Value of production	**108.5**	**100.0%**	**93.6**	**100.0%**	**-13.7%**
Operating costs	77.6	71.6%	64.5	68.9%	-17.0%
Personnel Costs	19.8	18.3%	17.3	18.5%	-12.6%
Ebitda	**11.0**	**10.2%**	**11.8**	**12.6%**	**7.3%**

The success of the reorganisation activities enabled the group to achieve efficiency levels that led to an increase in the margin percentage generated by these services of well over 20% (from 10.2% to 12.6 %) when comparing the two financial periods under consideration.

2.4
Analysis of the net financial position of the Hera Group

In order to illustrate the evolution of the Net Financial Position (NFP) the following table compares the values at 30 September 2004 with those relating to the 2004 financial year end:
As already highlighted at 30 June 2005, the absolute value has increased remarkably during the year due to the significant volume of investments made in the period and the invoicing delays associated with the new IT client system. However, the positive economic trend of the period and a careful management of working capital enabled the group to contain the impact of the aforementioned factors.

The financial stability of the Group is confirmed by a positive ratio of debts due to third parties to the total financing funds, and is further strengthened by the share of net financial position covered by medium/long-term loans which is equal to 75.4% of the total.

It is worth noting that the Group has received an A+ rating from Standard & Poor's, with a stable outlook.

On 26 October the Board of Directors of the Parent company, Hera S.p.A., given the favourable market condition for issuers enjoying a high rating, resolved to go ahead with a Bond issue ranging between Euro 400 and 500 million on the international market. The Bond will be used to finance the Group's development processes which include the forthcoming merger with Meta S.p.A..

On 31 October, a partial IPO was launched with regard to the ordinary shares of Meta S.p.A representing 29% of its share capital. As indicated in the offer document published on 16 September, the IPO will end on 22 November.


HERA

2.5
Human resources

At 30 September 2005 the number of employees of the Hera Group was 5,000 (consolidated companies), analysed by category as follows: Senior Management (85) Management (216), White-collar (2,051), Blue-collar (2,648). This personnel structure is the result of the following changes: 109 staff hired of which 23 were recruited because of new activities; 132 staff left the Group.

	31 Dec. 2005	30 Sept. 2005	Change
Senior Management	84	85	1
Management	193	216	23
White-collar	1986	2051	65
Blue-collar	2760	2648	-112
Total	**5023**	**5000**	**-23**

The actual changes are detailed as follows:

	30 Sept. 2005
Personnel in service at the end of 2004	5023
Joining	86
Leaving	-132
Net outflow	**-46**
Changes in activity/scope of consolidation	23
Personnel in service at the end of 2005	**5000**

Also in the third quarter of 2005 the Group did not replace any staff leaving the company where they had been employed in lower added-value activities.

3 CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP

3.1 Reclassified consolidated income statement

	30/09/2005 €/000	30/09/2004 €/000 (adjusted)*	3rd Qrt '05 €/000	3rd Qrt '04 €/000 (adjusted)*	31/12/2004 €/000 (adjusted)*
Revenues	1,233,629	966,505	351,925	275,207	1,492.572
Change in inventories of finished products and work in progress	1,467	6,975	1,648	2,119	9.187
Other operating revenues and income	21,876	15,622	7,006	4,672	27.106
Consumption of raw materials and consumable materials (net of the change of the inventories of raw materials and stocks)	-560,176	-413,490	-142,904	-103,394	-622.006
Service costs	-310,352	-268,660	-108,785	-91,327	-416.930
Personnel costs	-172,494	-143,359	-55,121	-45,658	-215.863
Depreciation, amortisation, and provisions	-89,444	-75,776	-29,600	-26,038	-115.256
Other operating expenses	-77,841	-60,104	-24,203	-21,034	-92.152
Capitalised costs	76,853	76,610	28,512	26,568	110.599
Operating profit	**123,518**	**104,323**	**28,478**	**21,116**	**177.257**
Quota of profits(losses) of associated companies	-159	-2,070	155	-814	-3.029
Financial income	5,707	4,144	2,485	2,257	6.071
Financial charges	-38,137	-21,467	-12,065	-6,775	-32.755
Pre-tax result	**90,929**	**84,930**	**19,053**	**15,784**	**147.544**

* values adjusted and reclassified according to IFRS

3.2 Consolidated net financial position

	31 Dec. 04	30 June 05	30 Sept. 05
Non-current securities and other financial receivables	18.9		18.7
Bank payables – long term	-517.7	-571.7	-599.8
Lease finance payables (*)		-35.6	-22.6
Financial assets	34.5	38.5	
16.5Medium/long-term debt	**-464.3**	**-568.7**	**-587.2**
Lease finance payables (*)		-10.9	-9.6
Other financial receivables/payables	1.4	2.2	0.3
Bank payables-short-term	-270.7	-334.0	-354.9
Cash and cash equivalents	172.4	182.4	185.0
Financial assets - not constituting fixed assets			4.9
Financial instruments – derivatives		-17.8	-16.9
Net short-term debt	**-96.9**	**-178.0**	**-191.2**
Total net debt	**-561.2**	**-746.7**	**-778.4**

(*) at 31 December 2004 they were included under amounts due to banks/loans

3.3

Format and content of financial statements

The Consolidated quarterly report of the Hera Group at 30 September 2005, which is unaudited, was drawn up in accordance with the provisions of Article no. 82 of the "Regulation containing the rules implementing Legislative Decree no.58 of 24 February 1998 dealing with issuers of securities" (Consob Resolution no. 11971 of 14 May 1999 and subsequent modifications) as amended by Consob Resolution no. 14990 of 14 April 2005. According to the abovementioned Article no.82, as regards valuations, the Quarterly report has been prepared by applying IFRS in compliance with the provisions of Annex 3D of the same Regulation. Therefore, this quarterly report has not been prepared according to the accounting principle dealing with interim financial reporting (IAS 34). Also comparatives have been calculated according to IFRS. The Appendix shows the reconciliations required by IFRS 1 which are provided with notes explaining the criteria adopted to prepare them.

The Half-year report of the Hera Group has been prepared according to the provisions of IAS 34 which deals with Interim Financial Reporting, adapted to the procedure set out in Article no.6 of EC Regulation no. 1606/2002.

It is worth noting that, in the comparison between the balances of the income statement at 30 September 2004 and the one at 30 September 2005, the former does not include the contribution by the Agea Group; in fact, the merger of the Agea group in Hera S.p.A. was completed on 31 December 2004 with retrospective effect from 1 January 2004.

The income statements and the data included in the Notes are all stated in thousands of euros except where indicated otherwise.

3.4
Accounting policies and consolidation principles

The items included in the financial statements have been valued in accordance with the general concepts of prudence and accruals as well as on a going concern basis. Transactions have been recorded so as to reflect their substance rather than their legal form.

The consolidated income statements have been prepared using the accounts of the single companies at 30 September 2005, adequately reclassified and adjusted so that they comply with the accounting policies and the valuation criteria adopted by the Parent company.

In preparing the consolidated income statements, all income and expenses of companies included in the scope of consolidation have been fully included. On the contrary, all income and expenses, profits and losses arising on intra-group transactions carried out by companies included in the consolidation have been eliminated.

Dividends from subsidiary companies in which the Parent company has the majority of votes at Shareholders' Meeting, are recorded in the year to which they relate, as long as the financial statements of the Parent company are approved by the Board of Directors of the latter after the approval of the financial statements of its subsidiaries. The consolidation of subsidiary companies results in the elimination of all dividends recorded on the accruals basis.

The main accounting policies adopted by the group are set out below.

Tangible assets – Tangible fixed assets are recorded at purchase or production cost including accessory charges, or at a value based on an expert's valuations of the company's assets, net of accumulated depreciation and any losses in value. The production cost includes both direct and indirect costs that can be reasonably allocated to the assets (for example: transport charges, custom duties, site preparation costs, testing costs, notary and land registry fees). The cost includes professional fees and, for certain assets, the financial charges capitalised until the asset is put into service. The cost includes reclamation costs relating to the site where the tangible assets are located as long as these comply with the provisions of IAS 37.

At the date of the transition to IFRS – 1 January 2004 – the Group adopted the fair value criteria electing to use the fair value of tangible fixed assets as their deemed cost, by applying it only to certain categories of assets; any excess value over cost was credited directly to reserves. The 'fair value as deemed cost' criterion was adopted on the basis of an appraisal carried out by an independent valuer who enabled also the identification of single components of plant and machinery of significant value and with different estimated useful lives, according to the approach set out in IAS 16.

Ordinary maintenance costs are charged to the income statement in full. Improvement, modernisation and transformation costs that enhance the value of an asset are recorded in the balance sheet under assets.

The carrying value of tangible assets is tested for any loss in value on a yearly basis or when events or changes in the current situation indicate that the carrying value will not be recovered (for details refer to the "loss in value – impairment" paragraph).

Depreciation begins when the assets are ready for use. Tangible fixed assets are systematically depreciated using economic-technical depreciation rates which take into account the estimated useful life of the assets. Depreciation of assets made up of a number of components having significant value and different useful economic lives, is calculated separately for each component. Depreciation is calculated on a straight-line basis, taking into account the estimated useful life of the various assets by applying the following depreciation 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
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
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 plants	7.50	15.00
- Specific plants	5.00	10.00
Stage two units - district – Specific plant	5.00	10.00
User reduction units – Specific plants	4.00	8.00
Distribution network	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 units	4.50	9.00
- Electric cabins	3.50	7.00
Equipment	5.00	10.00

Water service	min %	Max %
Land	0	0
Buildings/Civil works	1.75	3.50
Wells		
- Buildings/Civil works	1.75	3.50
- General and specific plant	1.25	2.50
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 plants	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 plants	7.50	15.00
IIR Specific 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		

No depreciation is calculated on land. Landfills are depreciated on the basis of the percentage utilised.

Profits and losses arising on transfers or disposals of fixed assets are calculated as a difference between the sale proceeds and the net book value of the related assets and are recorded in the income statement.

Leasing – Leasing contracts are classified as finance lease contracts when the terms of the contract transfer all the risks and rewards of ownership to the lessee. Assets under finance leases are included under tangible assets and are recorded as assets belonging to the Group at their fair value at the date of acquisition or, if lower, at the net present value of the minimum rental payments due under the lease and are depreciated over their estimated useful life, as if they were owned assets. The corresponding liability towards the lessor is included in the balance sheet. Lease rentals are analysed between principal and interest and the financial charges are debited directly to the income statement of the year to which they relate. All other leases are accounted for as operating leases and the related costs for lease rentals are recorded according to the terms of the contract.

Intangible assets – Identifiable intangible assets are recorded only where their cost can be established with reasonable certainty based on the assumption that the assets will generate future economic benefits. These assets are recorded at cost, established according to the criteria indicated for tangible fixed assets and where they have a finite useful life they are systematically amortised over their estimated useful life. Amortisation will be calculated starting from the time when the asset is ready for use and, at any rate, when it starts generating economic benefits for the company. If intangible assets have an indefinite useful life, they are not amortised but they are tested annually for impairment also where there is no indication of possible losses in value.

Research and development costs for new products and/or processes are generally recorded in the income statement of the year in which they are incurred, in line with the prudence concept.

Advertising costs are charged directly to the income statement.

Industrial patents and intellectual property rights are examples of identifiable assets capable of generating future economic benefits under the company's control: such rights are amortised over their estimated useful lives.

Concessions and licences are mainly represented by the concession rights for the management of local public services and are amortised on a straight-line basis over the shorter of the economic-technical life of the asset under concession and the duration of the concession. The residual value of intangible assets relating to the water concessions conferred by the companies merged and/or spun off, instead, is amortised taking into account the average remaining duration of the management in the light of the agreements currently in force with the ATOs. The residual value of intangible assets relating to concessions for the management of the methane gas distribution networks conferred by the companies merged and/or spun off is amortised taking into account the remaining duration of the temporary management provided for by current legal regulations.

Profits or losses arising on the disposal of intangible assets are calculated as the difference between the disposal value and the carrying value of the asset and are recorded in the income statement at the time of disposal.

Business combinations – IFRS 3 applies to business combinations agreed to after 31 March 2004. The company applied this principle to the acquisition of the Agea Group.

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

Goodwill arising on the business combination, which is recognised as an asset and is initially valued at cost, is represented by the excess of the cost of acquisition over the Group's share in the fair value of identifiable and recorded assets, liabilities and contingent liabilities. If, after having reassessed those values, the Group's share in the fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the combination, the difference is immediately recorded in the income statement.

The Group, availing itself of the option granted by the IFRS, has not applied

IFRS3 retrospectively to business combination transactions that took place before the date of transition to IAS/IFRS which therefore are recorded at the same values established on the basis of the previous Accounting principles.

Goodwill arising on consolidation represents the excess of the acquisition cost over the Group's share of assets and liabilities, valued at fair value, of the subsidiary, associated or jointly controlled companies at the date of acquisition.

Goodwill arising on the acquisition of an associated company is included in the carrying value of the investment in that company.

Impairment losses – At each financial year end, the Group examines the book value of its tangible and intangible assets to establish if there has been impairment in the current book value of these assets. Where the impairment test is not satisfied, then the Group estimates the recoverable amount in order to calculate the impairment loss hence the amount of the write-down. If it is not possible to establish the recoverable amount of assets individually, the Group estimates the recoverable value of the cash-generating unit to which such asset belongs. Future cash flows are discounted at a rate net of tax which reflects the current market value and takes into account the risks associated with the specific business activity.

Intangible assets with an indefinite useful life (including goodwill) are tested for impairment each year and whenever there seems to be evidence of impairment in order to establish if an impairment loss actually exists.

The recoverable amount is the higher of the asset's net selling price and its value in use. In measuring the value in use, the discount rate used should be the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the assets.

If the recoverable amount of an asset (or of a cash-generating unit) is lower than the related carrying value, then the latter is reduced to the recoverable amount and an impairment loss is recognised in the income statement. When there is an indication that an impairment loss may have decreased, the carrying value of the asset (or cash-generating unit), except for goodwill, is increased to the new estimated recoverable amount which, however, must not exceed the net book value of the assets, assuming no write-down had been recorded as a result of the impairment loss. Reversal of an impairment loss is recognised as income in the income statement unless the asset is shown at a revalued amount, in which case the reversal is recorded in revaluation reserve.

Equity investments and securities – Equity investments included under this heading relate to long term investments.

- **Investments in associated companies** – An associated company is an undertaking over whose operating and financial policies the Group exercises a significant influence (though it does not control it nor does it have joint control over it). Investments in associated companies are valued by applying the equity method, except where these investments are classified and held-for-sale, or when their value is not material, in which case they are carried at cost. According to the equity method, investments are recorded in the balance sheet at cost, adjusted for any post-acquisition changes in the Group's share of net assets of the associated companies. The excess of the cost of acquisition over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associated company at the date of acquisition is represented by goodwill. Goodwill is included in the carrying value of the investment and is subjected to impairment testing

- **Other equity investments and securities** – Other equity investments and securities relate to the category provided for by IAS 39 "Financial assets available

for sale". They consist in instruments representative of net equity and are stated at fair value. When the market price, or the fair value cannot be reasonably assessed, they are valued at cost as adjusted by permanent losses in value which are recognised in the income statement.
When the reasons for the write-down cease to exist, the impairment loss is reversed and the reversal is recognised in the income statement. The risk of any losses exceeding the carrying value of the investment is accounted for in a specific provision, the accrued liability being equal to the amount of the legal or implicit obligations that the investor is committed to satisfy on behalf of the investee or, at any rate, the losses that the investor has to cover.
The financial assets which the Group can and intends to hold till maturity are stated at cost represented by the fair value of the initial proceeds paid in exchange, increased by the related transaction costs. After the initial recording, financial assets are valued at amortised cost using the effective interest rate method.

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

Contract work in progress – Where it is considered that the outcome of a contract can be assessed with reasonable certainty, contract work in progress is valued on the basis of the contract amounts due with reasonable certainty according to the percentage-of-completion criterion (the so-called cost to cost method), so that revenues and profit relating to the contract are recognised in the year to which they relate, in proportion to the work carried out to date. Any positive or negative difference between the value of contracts and the payments on account is recorded in the Balance Sheet under assets or liabilities. Contract revenues include also variations, price revisions and incentive bonuses which are recognised when their realisation is probable and the amount can be reliably assessed.

When the final outcome of a contract cannot be reliably estimated, contract revenues are recognised only to the extent of costs incurred that are expected to be recovered. Contract costs are recorded as expenses of the year in which they have been incurred.

When it is likely that total contract costs exceed contract revenues, the expected loss is immediately recorded as a cost.

Inventories – Inventories are stated at the lower of cost, plus any directly attributable incidental expenses, and net realisable value. Cost is calculated using the weighted average method. Net realisable value is the estimated proceeds from the sale of inventories at year end less all costs to be incurred in selling them.

The value of obsolete and slow-moving inventories is written down by an adequate provision which takes into account the possible use or the likelihood of selling them. Inventories of work in progress and finished products are valued using the weighted average cost of production of the period which includes raw materials, consumables as well as direct and indirect production costs, excluding overheads.

Trade receivables – Trade receivables are stated at nominal value as reduced by an appropriate allowance for estimated irrecoverable amounts.

Financial assets – Financial assets are recorded in the financial statements or written off on the basis of the transaction date and are initially valued at cost, including any related transaction costs. After the initial recording, the financial assets that the Group can and intends to hold until maturity are recorded at amortised cost using the effective interest rate method, net of any write-downs due to impairment losses. Financial assets other than those held to maturity are classified as held for trading or as available-for-sale and are valued at the end of each period at fair value.

Cash and cash equivalents – The item relating to cash and cash equivalents includes cash, bank current accounts, deposits repayable on demand and other short-term high-liquidity financial investments which can be readily converted into cash and which are not exposed to a significant market risk.

Loans – Financial liabilities, with the exception of derivatives, are recorded initially at cost being represented by the fair value of the liability, net of any transaction costs directly attributable to the issue of the liability. After the initial recording, financial liabilities are valued at amortised cost using the effective interest rate method.

Employee leaving indemnity and other employee benefits – The liabilities relating to the defined benefit plans (such as the Employee Leaving Indemnity) are calculated net of any plan assets, on the basis of actuarial assumptions, and on an accruals basis taking into account the employee service required to obtain the related benefits; the liability is assessed by independent actuaries. The actuarial gains and losses are recorded in the income statement as a cost or revenue when the cumulative net value of the actuarial gains and losses of each plan that were not recognised at the end of the previous financial year exceeds 10% of the highest value of the defined benefit obligations (the so-called 'corridor method').

Provisions for risks and charges – The provisions for risks and charges include provisions set up in the financial statements on the basis of existing obligations (being the result of past events) which are likely to be met by the Group. These provisions are calculated on the basis of the best estimate of the costs required to meet such obligations at the date of the financial statements and are discounted where the impact is significant and the necessary information are available. In this case the provisions are calculated by discounting expected future cash flows using a pre-tax rate which reflects the current market value and takes into account the risks associated with the specific business activity. When discounting is applied, the increase in provision due to the passage of time is recorded as a financial charge. If the liability relates to intangible assets (e.g. restoration of sites), the provision is set up against the asset it relates to and the charge is recorded in the income statement through the amortisation of the intangible asset that the charge relates to.

Trade payables – These relate to transactions carried out with suppliers.

Other current liabilities – These relate to various types of transactions and are stated at nominal value.

Derivative financial instruments – The Group holds derivative instruments to hedge against its exposure to changes in interest rates and in the price of methane gas and electricity. In line with the strategy adopted, the Group does not carry out transactions in derivatives for speculative purposes.

The transactions that, in compliance with the risk management policies, satisfy the requisites prescribed by the accounting principles dealing with "hedge accounting" are designated as "hedging", whilst those that, although made with a hedging intention, do not satisfy such requisites are classified as "trading".

For accounting purposes, hedging transactions are classified as being "fair value hedge" if they are carried out to hedge against the risk of changes in the market value of the underlying asset or liability; or as "cash flow hedge" if they are carried out to hedge against the risk of changes in the cash flows generated either by an existing asset or liability, or arising on a future transaction.

Gains and losses due to changes in the fair value of derivative instruments designated as "fair value hedges" which qualify to be accounted for as hedging transactions are recognised in the income statement. Also any gains and losses arising from fair value adjustments to hedged items are recorded in the income statement.

Gains and losses due to changes in the fair value of derivative instruments designated as "cash flow hedges" which qualify to be accounted for as hedging transactions are recognised directly in net equity.

Changes in the fair value of derivative instruments which are not designated as hedging instruments are recorded in the income statement of the period in which they occurred.

Grants – Capital grants are recognised in the income statement over the period in which the related costs occur; in the balance sheet they are included as deferred income. Operating grants, including contributions received from users for connections, are treated as revenues for services rendered in the period hence are recognised on an accruals basis.

Revenue recognition – Income and revenues are stated net of returns, discounts and rebates, and net of taxes directly 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:

- revenues from the sale of electricity, gas and water are recognised and accounted for at the time they are provided and include an accrual for supplies provided but not yet invoiced (estimated using historical analyses compiled on the basis of past consumption levels),

- revenues for services rendered are recognised when the service is actually rendered, in accordance with the related agreements,

- revenues for sales of assets are recognised at the time the Group transfers to the purchaser all significant risks and rewards related to the ownership of the asset,

- costs are recorded on an accruals basis.

Financial income and charges – Financial income and charges are recognised on an accruals basis.

Conversion criteria for items denominated in foreign currency – The functional and presentation currency adopted by the Hera Group is the Euro. Foreign currency transactions are initially recorded at the exchange rate ruling at the transaction date. Assets and liabilities denominated in foreign currency, with the exception of fixed assets, are recorded at the year-end exchange rate and the related exchange gains or losses are recorded in the income statement; any net profit arising is credited to a specific non-distributable reserve until such gain is realised.

Earnings per share – Earnings per share is represented by the net profit for the period attributable to Ordinary Shareholders taking into account the weighted average of ordinary shares in issue over the reporting year. The diluted earnings per share is obtained by adjusting the weighted average of shares in issue to take into account all the potential ordinary shares with dilutive effect.

3.5 List of companies

List of companies consolidated on a line-by-line basis

(in Euros) name	Registered office	Share Capital	% Ownership Direct	Indirect	Total	Total Holding
Parent company:						
Hera S.p.A.	Bologna	839,903,881				
Subsidiary companies:						
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	85.00 %		85.00 %	85.00 %
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 Forlì-Cesena S.r.l.	Cesena (FC)	650,000	100.00 %		100.00 %	100.00 %
Hera Imola-Faenza S.r.l.	Imola (BO)	750,000	100.00 %		100.00 %	100.00 %
Hera Luce S.r.l.	San Mauro Pascoli (FC)	216,600	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.	Naples	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 %		6.,00 %	60.00 %
Seas Lavori e Servizi s.c.ar.l.	Bologna	51,000	6.00 %	94.00 %	100.00 %	93.70 %
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 %

Hera Ferrara S.r.L., which at 30 December 2004 had been accounted for using the equity method, has been fully consolidated as it was fully operational as of 1 January 2005 (the share capital has increased from Euro 10,000 to Euro 810,000, fully subscribed and paid up by Hera S.p.A.).

On 7 June 2005 the subsidiary Hera Comm S.r.L. acquired the stake held by Con.Service in Attivabologna S.r.l. consortile; as a result of the above transaction, the shareholding increased from 91.74% to 96.40%.

On 11 February 2005 Cales S.r.L. resolved to increase its share capital from Euro 11,000 to Euro 250,000. The shareholders paid up 25% of the increase based on the percentage of shares held. Furthermore, Hera S.p.A.'s shareholding went down from 50.09% at 30 December 2004 to the present 50.01%.

With effect from 1 January 2005, the sale of the spin-off of Amga Energia to Sinergia was completed with the ensuing share capital increase from Euro 414,000 to Euro 579,000. Hera S.p.A.'s shareholding increased from 51% to 59%.

Lastly, the shareholding in Ares increased by 20% and it is currently equal to 85% of the share capital.

List of companies consolidated on a line-by-line basis

Name	Registered office	Share Capital	% Ownership		Total	Total Holding
			Direct	Indirect		
Adriatica Acque S.r.l.	Rimini (Rn)	89,033	22.32 %		22.32 %	22.32 %
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 %
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 %
Estense global service	Ferrara	10,000	23.00 %		23.00 %	23.00 %
SET spa	Milan	120,000	39.00 %		39.00 %	39.00 %
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 %

On 17 May 2005 Hera Comm SrL (a 100% subsidiary) acquired 20% of the share capital of SGR Servizi Spa, from Gas Rimini S.p.A. The consolidation method followed is the net equity method.

On 15 April 2005, in execution of the resolution passed at the Extraordinary Shareholders' Meeting of Acantho S.p.A. relating to the share capital increase from Euro 14,662,751 to Euro 15,875,781, the tree shareholders of Tre A-WEB (Hera S.p.A., CONAMI, Meta S.p.A. AIMAG S.p.A.) transferred their shares held in Tre A WEB S.p.A. As a result of the transfer, Hera S.p.A.'s shareholding in Acantho S.p.A. went down from 48% at 30 December 2004 to 47.16%.

Following the sale of the 30% shareholding in Delta Web S.p.A., the stake held by the Hera Group (5.56%) caused the investment to be valued at cost.

On 26 April 2005 the company Adriatica Acque S.r.L. reduced its share capital from Euro 239,435 to Euro 89,033 to cover 2003 and 2004 losses. Furthermore, at 30 September 2005 this company, fully consolidated at 31 December 2004, is consolidated using the equity method as a 22.25% stake was sold, bringing the overall ownership percentage down to 22.32%;

3.6

Segment information IAS 14

	Gas	Electricity	Water Cycle	Waste manag.	Other Services	Structure	Total	Consolidated fin. statem.
Total revenues	444.7	185.2	240.1	292.0	71.2	23.8	1,256.9	1,256.9
Intra-cycle revenues	14.2	22.3	2.5	4.7	8.7	4.5	56.8	
TOTAL DIRECT REVENUES	**458.9**	**207.5**	**242.5**	**296.7**	**79.9**	**28.2**	**1,313.7**	**1,256.9**
INDIRECT REVENUES	13.1	1.2	7,4		0.9	-28.2	0.0	
TOTAL REVENUES	**472.0**	**208.7**	**250,0**	**302.2**	**80.7**	**0.0**	**1,313.7**	**1,256.9**
EBITDA	**56.8**	**4.3**	**61.7**	**78.4**	**11.8**	**0.0**	**213.0**	**213.0**
	12.0%	*2.0%*	*24.7%*	*25.9%*	*14.6%*		*16.2%*	*16.9%*

Figures stated in millions of Euros

3.7 Appendix: transition to IFRS

Introduction

The Hera Group adopted the International Financial Reporting Standards starting from the 2005 financial year, the date of transition to IFRS being 1 January 2004. The last consolidated financial statements prepared according to the Italian accounting principles are those at 31 December 2004.

In compliance with IFRS 1 and Article no. 81 of the Issuers Regulation no. 11971/1999 adopted by Consob through Resolution no. 14990 of 14 April 2005, this Appendix contains the reconciliation statements between the figures reported according to the Italian accounting principles and the ones restated according to IFRS, along with explanatory notes on the adjustments made.

These reconciliation statements have been drawn up only for transition purposes so as to prepare the first complete consolidated financial statements according to the IFRS endorsed by the European Commission and do not include comparatives and related explanatory notes which would be required to provide a complete presentation of the consolidated financial position and economic results of the Hera Group in compliance with IFRS.

Furthermore, it is worth noting that they have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force to date, including the ones recently adopted by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). These standards are those which are assumed will be in force at 31 December 2005. However, they may not coincide with the standards in force at 31 December 2005 due to both new decisions by the European Commission with regard to their endorsement and the issue of new standards and interpretations by the competent bodies. As a result, the presented data may be subject to change if required to be used as comparatives of the first complete consolidated financial statements prepared according to IFRS.

The most important accounting principles and valuation criteria used for the preparation of the reconciliation statements are provided in the Notes to the consolidated financial statements at 30 June 2005.

The Group has adopted the international accounting standards pursuant to the provisions of IFRS
1 – First Time Adoption of International Financial Reporting Standards, availing itself of the following options:

– *business combinations:* the Group has not applied IFRS 3 retrospectively to business combinations occurred before the date of transition to IFRS;
– *valuation of property, plant and equipment* at revalued cost as a replacement of cost ('deemed cost') for certain categories of assets selected;
– *employee benefits:* the Group has decided to record all accumulated actuarial gains and losses existing at January 1, 2004 even though it has opted to use the corridor method for subsequent actuarial gains and losses;
– *classification and valuation of financial instruments:* IFRS 1 allows entities to apply IAS 39 starting from financial statements beginning on January 1, 2005. Therefore the group has decided to avail itself of this option by applying IAS 39 to assess and record its derivative instruments.

Pursuant to Article no.82-bis, paragraph 4 of the Regulation, for the balance sheet reconciliations at the date of transition to International Accounting Principles (1 January 2004) and 31 December 2004 and for the income statement reconciliation for the year 2004, provided for by paragraphs no.39 and

40 of IFRS 1: First Time Adoption of IFRS, refer to the apposite Appendix included in the Half-year report at 30 June 2005.
The reconciliation of the income statement at the end of the corresponding interim period of the previous financial year (30 September 2004) and the reconciliation of the income statement ended at the same date, both for the first nine months of 2004 and the third quarter of 2004 are also provided.
The income statement already drawn up according to the format required by Legislative Decree no. 127/1991 has been reclassified in line with the presentation criteria which will be used to prepare the IFRS-compliant financial statements.
The criteria adopted for the reconciliations may not coincide with the IFRS in force as at 31 December 2005 due to future decisions by the European Commission with regard to their endorsement, which is due to the issue of new standards and interpretations or implementation guidelines by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretation Committee (IFRIC).

The audit company Deloitte & Touche SpA issued its report on the compliance of the Group's reconciliation statements with IFRS reconciling the 2004 financial year data (consolidated balance sheet at 1 January and 31 December 2004 and related income statement) published at the time, and the corresponding values restated according to IFRS, already provided in the appendix to the Half-year report at 30 June 2005. The report is attached to the Half-year report at 30 June 2005.

IAS/IFRS consolidated income statement at 30 September 2004

The income statement for the 2004 financial year is shown below and highlights:

- the values according to the Italian accounting principles, reclassified according to the IAS/IFRS format;
- the adjustments to comply with the IAS/IFRS.

Figures are stated in millions of Euros.

INCOME STATEMENT AT 30 SEPTEMBER 2004

	Notes	Italian accounting principles reclassified to IAS	IAS/IFRS adjustments	IAS/IFRS
Operating activities				
Revenues		966		966
Change in inventory of finished products and products in work in progress		7		7
Other operating revenues and income		16		16
Consumption of raw materials, and consumable materials (net of the change of inventories of raw materials, and stocks)		-413		-413
Service costs	1	-266	-2	-268
Personnel costs	2	-147	3	-144
Depreciation, amortisation, and provisions	3	-99	23	-76
Other operating expenses		-61		--61
Capitalised costs		77		77
Operating profit		**80**	**24**	**104**
Quota of profits(losses) of associated companies		-2		-2
Financial income		4		4
Financial charges	4	-17	-4	-21
Pre-tax result		**65**	**20**	**85**

NOTES TO THE MAIN ADJUSTMENTS TO ITEMS OF THE INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2004

1) Service costs (+ Euro 2.3 million) – the adjustment relates mainly to the charge made in the income statement for costs capitalised under intangible fixed assets in the year 2004 which, according to the IFRS should be debited directly to the income statement.

2) Personnel costs (- Euro 3.1 million) – the adjustments relate to the different method of accounting (financial-actuarial) for benefits due to employee (Employee leaving indemnity, company pension fund and gas discounts).

3) Amortisation, depreciation and provisions

The main adjustments are summarised in the following table:

(millions of Euros)	
–Goodwill amortisation	(7.3)
Amortisation of intangible assets	(3.4)
Depreciation of tangible assets (IAS 16, IAS 37)	1.8
Total	**(8.9)**

The above adjustments reflect:

- a reduction of Euro 7.3 million due to the reversal of the amortisation of goodwill.
- a reduction of Euro 3.4 million attributable to the reversal of the amortisation of intangible assets which is no longer required by IAS/IFRS;
- an increase of Euro 1.8 million due to the adoption of fair value as a replacement of cost for certain categories of tangible fixed assets and of the ensuing definition (and recalculation) of the significant components of the various asset categories in question, as a result of the reversal of the depreciation charge of fixed assets written down in compliance with IAS 36 and of the effect of the depreciation of the reclamation costs of the site where the fixed assets are located, in accordance with the provisions of IAS 37.

The adjustments to provisions of Euro 14.1 million relates to the reversal of accruals made to landfill post-closure provisions equal to Euro 4.6 million and to the provision for restoration of third-party assets equal to Euro 14.5 million and also to the accrual made to the discounted provision for restoration of third-party assets of Euro 5 million.

4) **Financial charges** (+ Euro 4.6 million) – the adjustment includes mainly:

- Euro 1 million due to the discounting of the landfill post-closure provisions;
- Euro 1.7 million due to the discounting of employee benefits;
- Euro 1.9 million due to the discounting of the provision for restoration of third party assets;

Reclassification of Income statement items

The main reclassifications made to the September 2004 income statement already included under the column heading "Italian accounting principles reclassified to IAS" are shown below.

Income statement

Extraordinary income and charges

International accounting principles expressly prohibit the separate classification of extraordinary items in the income statement. Therefore, starting from the consolidated income statement of 2004, these items are reclassified under the category where they occur.

designed by Koan moltimedia

GRUPPO HERA

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

Capitale Sociale int. vers. € 839.903.881
C.F./P. IVA Reg. Imp. BO 04245520376