04

half year report

GRUPPO HERA

Half-year Report

as at June 30,2004

Contents

PART 1 THE HERA GROUP

1.1 Summary results

Results *(millions of Euro)*	30-Jun-03	%	30-Jun-04	%	Ch. %
Value of production	**659.4**	**100.0%**	**755.9**	**100.0%**	**14.6%**
Added value	219.0	33.2%	234.6	31.0%	7.1%
Gross operating margin	**122.1**	**18.5%**	**134.4**	**17.8%**	**10.1%**
Operating profit	58.1	8.8%	69.4	9.2%	19.4%
Net profit before taxes	**45.3**	**6.9%**	**55.9**	**7.4%**	**23.4%**
of which:					
Pertaining to the group	*43.2*	*6.6%*	*52.9*	*7.0%*	*22.5%*

Financial data *(millions of Euro)*	30-Jun-03	30-Jun-04	Cge. %
Investments	101.6	75.6	
Operating cash flow	109.3	120.9	11%

Operating data	30-Jun-03	30-Jun-04	Cge. %
Gas sold (millions of m3)	976.6	1,013.0	4%
Water sold (millions di m3)	86.1	90.0	5%
Electrical energy sold (GWh)	781.0	1,134.4	45%
Clients served			
Gas	691,589	702,719	2%
Electricity	49,082	49,318	0%
Water	622,685	647,085	4%
Networks			
Gas (Km)	8,176	8,785	7%
Electricity (Km)	1,411	1,430	1%
Aqueduct (Km)	17,723	18,250	3%

1.2 The mission of Hera

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

- To fulfil the "Hera system", creating synergies, optimising the available resources to achieve a better price/quality structure and ensuring further margins of growth and development

- To 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

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

1.3 Company officers

Board of Directors

Office	Name & Surname
Chairman	Tomaso Tommasi di Vignano
Managing Director	Stefano Aldrovandi
Vice Chairman	Aleardo Benuzzi
Vice Chairman	Ermanno Vichi
Director	Enrico Biscaglia
Director	Filippo Brandolini
Director	Piero Collina
Director	Pier Giuseppe Dolcini
Director	Gianluigi Magri
Director	Nicodemo Montanari
Director	Fabio Roversi Monaco
Director	Roberto Sacchetti
Director	Giovanni Tamburini

Board of Statutory Auditors

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

Committee for internal control

Office	Name & Surname
Chairman	Ermanno Vichi
Member	Enrico Biscaglia
Member	Fabio Roversi Monaco

Remuneration committee

Office	Name & Surname
Chairman	Aleardo Benuzzi
Member	Piero Collina
Member	Gianluigi Magri

1.4 Strategy

The progressive liberalisation of the demand and the increase in competitive pressures in the public sector services is the driving force behind companies in the sector to achieve adequate levels of business activities in order to compete in an increasingly competitive market place.

The Hera Group was created at the end of 2002 with the most important integration operation in the local utilities sector in Italy: following the integration the group is positioned among the top three companies in the management of local public services, with a Value of Production of over Euro 1,330 million in 2003.

The strategy of growth and creation of value for the Group is centred on the following priorities:

1. ***Development***, the strengthening of the competitive presence in the core businesses, through increasing commercial penetration in the sectors liberalised, the consolidation and integration of generation and waste disposal plant, continuation of the territorial integration process;

2. ***Efficiency***, that is cost improvement, and efficiency in the operating structure, through optimisation in recourse to the external market for goods and services;

3. ***Rationalisation***, in relation to both the investment portfolio and the valuation of some "minor" businesses with good potential and "know how" such as district heating, public lighting and TLC infrastructure.

The results for the first half of 2004 confirm the continuation of important results in all areas that constitute the growth strategic of the Group, and in particular:

- The increase in electricity volume sales to eligible customers (+80% compared to the first half of 2003) confirms the validity of the commercial strategy and "dual fuel" policy;

- The negotiations for the acquisition of the Centro Ecologico Eniambiente at Ravenna was completed; with this acquisition which will be effective at the end of September 2004, the Hera Group will consolidate its presence in the sector for the treatment of special waste;
- The important investment plans in waste-to-energy continued with the completion of the Frullo plant, that entered into full operational production in the current month of September 2004; in addition the construction work for the new Ferrara waste-to-energy plant was assigned, and the plant at Forlì successfully passed the V.IA. procedures; for the construction project of the co-generation plant of 80MW at Imola, the final conference meeting has been called for September 22, 2004; finally the agreement with the Swiss company EGL was finalised for the participation (15%) of the Group in the plant under construction of 800MW at Sparanise;
- The procedures for the integration of Agea into Hera was concluded positively; after the acquisition of the first 49% following the public tender, the remaining 51% will be acquired and merged into Hera through a reserved share capital increase; this operation will have retrospective effect, as of 1/1/04;

- Significant synergies deriving from the recent integration through the optimisation of costs and management processes continued in the first half of the year. In particular, there was a reduction in personnel costs, as a percentage on the Value of Production, of 1.4 percentage points and a reduction in the purchase cost of methane gas on sales of 1.0 percentage point;

- In relation to the rationalisation and simplification of the Group investments in the first half of 2004 the merger took place into a single corporate entity (Selecta Srl) of the three subsidiaries of Hera operating in the selection and treatment of waste;

- In relation to the rationalisation and valorisation of the minor complementary businesses, a single corporate entity operating in the Public Lighting sector was incorporated, Hera Luce, with over 220,000 light points, which is positioned among the major operators in the sector.

Finally, two important results obtained by the Hera group in relation to *Sustainability* are recalled, an important strategic aim of the Group:

- Recently the Group published its Sustainability Report for 2003, a document which is the most appropriate and evolved communication and management control tool to fully integrate the three elements of sustainability: economic, social and environment.

- At the end of July 2004, Hera positively completed the procedures to obtain the ISO 9001/2000 certificate for all of the companies in the Group.

1.5 Description of the business

The Hera Group operates in 140 municipalities in the Emilia – Romagna region within the provinces of Bologna, Rimini, Ravenna and Forlì – Cesena, a region with a GDP and pro-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 operates in the following business areas:

- **Waste Management** collection and transport of refuse, sweeping, urban hygiene and treatment (recovery and disposal);

- **Water:** abstraction, adduction, distribution, sewerage and purification services;

- **Energy:** distribution and sale of methane gas, LPG and electricity;

- **Other services:** district heating and public lighting: a business in which Hera has a primary market position.

The Group Gross Operating Margin, produced in an equilibrated manner from the above business areas described; ensures a reduced exposure of the results to the specific risks of each sector and favours the generation of significant possibilities to increase turnover through the extension of all of the services to over 2 million persons resident in the region served.

The services managed by Hera also present many common operating aspects, whose single management has already permitted the creation of important synergies through the optimisation of the organisation of work and services.

The increased size and the multi-utility business of the Group will result in a “multiplier” effect of the existing economies of scale and greater efficiency in the purchasing policies, in the management of information systems and in the management of human resources.

Waste Management

In the Waste Management sector the company has an integrated operating structure for the management of refuse services serving a population of 1.7 million inhabitants. In 2003, from a total of 2.4 million tonnes of solid urban waste produced in the area served, 29.3% was collected as differentiated and sent for recovery.

With approximately 40 plants dedicated to the treatment and disposal of refuse of different origin (urban, special, harmful and non-harmful, solids and liquids), Hera is positioned amongst the main operators in the sector in Italy.

In 2003, of the total refuse managed by the company, equal to 2.4 million tonnes, 62% was subjected to treatment and recovery, with only the residual share equal to 38% destined for landfills compared to a national average of 50%.

Hera has commenced new projects and initiatives aimed at increasing the treatment capacity of refuse and the production of energy from waste-to-energy plants, in order to further reduce the quota of solid undifferentiated refuse that today is sent to landfill. In particular, the renewal and extension of the waste-to-energy plant at Frullo (Bologna) will permit in 2004 an increase in the capacity by approximately 180,000 tonnes/year, with a recovery of electrical energy equal to approximately 150 GWh/year compared to the current 45 GWh/year, that will be sold to GRTN at subsidised prices in accordance with the CIP6/92.

Integrated water cycle

Hera has under management the integrated water cycle services in 127 municipalities in the provinces of Bologna, Forlì-Cesena, Ravenna, Rimini and, to a minor extend, Florence, with approximately 1.9 million inhabitants to whom 180 million cubic metres of water was distributed in 2003 for civil and industrial use.

The company, having a wide range of provisioning sources, in 2003 provided continuity and efficiency to the demand from the wide catchment area served despite the difficult weather conditions. The water network managed by Hera extends to 17,591 km, over an area of 9,000 square km. The users served are 639,536, with a significant swing in the demand in the summer months due the presence of tourists concentrated along the Adriatic coast between Ravenna and Cattolica.

The sewerage connections are ensured by a network that extends over 6,600 km. In 2003, the sewerage service treated a total volume of 130 million m3 of sewage.

In 2003, the purification service, through the management of approximately 350 plants, treated over 150 million cubic metres of sewage.

Energy

Gas distribution and sale

Hera manages a methane gas distribution network of 7,880 km that in 2003 permitted the sale of 1,634 million cubic metres of gas to 699,885 users.

The Group has also implemented co-generation and district heating systems that distribute thermal energy through dedicated networks and offer management services of thermal plants to third parties (heat management) performing activities of plant management, ordinary and extraordinary plant maintenance and fuel supply.

Production, distribution and sale of electricity

Hera performs the distribution and sale of electricity to approximately 49 thousand residential domestic users in the area of Imola and has commenced an incisive campaign of sales to eligible customers in all of the other areas in which it operates. In 2003, Hera sold a total of 1.6 TWh of electricity, of which 228 GWh was sold to domestic customers and the remainder of the offer to 1,026 eligible customers.

In 2003, the company produced lower volumes than the quantities sold from its own plants dedicated mainly to other productive processes (cogeneration, waste-to-energy, biogas, turbo expansion, etc). The improvement or renewal projects of the principal waste-to-energy and cogeneration plants are in advanced phases, as well as initiatives aimed at the realisation of new gas and steam combined cycle plants. In 2003, Hera acquired, through the consortium Energia Italiana/Acea-Electrabel, a participation equal to 5.5% in the share capital of Interpower

S.p.A., the third generation power company sold by ENEL S.p.A., which has power plants with 2,600 MWh of capacity installed.

The increase in the production of electricity, through own plants and minority holdings in electricity production companies, has the objective of guaranteeing availability to satisfy the market request and increase profit margins for the Group.

1.6 Company organisation and Group structure

The organisational macrostructure

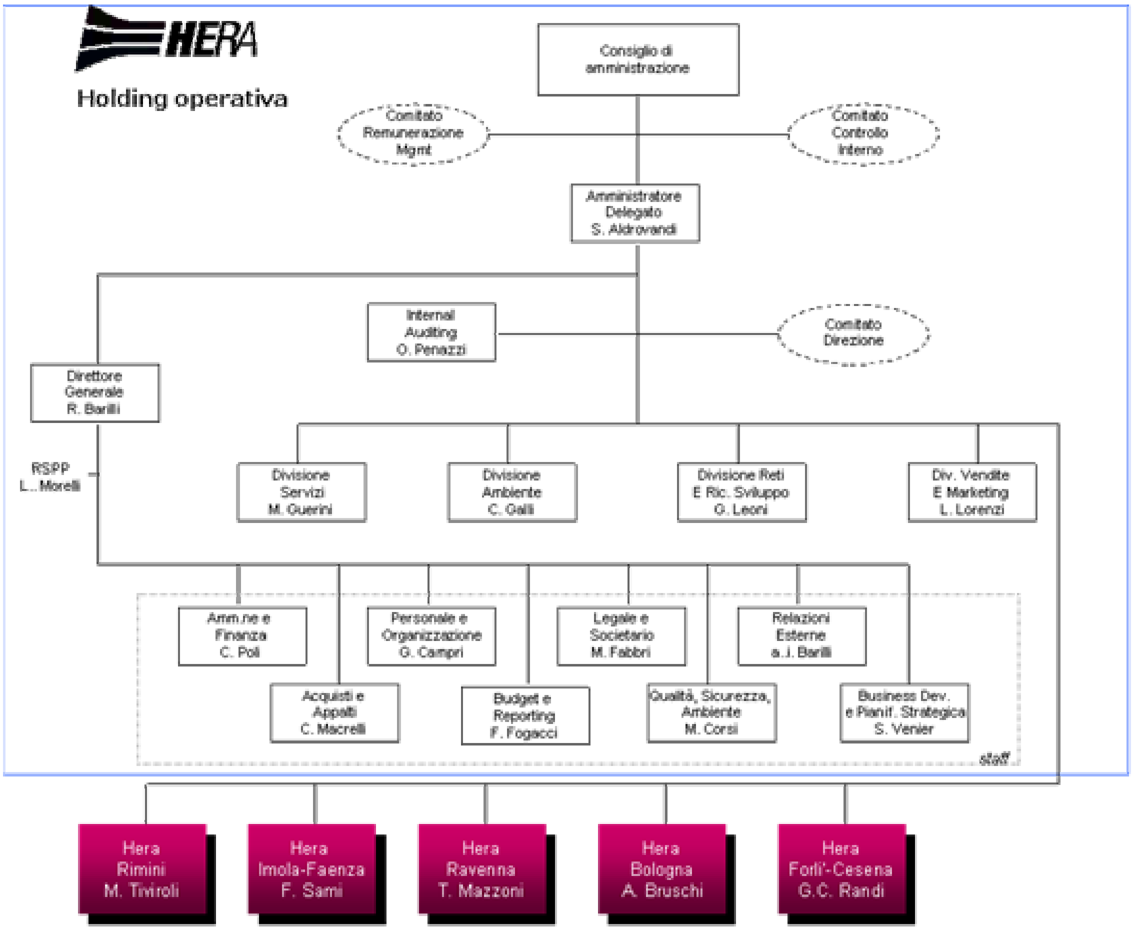
In Hera, loyalty and attachment to ones region are particular character traits of the Group that, while strategies continue internally aimed at achieving economies of scale, externally the operating activities are reorganised locally in order to create and undertake over time efficient relationships with the final customers.

This model translates into an organisational structure based on: **divisions** and **local operating companies (LOC).** The divisions have been structured by business area and thus essentially focused within their operating market. The operating companies - that represent 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.

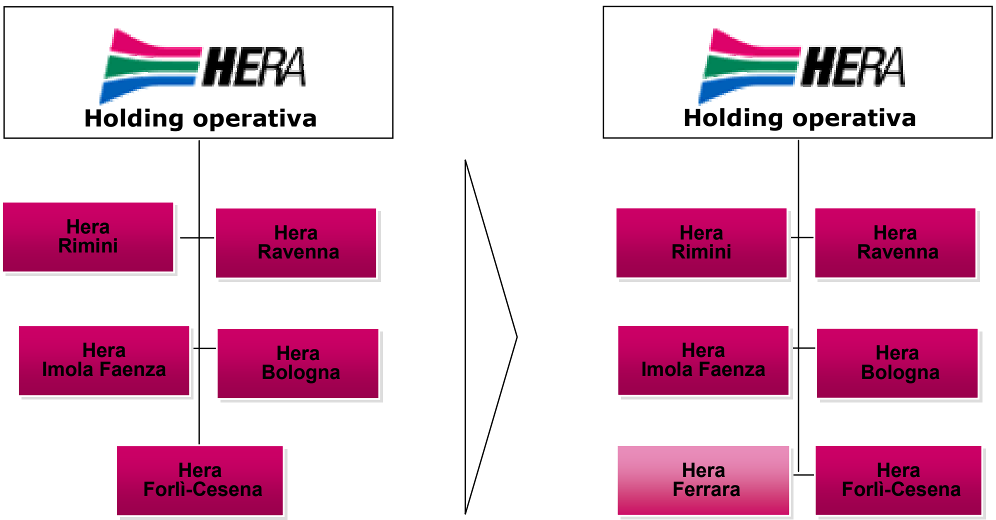
The principal staff departments – administration, finance and control, organisation and management of personnel, purchases and contracts, legal and corporate affairs, business development, external relations - have been organised under the General Direction with light structures and a strong orientation towards the objectives of improvement of profitability and business growth.
The model adopted by Hera consists of an **"open entrepreneurial formula",** further replicable, which permits new companies entering on the one hand to acquire a role and functions in the governance of the company and on the other to maintain locally a corporate operating structure capable of ensuring high quality service standards, being able to take from the experience of the Group the best practices and benefit from the synergies.

This model was applied to the acquisition/incorporation process of Agea, multi-utility company operating in the Province of Ferrara, in which Hera has finalised the 100% acquisition and the merger by incorporation in 2004. The operation provides for the reorganisation of Agea within a specifically identified LOC ("Hera Ferrara"), in line with the Group organisational structure. Considering the imminent integration of Agea, the area covered by the Hera Group is over 60% of the region.

Group organisation structure



Group structure with the merger of Agea SpA



1.7 Human Resources

At June 30, 2004 the number of employees in the Hera Group was 4,414 (consolidated companies), with the following division by category: Senior Management (73), Managers (161), White-collar (1,749), Blue-collar (2,431).
After the first consolidation phase of the corporate structure, the changes continued in 2004 of the internal organisational structure in the different Group structures (Holding and LOC) including meetings with trade unions in compliance with legislation in force. Some activities (call-centre, IT, Fleet Management and Equipment) within special purpose companies (Famula SpA, Uniflotte Srl and Hera Comm) were consolidated and developed further.

In the first half of 2004, an agreement was reached with the Trade Unions on the Premium on Results for the year 2004 and the work of the technical commission commenced with the objective of defining the Premium on Results for all of the Group personnel for the years 2005-2007. Discussions were held to formalise trade union procedures within the Group and meetings to harmonise the legal-economic treatment of Group personnel.

Group Training department is currently involved in the implementation of the training plan for 2004, in relation to both educational activities and the development of procedures in the training process. Particularly noteworthy is the implementation from March 2004 of a new application software that manages the training process (GRUWEB FORMAZIONE), integrated with the personnel database, that significantly improves the management and tracking of the company training data.

Also of note is the new procedure for the management of the critical competences, co-ordinated with the above-mentioned training procedures. This procedure describes an innovative management system of the know-how, at present in relation to the so-called “critical competences”, as per the voluntary regulations ISO 9001:2000, also utilised for the purposes of the development of a company management model of the competences by professional category.

	Total
Number of courses	412
Number of class hours	4,998
Number of participants	3,132
Number of persons involved	2,030
Number of man hours provided	24,041
Number of man hours used	21,508
Total man hours	**45,549**

1.8 Regulatory framework

a. Energy: legislation

Laws

On July 29, the lower house of the Italian Parliament approved the revised Government bill for the reorder of the energy market (so-called "**Marzano Law**"). Following the legislative provisions considered priority and included in specific legislation (among which Legislative Decree 239 of August 29, 2003 approved on October 1, 2003, containing the provisions for the industrial ownership of the national transmission network), the law for the reorder of the energy market is essentially concentrated on the acceleration of the opening of the markets and on the sustaining of investment in infrastructure.

For the **electricity sector**, the law provides for the eligibility of all "non domestic" customers; from July 1, 2007, in line with the new European Community regulations, there will no longer be limits for the qualification of "eligible clients" (all consumers will therefore be able to freely chose their electricity supplier, as occurs in the natural gas market since January 1, 2003).

In relation to the **natural gas market**, the exception is confirmed of the principle of regulated access of third parties for the new infrastructures of importation, re-gasification and transport of natural gas; the companies that invest in new infrastructure can reserve, for 20 years, 80% of the capacity. New measures are provided in order to favour direct investments in methane distribution networks in the South of Italy.

The text approved with the prior vote of confidence by the Upper house, and then by the final approval by the lower house, relates to the duration of the transitory period of the local concessions for the **distribution** of natural gas. The maximum duration of the transitory period, at the end of which the local entities place the concessions for tender, is fixed as 2007 compared to 2005, the period fixed by the Letta decree; at the same time the accumulation of the extensions permitted by the Letta decree was abolished. The operators who have the necessary characteristics can thus extend the maximum period for the duration of the concessions by two years (no longer five); to this is added a further year, where the local entities believe it is in the public interest. The combined provisions of the transitory extension and the abolishing of the accumulation leaves **substantially unchanged** the situation of those companies, such as HERA, that potentially benefited from the Letta decree; net of a further extension of one year that may be granted by the local entities, the concessions of these companies expire, as per the Marzano law, at the earliest in 2009.

The final text confirms the approval of the controversial provision on the prohibition to exercise, for the local energy distributors, the **post-counter activity**; the exclusion of the prohibition of the public lighting activity is also confirmed and provision is made (compared to the text of the lower house) that the entities concerned amend their respective regulations within three months of the legislation entering into law. Also approved is the **contribution** as environmental compensation of 0.2 €/MWh, due by the owners of the generation plant approved after the entry into force of the legislation, to be paid to the Regions where the plant is located.

Finally, of the new provisions introduced by the legislation it is noted the extension to district heating of the benefits connected to the **green certificates** (the certificate is limited to the quota of energy distributed by the co-generation plant in the form of heat, independent of the primary energy form utilised in combustion).

From an institutional viewpoint, the Marzano law intervenes on the composition of the Authority for electricity and gas, increasing the number of members on the board to five from three, and conferring new resources to the structures reporting to the Ministry for Production Activity.

Decrees

Among the different provisions contained in the revised law on the reorder of the markets, it is noted the approval of the decree of the Ministry of Production Activity that quantifies in a definitive manner the amount of the so-called "**stranded costs**" recognised by the Bersani decree to the electricity producers. The reimbursements other than those connected to the re-gasification of the Nigerian gas (Enel Spa) are equal to Euro 850 million, of which Euro 167.5 million corresponding to Tirreno Power Spa (company in which HERA has a holding).

There are also important new **environmental provisions** related to the energy market.

The ministerial decrees of 2001 on the **energy efficiency** obligations of the distributors are superseded by new decrees, issued by the Ministry of Production Activity in collaboration with the Ministry for Environment, published in the Official Gazette on September 1. As per the new decrees, the obligation to reduce the final consumption of energy commences from 2005, year by which the natural gas distributors must put in place programmes and actions with the objective of a saving equal, for the full national territory, to 0.2 million tonnes equivalent in petroleum. 50% of this saving must be obtained with actions and projects improving the performance of equipment at the final customers. The Government has also presented the preliminary version of the National Allocation Plan between the different industrial sectors concerned by the emissions quota as per the "**emissions trading**" directive, which sets up a European market on emission rights from 2005. The Plan provides to allocate a significant quota of the rights to the companies "entering" the electricity market, in order not to discriminate between operators in a progressive market liberalisation phase in the generation of electricity. The Government Plan is being studied by the European Commission, whose directive requires the approval of the national allocation plans.

b. Energy: regulation

Tariff framework

With the regular **quarterly tariff adjustments** for the non-eligible customers in the electricity sector and for the "base options" that the distributors are required to offer to gas customers that consume less than 200,000 cubic metres per year, on June 28 the Authority for electricity and gas increased by 1.2% the electricity tariffs and left the base tariffs for natural gas unchanged. The adjustment to the electricity tariff was necessary due to the increase in international petroleum prices, that it is recalled, impact on the definition of the tariff component relating to the fuel costs. Due to the different structure of the "gas" tariff (that takes into consideration a longer period to evaluate the impact of the changes in fuel prices), there was no increase in this sector. The Authority advised, however, that the temporary "sterilisation" of the effects of international prices does not exclude an increase in the final quarter of the year (October-December).

It is recalled that with the important tariff provisions approved between the end of 2003 and the beginning of 2004 (December 16, 2003 and January 31, 2004), the Authority made "structural" changes to the tariff framework resulting in a reduction in the tariffs on an annual basis of approximately 1-2% for electricity and approximately 2.4% for natural gas. Therefore, net of the changes due to the crude oil prices, the year 2004 will close with an overall reduction of the revenues per unit of energy sold. This decrease can be countered by the management of procurement and by any volume increase.

Procurement

Important developments have taken place in the sector of energy **procurement**. In April, the electricity exchange began operation after numerous delays. In a first experimental phase, the exchange operates as “solely an offer market” (the producers participate, with GRTN the single buyer “on behalf of the demand”). Despite some high points and the commencement of trading at high levels, the single national price established on the market the day before appears to progressively converge to the regulated procurement price, the “PGN” applied by the Authority of purchases for the non-eligible market. The average weighted price in the period April-August (58.3 €/MWh) is approximately 2% higher than the PGN; the “underlying” price in the period, however, shows a convergence (between April and July the exchange price was 1% higher than the PGN, while between May and July it was lower by over 1%).

Several parties have observed, including the Authority for electricity and gas, the need that the market mechanism for the formation of the prices is made as transparent and competitive as possible. In relation to this, of importance is the competition on the **generation market**, that remains impacted by the “blockage” of authorisation procedures for numerous new technological plants that will increase the offer at competitive costs.

Greater competition in the “high end” of the distribution chain is also an essential condition for the development of competition in the **gas market**. The Authority for electricity and gas places increasing attention on the matter: evidence of this is the approval of the network code for the transport of gas and the tariff conditions for access to the gasification plants. Consultation documents have been issued by AEEG on the criteria for allocation of the capacity of the importation infrastructure and GNL.

An important new matter relates to the results from the report carried out jointly on the Italian gas market by the Authority for electricity and gas and the Authority for Fair Competition. The final report, published on June 17, analyses the weakness of the market in the “upstream” phase, with oligopoly characteristics. Given the substantial alignment of the Italian imported prices with European prices, the analysis concludes that the regulatory action must be concentrated on the behaviour of the dominant operator and on the “bottleneck” determined from the control of almost all of the importation and transport infrastructure.

The report proposes, in order to increase competitiveness in the sector and in the entire gas market, to favour the strengthening of the existing infrastructure and new construction, the creation of a centralised trading market (“gas exchange”), the setting up of an independent operator for the transport network (based on the British model, not widespread in Europe) and “capacity/gas release” policies.

The approach of the two Authorities is based on elements from facts already acquired, through the antitrust procedure for the SNAM-Blugas case, following which SNAM rete Gas began a “gas release” procedure in order to leave over 9 billion cubic metres at the borders over four years. In autumn (October 7 the extension expires of the procedure for non compliance commenced by the Authority, following which SNAM presented the border release commitment). The AGCM will evaluate the pro-competitive effects of the gas release procedure and will decide on any necessary measures.

Despite the limited quantitative effects of the gas release procedure in relation to demand (the operators will have access to gas “lots” equal to 3% of annual consumption), the episode indicates the opening of a new phase, in which the operators that optimise diversification policies in procurement will have greater leverage for positioning at the beginning of the market chain, thanks to access to primary resources at more competitive conditions.

Distribution and sale

On June 30, 2004 the “first regulatory period” terminated for the tariff framework relating to the distribution and sale of natural gas. While awaiting the procedures for the formation of the new regulations, the Authority for electricity and gas extended the tariff system in force (thus including the tariff options presented by the operators for the thermal year 2002-2003) to September 30, 2004 and at the same time presented some important consultation documents for the new regulatory period.

The most important consultation relates to the tariff framework for 2004-2007, in which the Authority proposes new important items compared to the previous period:

- the homogenisation on a regional basis of the distribution tariffs, with the setting up of an equalization mechanism managed by the “Equalisation Fund of the Electricity Sector” (Cassa Conguaglio del Settore Elettrico), the review of economic-financial parameters (remuneration of capital invested between 7.3% and 8.3%, compared to the current 8.8%; price cap between 4 and 6%, compared to the current 3%, but applied only to the operating component of costs, including depreciation).
- the review of the consumption levels for the application of the tariff options.

The thermal year 2004-2005 (that will begin on October 1, aligned to the conventional transport thermal period) will be covered by a “transitory phase”, based on the updating of the revenues calculated for the previous thermal year.

If approved in the format proposed, the application of the new coefficients on the remuneration of capital and the recovery of productivity will result in significant reductions of regulatory revenues from distribution. The operators can present observations and comments to the proposals of the AEEG until September 10; the approval of the resolution is expected in the autumn.

The reform of the regulatory framework will be completed by new criteria for the **commercial quality** and for the continuity of the distribution service (a new commercial code for selling has already been approved) and the adoption of a **network code** by the distributors (AEEG has presented a code for the operators), that will contribute to transparency between sellers and distributors.

The Authority is studying criteria for the issue of a network code also for the distribution of electricity.

c. Local public services (urban hygiene and integrated water cycle)

Legislation

On July 27, the Constitutional Court ruled, with an important sentence and related injunction, on the question of conflict of interest that opposes the Regions and the State in relation to the regulations of local public services.

The High Court clarified that the regional regulations on the matter are to be considered legitimate only where they are not contrary to national or European Union regulations, where at national and European Union level fair competition is required. The intervention of the high court had the effect of establishing the framework relating to the attribution of powers in the treatment of the concessionary regime for local public services. The Court, as a final judgement, confirms the validity of the finance act for 2004 that, regulating the duration of the concessions, recognises the characteristics of the companies quoted on the stock exchange in order to protect savings and investments[1].

The conventions for the awarding of the services, decided by the local Agenzie di ambito territoriale ottimale (ATO - Optimal Territory Agencies), will therefore take into account the new discipline, that will determine periods in line with the recovery of the investments. The agreement of the conventions will not occur before the end of 2004. While awaiting the decisions of the ATO's it is considered reasonable to confirm the expectations contained in the IPO information prospectus in relation to the duration of the direct concessions awarded (equal **at least** to the ten-year period provided for in the regional legislation).

Regulations and tariff framework

2004 is a decisive year for the "transition" of the local services to efficient management.

Without extensions, on January 1, 2005, a significant number of municipalities included in the **urban hygiene service** managed by HERA will pass, as provided for in the Ronchi decree, from the "taxation" system to the "tariff" system. The adoption of the normalised system, based on the complete coverage of the management costs, will result in greater transparency for the users and better management in invoicing.

While awaiting the definition of the plan and the tariff framework by the ATO's, which will be fully operational in 2005, the tariff adjustments for 2003 and 2004 were in line with inflation.

[1] Concluding the process that began with the changes to legislation relating to environment issues, implementing article 14 of the Legislative Decree 269 of September 30, 2003, the finance act of 2004 reformed the discipline of local public services. The regulation defines the transitory period for the full application of the principle of competition in the awarding of local public services and establishes the principle of the "public tender" of the services within 2006. However, there are important exceptions: the direct awarding (without tender) by the local public bodies are permitted if:

- the company awarded the concession is partly privatised with the choice of the private shareholder through a public tender process
- the company awarded the concession is wholly owned by the public entities awarding the concession, for which it performs the most significant part of its activities (so-called "in house").

The legislation provides, in addition, that the principle of obligatory public tender **does not apply to the service management companies quoted on the stock exchange**; for this latter, the duration of the concession is limited to the "average duration of the concessions awarded in public tender" in the relevant sectors, except for greater periods determined by the necessity to amortised the investments made.

In view of the complex organisational charges for the management of the tariff system (that includes the acquisition and normalisation of the data banks, the calculation of the payments on the basis of the levels of consumption provided for by law, the implementation of the invoicing system), HERA commenced a specific project aimed at the efficiency of the interventions and computerised procedures.

Also in the **integrated water cycle** 2004 is the year of the passage to the normalised tariff, officially in force from July 1, 2004: discussion groups have commenced with all of the ATO's on the determination of the cost components for the definition of the new tariffs.

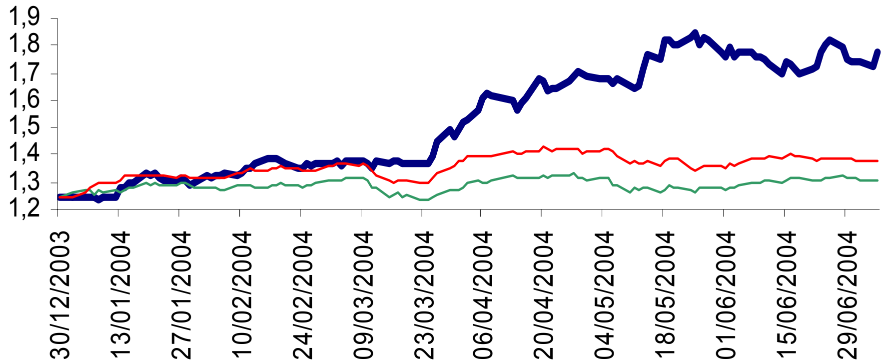
The full operational of the normalised water tariff was preceded by the approval of the latest CIPE tariffs for the transitory period (that expired on June 30, 2004). The CIPE has not yet deliberated on the matter: the economic effect of the regulation, that will have retrospective effect (from July 1, 2003 to June 30, 2004), should be in line with inflation. The last important regulation, covering the period July 2002 – June 2003, resulted for HERA in an average increase in the tariff revenues of 3.6%.

1.9 Hera on the Stock Exchange

Performance of the Hera share price

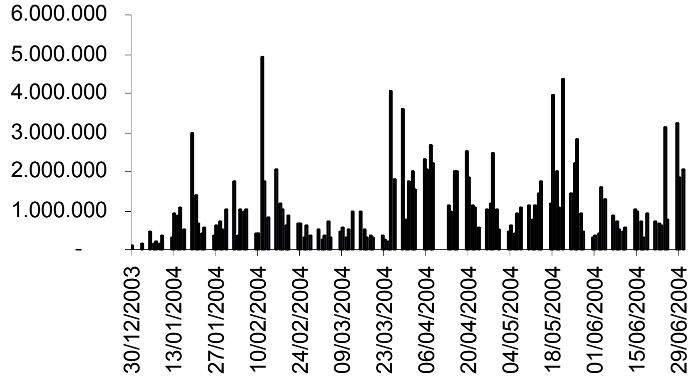
The Hera share price recorded one of the best performances on the Italian stock exchange ending the half year at Euro 1.74 per share, an increase of +40.3% (compared to +11.7% average for utility shares and +6.0% for the Mibtel index).

Performance of the Hera Share Price



The strong increase was recorded following the communication of the annual results for 2003 (end of March), higher than expectations and continued with the publication of the results for the first quarter of 2004 (middle of May) that further confirmed the capacity of the Hera business model to achieve synergies. The positive performances were also sustained by a dividend distribution policy (85% of consolidated net profit) for over 42 million shares corresponding to Euro 0.053/per share – that guaranteed a return in terms of dividend yield equal to 4.2%.

Hera volumes traded



The improvement in the medium term prospects, consequent of the outperformance of the historical results, have also attracted overseas investors (European and American) sustaining a constant level of liquidity in the trading of Hera shares (that has more than doubled compared to the previous year) reaching an average of over 1.1 million shares traded daily (for an average daily value of almost Euro 2 million).

Relations with the financial market

In order to maintain the close relationship with institutional investors, recognised with the awarding of the “Premio Leone d’Oro” by Milano Finanza at the beginning of 2004, the Investor Relations activity saw the management of a long Road show – organised in Europe and in the USA to publish the 2003 annual results – and in the participation at conferences on utilities including overseas.

In addition, the provision of information on particularly significant events (quarterly results, acquisition of the Ecologic Centre at Ravenna and approval of the merger with Agea SPA) was made through a series of conference calls and a significant number of One to One meetings.

Finally, a series of interviews were undertaken with investors aimed at understanding their opinions on the strategy and on the business operations in order to provide them with greater active involvement in the governance of the company. From the research matters were addressed that confirmed the choices and activities already undertaken by the Group and some useful indications were received in order to better satisfy the expectations of the institutional investors.

The Investor Relations section available on the Hera web site (www.gruppohera.it) was restructured improving the usefulness of financial information thanks to the possibility to interactively consult and analysis historical financial data.

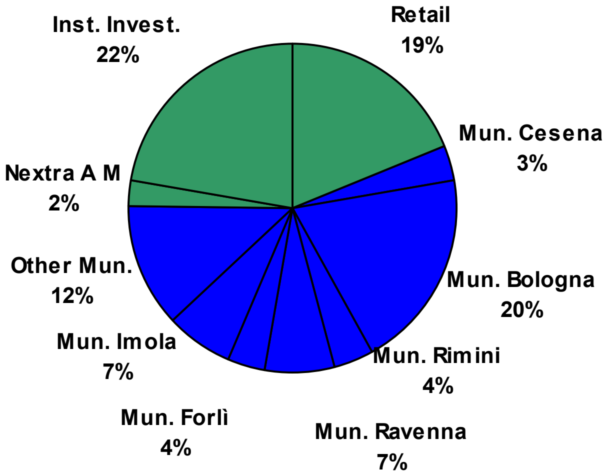
Coverage of the share

The Hera Group currently has a “coverage” amongst the widest in the sector in Italy confirming the interest of the financial market. Since the beginning of the year, 11 independent analyst offices have regularly covered the Hera share (of which half international) such as ABN Amro, Actinvest, Caboto, Credit Agricole Indosuez, Euromobiliare, ING, Intermonte Securities, Jefferies, IMI, Rasbank, Unicredit Italiano; also added to this list in the period is Kepler.

Shareholder structure

Hera SpA has a widespread shareholding structure with over 140 different public shareholders (municipalities from the Emilia Romagna Region), approximately 300 Italian and international institutional investors and over 50,000 private shareholders. The absence of a controlling shareholder in Hera (the largest shareholder is the municipality of Bologna with approximately 20%), consists of a unique characteristic of the companies in the sector.

Shareholder Structure



On June 26, 2004 the rights on the bonus share matured, guaranteed to private shareholders (retail) who held the shares assigned in the IPO for 12 consecutive months. The delivery of the bonus shares, by the public shareholders, (“the municipalities”) took place at the beginning of September and resulted in a small percentage increase of the shares held by the private investors (institutional and retail) from 44.1% to 45.2%. On July 27, the merger by incorporation of the company Agea was approved. The operation, described in the sector dedicated to “Events after the end of half year” will result in the issue of 46.7 million new Hera shares. The total number of Hera shares will increase from the current 793.2 to 839.9 million by the end of the current year.

PART 2 DIRECTOR'S REPORT ON THE HERA GROUP

2.1 Consolidated results of the Hera Group

The process of rationalisation and recovery of efficiency contained within the Group plans, which resulted in excellent results in 2003, continued in the second half of 2004 recording a further improvement in the principal economic indicators and in line with the forecasts made at the beginning of the year.

The extraordinary corporate operations of the 100% purchase of the Ravenna Ecologic Centre and the merger with Agea Spa does not impact on the results in the period as they were finalised after the end of the first half year.

It should however be noted that in the second half of 2003 the integration took place of the waste management and public lighting business units of Geat Spa, a company operating in the Riccione area. From this integration, that does not significantly effect the overall results of the Group, comments are provided in the results by business area where significant.

Below is shown a summary of the principal results in the period followed by a more detailed analysis of the results by business area:

(milions of Euro)	**30-Jun-03**	**%**	**30-Jun-04**	**%**	**Ch.%**
Revenues	622.8	94.5%	691.3	91.5%	11.0%
Other income	9.7	1.5%	10.5	1.4%	8.2%
Revenues from third parties	***632.7***	***96%***	***701.8***	***93%***	**11.0%**
Internal constr. and work in course	26.9	4.1%	54.1	7.2%	100.8%
Value of production	**659.4**	**100.0%**	**755.9**	**100%**	**14.6%**
Operating costs	(440.6)	(66.8%)	(521.3)	(69.0%)	18.4%
Personnel costs	(96.9)	(14.7%)	(100.2)	(13.3%)	3.4%
Gross operating margin	**122.1**	**18.5%**	**134.4**	**17.8%**	**10.1%**
Amortisation, depreciation & provisions	(64.0)	(9.7%)	(65.0)	(8.6%)	1.5%
Operating profit	**58.1**	**8.8%**	**69.4**	**9.2%**	**19.5%**
Financial items	(9.6)	(1.5%)	(11.1)	(1.5%)	15.7%
Extraordinary income (expense)	(3.2)	(0.5%)	(2.4)	(0.3%)	(24.9%)
Net profit before taxes	**45.3**	**6.9%**	**55.9**	**7.4%**	**23.4%**
Profit pertaining to the Hera group	**43.2**	**6.6%**	**52.9**	**7.0%**	**22.5%**

The **Value of Production** in the first half of 2004 increased by +14.6% compared to the same period in the previous year from Euro 659.6 million to Euro 755.9 million. This increase was achieved with an increase in turnover in all of the business areas (Electricity, Integrated Water Cycle, Waste Management and Other Services), with the exclusion of the Gas business due to a decrease in the tariffs at the beginning of the year.

The increase was achieved principally due to:

- *Development of the electricity market*

In the Electricity business important increases continued in the "business" clientele, implementing the "Dual Fuel" commercial policy (offer of Electricity to Gas customers), also with a view to consolidate the margins on gas sales

- *Expansion into new municipalities and new services*
  In the comparison between the two periods the company Geat Spa was incorporated, operating in waste management and public lighting in the Municipality of Riccione. In addition, further services were acquired in some municipalities in the region due to the completion of the integration of the water cycle

- *Organic growth in volumes*
  In particular in the Water and Gas businesses the growth connected to urban expansion of residential customers continued (+4% in line with the historical trend)

- *Increase in pro-capita consumption:*
  The more rigid winter season in the first half of 2004 compared to the same period in the previous year, favoured the sale of gas.

In relation to the trend in the tariffs, as described in more detail in the analysis by business area, against increases in the Water Cycle and Waste Management businesses the significant reductions expected were recorded in the Gas and Electricity Distribution businesses.
The account "Increase of internal constructions and work in progress" increased from Euro 26.9 million to Euro 54.1 million, due to the progressive implementation of the new organisational model that provides that the operating investments on the distribution network are made by the Local Operating Companies with invoicing to the Holding.

Personnel costs increased from Euro 96.9 million to Euro 100.2 million prevalently due to the acquisition of the businesses of Geat Spa that resulted in an increase in the workforce numbers by over 180.

The percentage of the personnel costs on the Value of Production improved by 1.4 percentage points, from 14.7% to 13.3%, despite the renewal of the Federambiente national contract in 2003 and which had an important impact in the year.

THe consolidated **Gross Operating Margin** increased by +10.1% from Euro 122.1 million to Euro 134.4 million.
These results were obtained through the continuation of the synergies achieved following the integration, the reorganisation process and the organic growth in Group turnover. More specifically:

- the Gas business maintained results in line with the same period in the previous year thanks to greater intermediate volumes, despite the increased competitive pressures and the reduction in the distribution tariffs;

- the Waste Management business benefited from the increase in the tariffs for waste treatment and a better management of the Group plant capacity;

- the Integrated Water Cycle business recorded improved results, although not yet benefiting from the new normalised tariff regime.

The first half year of 2004 closed with a significant improvement in the **Operating Result** that increased from Euro 69.4 million compared to Euro 58.1 million (+19.4%) compared to the previous year.

Amortisation, depreciation and provisions record a limited increase of 1.6%, from Euro 64.0 million to Euro 65.0 million, which as a percentage on the value of production decreases from 9.7% to 8.6%, even though the strong commitment of the Group to invest in production activities continued in the first half of 2004.

The financial management was a negative balance of Euro 11.1 million compared to Euro 9.6 million in the first half of 2003. Against an increase in financial charges, from Euro 6.7 million to Euro 9.2 million, in line with the increase in debt, there was a positive change in the contribution of investments in companies not consolidated of Euro 1 million.

The extraordinary charges reduced compared to the previous from Euro -3 million to Euro -2.4 million.

The first half closed with a Pre-Tax Profit of Euro 55.9 million, an increase of 23.4% compared to the same period in the previous year.

Analysis of the capital employed and the sources of financing of the Group

Below is shown a reclassification of the Group balance sheet at June 30, 2004 compared with the results at the end of 2003 that shows the evolution in the period of the net capital employed and the source of financing:

millions of Euro	31-dic-03	%	30-giu-04	%
Fjxed assets	1427,0	106,6%	1472,0	112,4%
Working capital	89,2	6,7%	28,8	2,2%
(Provisions)	(177,4)	(13,3)%	(191,2)	(14,6)%
Net capital employed	**1.338,8**	**100,0%**	**1.309,6**	**100,00%**
Shareholders equity	894,5	66,8%	905,8	69,2%
Financial long term debt	*352,1*	*26,3%*	*346,3*	*26,4%*
Financial short term debt	*199,3*	*14,9%*	*171,5*	*13,1%*
Cash & cash equivalent	*(107,1)*	*(8,0)%*	*(114,0)*	*(8,7)%*
Net financial position	444,3	33,2%	403,8	30,8%
Net capital employed	**1.338,8**	**100,0%**	**1.309,6**	**100,00%**

The net capital employed decreased in the first six months of 2004 by Euro 29.2 million, from Euro 1,338.8 million to Euro 1,309.6 million, thanks to the significant reduction in the net working capital obtained through a closer management of trade receivables implemented at the end of the previous year.

The net working capital decreased from Euro 89.2 million to Euro 28.8 million despite the increase in turnover.

Fixed assets increased by Euro 45.0 million due to the significant investment policy in production activities as detailed below.

The provisions increased prevalently:

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

The net equity includes the entire pre-tax profit, equal to Euro 55.9 million. This result more than compensated the distribution of the Hera Spa dividends relating to the year 2003 of Euro 42.0 million.

Thanks to the management policy of the working capital as previously mentioned, the net financial position decreased by Euro 40.5 million from Euro 444.3 million to Euro 403.8 million.

The net financial position in the past twelve months has increased from Euro 393.4 million at June 30, 2003 to Euro 403.8 million at June 30, 2004. The self-financing capacity of the Group has thus permitted the financing of important investment plans despite significant payments of over Euro 60 million relating to the acquisition of the first tranche of the company Agea Spa.

The solid asset backing of the Group is also evidenced by the improvement of the debt to the total source of financing from 33.2% to 30.8%.

Investments of the Hera Group

The net fixed assets at June 30, 2004 amount to Euro 1,472.0 million, an increase of Euro 45.0 million compared to December 31, 2003.

The Group investments, net of changes in the consolidation area and increase of goods in leasing (treated applying the criteria of IAS), amounted to Euro 75.6 million compared to Euro 101.6 million in the previous year.

In particular, the investments in the period are shown below by business sector.

	30-Jun-03	*30-Jun-04*
millions of Euro	**2003**	**2004**
- Gas sector	7.6	7.8
- Electricity sector	1.3	1.3
- Water cycle sector	25.2	27.2
- Waste management sector	25.6	11.8
- Other Services	10.8	8.7
- Central services	17.4	16.6
Total capex	**87.9**	**73.4**
Financial investments	**13.7**	**2.2**

The investments in the first half of 2003 refer prevalently to the increase in the investment in Interpower, now Tirreno Power, amounting to Euro 13.7 million.

In relation to the operating investments it is noted that in the first half of 2003 investments were made relating to the waste-to-energy plant at Bologna (FEA) of approximately Euro 18 million while in the first half of this year, in which the work was completed, the amount was less than Euro 4 million.

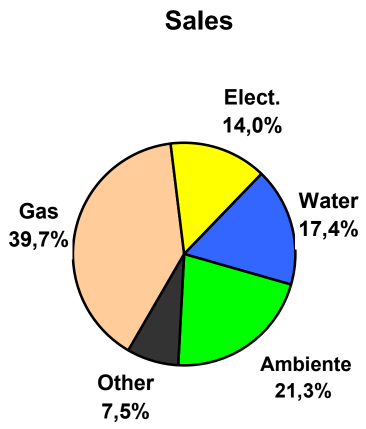
The investments of the central structures related to the following.

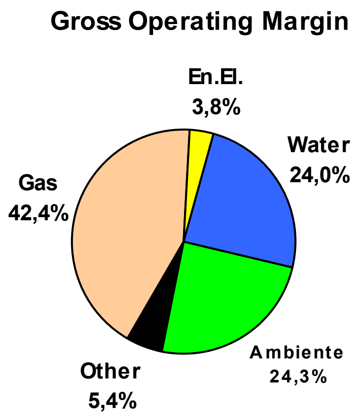
Euro millions	30-Jun-03	30-Jun-04
- Tangible fixed assets	2.0	2.2
- Information systems	7.1	9.6
- Other investments	8.3	4.8
Total	**17.4**	**16.6**

The improvements continued in the first half of 2004 in the organisation and management structures that saw the Group strongly involved in the implementation of its information systems. In particular, the development of the new *customer* service system which, in addition to being integrated with SAP/R3, will permit further organisational and commercial efficiencies (SAP/ISU and CRM of Siebel). The project is in the testing phase and in the coming weeks the first territorial area should enter into production.

2.2 Analysis by Business Area

In order to provide more detailed information on the results for the first half year of 2004, an analysis is provided of the results by business sector. The composition of Revenues and Gross Operating Margin is shown in the graphs below:





The income statements by business area include structural costs and inter-divisional transactions valued at current market prices.

It should also be noted that, in order to provide a clear representation of the operational performance, the analysis by business area is net of the increases of the internal constructions in course and, thus, relative costs.

2.2.1 Gas Business

Distribution and sale of gas

Importance of the Gas business for the Group

Below is shown the importance of the business in relation to the Group:

(millions of Euro)	30-Jun-03	30-Jun-04
Gross operating margin Gas area	**56.4**	**57.0**
Gross operating margin of the Group	122.1	134.4
Percentage of group total	*46.2%*	*42.4%*

The gas business that represents the most important sector of the Hera Group, has seen a percentage reduction on the results of the group in 2004 due to the growth in the other business areas.

Results in the Gas business

In the first half of 2004 the climatic conditions resulted in higher gas volumes compared to the previous year permitting, although in the presence of a reduction in tariffs, the maintaining of the margin unaltered in absolute terms.

The results are summarised below:

(millions of Euro)	30-Jun-03	%	30-Jun-04	%	Ch.%
Methane Gas, GPL	291.5	97.4%	282.6	97.2%	(3.1%)
Other revenues	7.9	2.6%	8.2	2.8%	3.8%
Sales	**299.4**	**100.0%**	**290.8**	**100.0%**	**(2.9%)**
Operating costs	(228.9)	(76.5%)	(220.6)	(75.9%)	(3.6%)
Personnel costs (incl. Employee Leaving indemnity)	(14.1)	(4.7%)	(13.1)	(4.5%)	(7.1%)
Gross operating margin	**56.4**	**18.8%**	**57.1**	**19.6%**	**1.2%**

The
revenues from Gas sales decreased by 3.0% from Euro 291.5 million to Euro 282.6 million.

This decrease is related to the expected trend in the tariffs that reduced in the first half of 2004 compared to the same period in 2003: in particular there was an average decrease in the distribution tariff on the network managed by the Group of 7.2% (from 5.858 €/cent to 5.437 €/cent per cubic metre); in relation to sales the tariffs decreased by 7.9% and this reduction was substantially compensated by a similar reduction in the cost of procurement for raw materials.
Compared to the previous year the Group recorded an increase of 6.3% in the volumes distributed, from 960.9 to 1,021.4 million cubic metres, and an increase in sales of 3.7%, from 976.6 to 1,013.0 million cubic metres as shown in the table below:

Gas activity (million of m3)	30-Jun-03	30-Jun-04	Ch.%
Number of users (units)	***667,930***	***702,719***	***5.2%***
Volumes distributed (millions of m3)	***960.9***	***1,021.4***	***6.3%***
Volumes sold (millions of m3)	***976.6***	***1,013.0***	***3.7%***

The **Gross Operating Margin** increased from Euro 56.4 million to Euro 57.0 million (+1.1%) with a percentage margin that improves +0.8 percentage points from 18.8% in the first half of 2003 to 19.6% in the corresponding period of 2004, due to the combined effect of the increase in volumes and the further synergies achieved that more than compensated the significant tariff reduction described above.

2.2.2 Distribution and sale of Electricity business

Importance of the Electricity business for the Group

(millions of Euro)	**30-Jun-03**	**30-Jun-04**
Gross operating margin Electricity area	**5.7**	**5.2**
Gross operating margin of the Hera group	122.1	134.4
Percentage of group total	*4.7%*	*3.8%*

The electricity business is a strategic sector for the Group that permits the completion and protection of the sale of gas to its customers in the region. The marginal effect on the overall profitability is compensated by the maintaining of good levels in the gas sector.

Results in the Electricity business

The increase in sales, illustrated in the table below, is connected to the development of commercial actions of customers on the free market that began in the second half of 2003:

(millions of Euro)	**30-Jun-03**	**%**	**30-Jun-04**	**%**	**Ch.%**
Sales	**56.6**	**100.0%**	**103.5**	**100.0%**	**82.9%**
Operating costs	(48.9)	(86.4%)	(96.5)	(93.2%)	97.3%
Personnel costs	(2.0)	(3.5%)	(1.8)	(1.7%)	(10.0%)
Gross operating margin	**5.7**	**10.1%**	**5.2**	**5.0%**	**-8.8%**

Revenues from the electricity sales increased +82.9%, from Euro 56.6 million to Euro 103.5 million. The break-down by revenues shows the growth in the free market:

(millions of Euro)	**30-Jun-03**	**%**	**30-Jun-04**	**%**	**Ch.%**
Non-eligible customers	12.7	22.4%	10.4	10.0%	(18.1%)
Eligible customers	41.7	73.7%	91.1	88.0%	118.5%
Other revenues	2.2	3.9%	2.0	1.9%	(9.1%)
Total revenues	**56.6**	**100.0%**	**103.5**	**100.0%**	**82.9%**

The decrease of the revenues from non-eligible customers is due to the decrease in the volumes sold (from 119.9 to 95.2 GW/h, equal to -20.6%) following the lowering of the entry level for eligibility (from one million Kw/h to one hundred thousand Kw/h) as of May 1, 2003.

The average distribution tariff on the network managed by the Group decreased on average by 9.6% from 2.51 to 2.27 €/cent per Kw/h with a total impact on the result of Euro -0.6 million. This reduction, consequent of the change in tariff categories, will be largely recovered in the second part of the year.

The sales to "*eligible*" customers more than doubled, increasing from Euro 41.7 million to Euro 91.1 million, prevalently benefiting from the commercial synergies related to the possibility to offer Electricity to Gas customers.

In terms of volumes on the free market the sales increased from 661.1 to 1,039.2 GW/h.

The table below summarises the principal quantity indicators in the electricity sector:

Electricity sector	30-Jun-03	30-Jun-04
Number of users	**49,082**	**49,318**
Volumes sold (GW/h)	**781.0**	**1,134.4**
Non-eligible users	119.9	95.2
Eligible users	661.1	1,039.2
Volumes distributed (GW/h)	**254.7**	**259.3**

The sales tariffs to non-eligible electricity customers, regulated by AEEG, during the first half of 2004 reduced by 2.5% compared to the same period in 2003 from 6.3 to 6.14 €/cent per Kw/h.

On the free market the decrease in the sales price due to the increasing competitive pressures was 9.6% resulting, in the presence of the purchase cost substantially in line with the previous year, in a decrease in the unitary margin.

Despite the decrease mentioned in the unitary margin and the reduction in the distribution tariffs, the **Gross Operating Margin** remained substantially in line with the same period in the previous year, decreasing from Euro 5.7 million to Euro 5.2 million (-8.8%).

Given the different composition of the customers served, in which the lower margin customers increased significantly, the Gross Operating Margin percentage decreased from 10.1% to 5.0%.

2.2.3 Integrated Water Cycle Business

Importance of the Integrated Cycle business for the Group
Below is shown the importance of the business in relation to the Group:

(millions of Euro)	30-Jun-03	30-Jun-04
Gross operating margin Water cycle business	**30.8**	**32.3**
Gross operating margin of the Hera group	122.1	134.4
Percentage of Group total	*25.2%*	*24.0%*

The Group is one of the principal players in the integrated water cycle business in Italy undertaking its activity in 130 municipalities, with approximately 2 million inhabitants connected to the network of approximately 18 thousand km covering almost the whole region.

Hera operates in 4 ATO's coinciding with the provinces of Ravenna, Forlì-Cesena, Rimini and Bologna to which Ferrara will be added by the end of the year following the merger with Agea Spa.

With these Agencies the definition of the conventions are in progress as per the provisions of the so-called Galli law that will permit the completion of coverage of the water services in the region served adjusting the tariffs so as to adequately remunerate the capital invested. The regional law in force prescribes that the conventions must be signed by the end of 2004.

Results in the Integrated Water Cycle business
Below is shown an analysis of the results in the Integrated Water Cycle business.

(millions of Euro)	30-Jun-03	%	30-Jun-04	%	Ch.%
Sales	**117.9**	**100%**	**126.5**	**100.0%**	**7.3%**
Operating costs	(61.2)	(51.9%)	(69.1)	(54.6%)	12.9%
Personnel costs	(25.9)	(22.0%)	(25.1)	(19.8%)	(3.1%)
Gross operating margin	**30.8**	**26.1%**	**32.3**	**25.5%**	**4.9%**

In the first half of 2004 **Revenues** amounted to Euro 126.5 million, increasing by +7.3% compared to the previous year.

This result was achieved due to the increase in volumes, (equal to approximately 4% and deriving from the number of customers served) and from the increase in other revenues of approximately Euro 3.4 million.

The average tariff increases in the period were in line with inflation.

Water cycle	30-Jun-03	30-Jun-04	Ch.%
Volumes sold (millions of m3)			
Aquaduct	86.1	90.0	4.6%
Purification	74.1	76.5	3.3%
Sewerage	64.1	67.0	4.6%

The increase in operating costs is principally related to the increase in volumes and work on behalf of customers (equal to approximately Euro 6 million).

Despite these cost increases, the **Gross Operating Margin** increased by +4.9%, from Euro 30.8 million to Euro 32.3 million with a percentage margin improvement of 25.5 %.

In addition the purchase costs of raw materials were penalised in the period by the renewal of water contracts with the principal supplier, Romagna Acque. The new contract, in fact, based on a “take or pay” price structure will permit a recovery of the average unitary purchase cost in the second half of the year based on the further quantities purchased.

2.2.4 Waste management Business

Importance of the Waste Management business for the Group

Below is shown the importance of the business in relation to the Group:

(millions of Euro)	30-Jun-03	30-Jun-04
Gross operating margin Environmental	**24.8**	**32.7**
Gross operating margin of the Hera group	122.1	134.4
Percentage of group total	*20.3%*	*24.3%*

The Waste Management business represents an important part of the overall Group contributing approximately one quarter of the overall Gross Operating Margin. The waste treatment plants held for solid urban and special waste places Hera among the most important groups in the sector at a European level and will be further strengthened in the second half of 2004 with the acquisition of the plant at the Ravenna Ecologic Centre and the entry into service of the waste-to-energy plant at Bologna.

The activity relates to the collection of waste, urban hygiene services, treatment and disposal of urban and special waste.

The waste management services sector is currently in strong transformation and attention is on events at a European level and the progressive passage from a tax regime (TARSU) to one based on tariffs as per the Ronchi legislation.

Hera considers the activities in the Waste Management area as strategic for the future development of the Group. In particular investments are planned to further strengthen the waste-to-energy plant capacity that will permit the sale of electricity produced at subsidised tariffs (CIP6 and Green Certificates.

Results of the waste management business

As commented upon in the first part of the report, the integration of the public service business units of Geat Spa took place in the second half of 2003 with the economic effects reflected for the full six months of 2004.

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

(millions of Euro)	30-Jun-03	%	30-Jun-04	%	Ch.%
Sales	**131.9**	**100.0%**	**155.7**	**100.0%**	**18.0%**
Operating costs	(71.9)	(54.4%)	(81.6)	(52.4%)	13.8%
Personnel costs	(35.3)	(26.8%)	(41.3)	(26.5%)	17.0%
Gross operating margin	**24.7**	**18.7%**	**32.8**	**21.1%**	**32.8%**

The Sales in the first half of 2004 increased from Euro 131.9 million to Euro 155.7 million, an increase of 18.0%.
Almost 70% of this increase is due to the entry of the business unit from Geat and the reclassification in the income statement of the management of the vehicles relating to the

Environment Service. As from this year, in the absence of companies that perform this activity, a company of the Group will undertake to purchase and assemble components and the subsequent *"Turnkey"* sale of the vehicle to a leasing company. The impact on margins of this activity is negligible with advantages from a quality technical and operational viewpoint.

The remaining part of the increase in sales is prevalently due to the increases applied to the waste management tariffs, in particular in relation to treatment.

In relation to costs, excluding the impact of the activities not undertaken in the previous year, Geat and vehicle assembly, there were no significant increases, with a margin in percentage terms above 21%.

The increase in personnel costs is related to approximately 180 employees from the business unit of the ex-Seat and the transfer of the effect of the application of the renewal of the Federambiente contract of 2003.

It should also be considered that the Group is obtaining the first results of the review of its commercial policy in the special waste area that favours greater added value sectors to the detriment of those less profitable, as for example the treatment of inert materials (-50% 2004 on 2003).

A further lever for improvement in profitability was the optimisation of plant with a significant reduction of recourse to external plant, made possible by the significant increase in the waste treated in compost compared to the same period in the previous year that saw temporary closures.

Thanks to these factors the **Gross Operating Margin** increased from Euro 24.7 million to Euro 32.8 million, an increase of approximately +32.8%.

The volumes collected increased by 11.1% compared to the same period in 2003.

The differentiated waste treated increased in percentage terms on the total volumes treated (net of the quantities from road cleaning) to over 30%, maintaining the commitment of the Group in the recycling of waste and reducing the environmental impact.

The volumes of waste collected in the Group plants, shown in the table below, increased slightly during the first half of 2004, although in the presence of an optimisation of the type of waste and of special waste that lead to a reduction in the tonnes disposed of 2.5%.

Volumes treated (thousands of tonnes)	**30-Jun-03**	**%**	**30-Jun-04**	**%**	**Ch.%**
Urban refuse	600.2	48.4%	618.3	49.8%	3.0%
Special refuse	639.6	51.6%	623.4	50.2%	-2.5%
Total volumes treated	**1,239.8**	**100.0%**	**1,241.7**	**100.0%**	**0.2%**
Landfills	460.5	37.1%	451.7	36.4%	-1.9%
Waste-to-energy	174.6	14.1%	179.5	14.5%	2.8%
Selection plants	89.0	7.2%	100.2	8.1%	12.6%
Compost plants	64.3	5.2%	85.1	6.9%	32.3%
Inert chemical plants	335.2	27.0%	334.8	27.0%	-0.1%
Other plants and third party plants	116.2	9.4%	90.4	7.3%	-22.2%
Total volumes treated	**1,239.8**	**100.0%**	**1,241.7**	**100.0%**	**0.2%**

The waste treated in landfills decreased by 1.9% in favour of waste-to-energy plants, also in this case confirming the policy of the Group towards plant with reduced environmental impact.

2.2.5 Other Services

In line with the Group strategy, based on the rationalisation and focus of the ”core” business activities, the complementary services must integrate the offer to the clientele with high added value services.

In the first half of 2004 the rationalisation and reorganisation of the Other Services continued, that regroups the complementary activities to the principal activities, benefiting from the first economies of scale obtained thanks to the significant size of the Group.

In particular, at the beginning of the year a single company was created for the management of the services related to public lighting and traffic lights and the optimisation project commenced in the district heating and cemetery services.

The table below summarises the activities:

(millions of Euro)	30-Jun-03	%	30-Jun-04	%	Ch.%
Sales	**42.5**	**100.0%**	**55.0**	**100.0%**	**29.4%**
Operating costs	(28.9)	(68.0%)	(37.5)	(68.2%)	29.8%
Personnel costs	(9.2)	(21.6%)	(10.2)	(18.5%)	10.9%
Gross operating margin	**4.4**	**10.4%**	**7.3**	**13.3%**	**65.9%**

The increase in sales is principally related to the increase in sales in the district heating and public lighting areas. The favourable climate in the period, already noted in the Gas sector, permitted an increase in the sales of Heat of 13%, from Euro 9.1 million to Euro 10.3 million and the management of public lighting (with over 220,000 light points managed) permitted greater efficiencies in the operations.

2.3 Transactions with related parties

While there are no new aspects from those reported in the director's report on the operations of the Consolidated Financial Statements for 2003, the following should be noted:

- The Hera Group performs, in almost all of the territory of the municipality shareholders, local public services based on direct contracts with the municipalities:
- In the management of these services Hera makes use of networks, plants and assets owned by the Group and manages other networks, plants and assets owned by the Local Public Bodies who are shareholders in Hera and by the Asset Companies whose shareholders are also shareholders in Hera.

Related parties (***Euro million)***	**Recivables**	**Payables**	**Revenues**	**Costs**
Comune di Bologna	3.318	4.621	31.553	3.357
Sis assets	8.364	1.460	7	864
Amir assets	13.606	4.453	245	1.052
Romagna Acque	13	7.428	38	10.785
Area assets	12.144	1.476	15	2.483
Team assets	5.092	815	21	708
Unica assets	6.250	2.734	12	3.870
Con.Ami	16.441	86	478	3.820
Amf assets	32	18	10	18
Total	65.260	23.091	32.379	26.957

2.4 Subsequent events to the end of the half-year and outlook

In the period after the end of the half-year the activity of the Group was concentrated in the preparation of the definition of the 2005-2007 Strategic Plan that will be presented to the market together with the half-year accounts. It was the occasion to review development directives, commercial policies and strategic investments.

In the weeks immediately following the end of the half-year concrete events took place in the consolidation of the processes:

- regional growth: the official integration commenced into Hera of Agea of Ferrara with the approval of the merger deliberated by the Board of Directors of Hera and Agea, respectively on July 26 and July 27;
- vertical growth: the contract for the acquisition of the Eniambiente Ecologic Centre at Ravenna was signed by the parties on July 5; a few days later the agreement was finalised for the 15% participation with EGL for the construction of the 800 MW plant, already fully authorised by Sparanise in Campania;
- first strategic Investments: at the end of July the construction work of the new waste-to-energy plant was completed at Frullo, Bologna. The tender commenced for the civil works for the new waste-to-energy plant at Ferrara and on September 2 the Council of the province of Forlì-Cesena approved the V.I.A. procedure for the new waste-to-energy plant at Forlì. In addition, the final plenary conference was called for September 20 of the V.I.A. procedure for the co-generation plant of 80 MW at Imola.

Also in the first weeks of the second half of the year the Operative Marketing Plan was "launched" for the commercial activities related to the offer of gas and electricity for the 2005 campaign: segmentation of the clientele, structuring of the sales channel and forecast of the commercial economics for the three-year period 2005-2007.

On the procurement of methane gas raw materials the following initiatives have already taken place:

- agreement with the German company VNG of an important long-term contract for the supply of gas with delivery at the Swiss-German border and at the same time agreement of a long-term transport contract in Switzerland;
- definition, with the same operator and at the same delivery point, of a further annual supply contract;
- participation with a positive outcome of the procedure for the long-term assignment of gas at the Tarvisio entry point activated by ENI.

In the area of new information systems, after having completed with success the application of SAP R/3 in all of the Group, at the end of August the implementation began positively of the first part of the SAP/ISU in the Rimini area for the water and waste management sectors and it is planned, by the end of the year, to commence SAP/ISU in the remaining areas and for the other services (gas, electricity).

In relation to the corporate holdings it is noted:

- the acquisition of a further quota of 2.8% in the company Aspes SpA of Pesaro, taking the holding to 26.8% and continuing the growth of Hera in the neighbouring Marches region;

- the entry into the share capital of Acantho of Infracom, company operating in the Telecommunications sector; with this holding of 48%, identical quota held by Hera, an important alliance is consolidated with a primary operator in the sector.

PART 3 CONSOLIDATED FINANCIAL STATEMENTS HERA GROUP

Balance Sheet

Income Statement

Notes to the financial statements

Cashflow Statement

HERA GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS AT
June 30, 2004

BALANCE SHEET - ASSETS			***June 30,2004***	***Dec 31, 2003***	***June 30,2003***
A) SUBSCRIBED CAPITAL UNPAID					
- Called			256	87	90
- Uncalled			0	501	501
			256	588	591
B) FIXED ASSETS					
I Intangible assets					
1) formation, start-up and similar costs			11.214	12.592	13.426
2) research, development and advertising costs			1.631	1.941	3.102
3) industrial patents and intellectual property licences			10.074	9.345	7.663
4) concessions, licenses, trademarks and other			150.313	208.640	224.671
5) goodwill			86.014	91.767	92.774
6) assets under construction and payments on account			23.637	15.210	11.420
7) other			17.332	16.493	16.347
8) consolidation difference			5.026	4.844	5.266
			305.241	360.832	374.669
II Tangible assets:					
1) land and buildings			148.527	129.202	119.927
2) plant and machinery			505.498	452.981	459.942
3) industrial and sales equipment			33.928	36.672	29.300
4) other fixed assets			51.385	41.838	37.934
5) assets under construction and payments on account			258.416	249.139	187.816
			997.754	909.832	834.919
III Financial assets:					
1) Investments in					
a) subsidiaries not consolidated			919	1.035	480
b) associated companies			86.725	88.204	20.769
c) parent companies			0	0	0
d) other companies			22.034	21.716	18.153
	Payable within one year				
2) Receivables:	June 30, 2004	ec 31, 2003			
a) subsidiaries not consc	31		32	0	322
b) associated companies	150		300	0	17
c) parent companies	0		0	0	0
d) from others	2.801	193	61.465	44.897	14.991
	2.982	**193**			

BALANCE SHEET - ASSETS (continued)

C)	CURRENT ASSETS			June 30,2004	Dec 31, 2003	June 30,2003
I	*Inventory:*					
1)	raw materials, supplies and consumable goods			25.987	26.556	25.597
2)	work in progress and semi-finished products			186	1.372	601
3)	contract work in progress			17.042	13.280	6.129
4)	finished goods			795	904	586
5)	payments on account			519	506	330
				44.529	42.618	33.243
II	*Receivables:*	Receivable over one year				
		June 30, 2004	ec 31, 2003			
1)	customers	4.770	4.713	474.843	543.580	518.760
2)	subsidiaries not consc	649		11.819	0	903
3)	associated companies	730	5	2.349	9.207	7.848
4)	parent companies	0		0	0	0
bis	tax receivables	1.737	2.708	12.785	26.678	9.393
) ter	deferred tax asset	16.270	14.810	16.655	14.865	7.272
5)	from others	712	943	25.414	24.587	32.384
		24.868	23.179	543.865	618.917	576.560
III	*Current financial assets:*					
1)	investments in subsidiaries not consolidated			0	0	0
2)	shareholdings in associated companies			0	0	1
3)	investments in parent companies			0	0	0
4)	Investments in other companies			0	0	0
5)	treasury shares			0	0	0
6)	other securities			10.464	9.935	9.327
				10.464	9.935	9.328
IV	*Cash in banks and on hand:*					
1)	bank and postal accounts			98.133	92.152	96.627
2)	cheques on hands			4	0	10
3)	cash-in-hand and cash equivalents			119	566	137
				98.256	92.718	96.774
				697.114	764.188	715.905
D)	**PREPAYMENTS AND ACCRUED INCOME**					
	prepayments and accruals			24.813	18.926	24.850
	discounts on loans			0	0	
				24.813	18.926	24.850
	TOTAL ASSETS			2.196.655	2.210.478	2.005.941

BALANCE SHEET - LIABILITIES				*June 30,2004*	*Dec 31, 2003*	*June 30,2003*
A)	**SHAREHOLDERS' EQUITY**					
I	*Share capital*			793.202	793.202	788.503
II	*Share premium reserve*			12.253	12.253	12.253
III	*Revaluation reserve*			3.048	3.048	3.048
IV	*Legal reserve*			7.215	4.789	4.789
V	*Reserve for own shares in portfolio*			0	0	0
VI	*Statutory reserves*			0	0	0
VII	*Other reserves:*					
-	Extraordinary reserve			4.874	820	819
-	Capital grants reserve			6.000	6.000	6.000
-	Reserve for accelerated depreciation			2.194	2.194	2.194
-	Share swap surplus reserve			9.336	9.335	9.399
-	Undistributable reserves			-8.365	-10.780	-10.471
-	Consolidation reserve			0	0	50
VIII	*Retained earnings or losses carried forward*			1	1	-1
IX	*Net profit for the period*			52.853	49.454	43.187
	Total shareholders' equity for the Group			882.611	870.316	859.770
	Minority interest:					
X	Share capital and reserves			20.123	20.639	20.342
XI	Net profit for the period			3.065	3.553	2.136
	Total shareholders' equity pertaining to minority interests			23.188	24.192	22.478
	Total consolidated shareholders' equity			905.799	894.508	882.248
B)	**PROVISIONS FOR CONTINGENCIES AND CHARGES**					
1)	pension and similar provision			36	36	36
2)	taxation			1.763	1.901	1.811
3)	others			119.887	107.068	96.903
4)	consolidation provision: for future contingencies and charges			0	0	0
	Total provision for contingencies and cgs.			121.686	109.005	98.750
C)	**EMPLOYEE LEAVING INDEMNITY**			69.507	68.372	67.125
D)	**PAYABLES:**	Payable over one year				
		June 30, 2004	Dec 31, 2003			
1)	bonds	0		0	5.165	7.747
2)	convertible bonds	0		0	0	0
3)	shareholders for loans	0		1.176	0	0
4)	due to banks	308.950	323.766	475.674	515.412	260.754
5)	sums due to other financial lenders	37.690	28.882	41.229	31.323	184.434
6)	payments on account	3.436	1.527	4.165	4.649	1.684
7)	trade payables	1.745	957	276.552	374.725	241.595
8)	accounts payable on bills accepted and drawn	0		0	0	0
9)	due to subsidiaries not consolidated	0		2.744	347	440
10)	due to associated companies	0		3.176	6.184	1.247
11)	due to parent companies	0		0	0	0
12)	sums payable to tax authorities	193	123	149.626	67.207	113.501
13)	social security institutions	21	23	10.693	10.307	12.526
14)	other payables	44.657	39.944	90.863	80.640	89.380
	Total payables	396.692	395.222	1.055.898	1.095.959	913.308
E)	**PREPAYMENT AND ACCRUALS**					
	accrued expenses and deferred income			43.765	42.634	44.510
	discounts on loans			0	0	0
	Total accruals and deferred income			43.765	42.634	44.510
	TOTAL LIABILITIES			2.196.655	2.210.478	2.005.941

MEMORANDUM ACCOUNTS			June 30,2004	Dec 31, 2003	June 30,2003
A)		**GUARANTEES GIVEN**			
	1)	*to third parties:*			
	a)	sureties	95.779	106.071	111.456
	b)	endorsements	0	0	
	c)	other non secured guarantees	5.008	7.467	
	d)	secured guarantees	127.658	129.153	
		Total	228.445	242.691	111.456
	2)	*subsidiaries:*			
	a)	sureties	0	0	17.833
	b)	endorsements	0	0	
	c)	other non secured guarantees	0	0	
	d)	secured guarantees	0	0	
		Total	0	0	17.833
	3)	*associated companies:*			
	a)	sureties	599	0	
	b)	endorsements	0	0	
	c)	other non secured guarantees	0	2.547	
	d)	secured guarantees	0	0	
		Total	599	2.547	0
	4)	*to parent and other group companies:*			
	a)	sureties	0	0	
	b)	endorsements	0	0	
	c)	other non secured guarantees	0	0	
	d)	secured guarantees	0	0	
		Total	0	0	
		Total guarantees given	229.044	245.238	129.289
B)		**OTHER MEMORANDUM ACCOUNTS**			
	-	Other memorandum accounts Companies in usufruct	11.396	10.854	20.633
	-	Other memorandum accounts for third party assets held	1.183.023	1.156.224	1.471.068
	-	Other Memorandum accounts	187.417	115.656	15.337
		Total Other Memorandum accounts	1.381.836	1.282.734	1.507.038
		TOTAL MEMORANDUM ACCOUNTS	1.610.880	1.527.972	1.636.327

INCOME STATEMENT			June 30,2004	Dec 31, 2003	June 30,2003
A)		**(+) VALUE OF PRODUCTION:**			
1)		revenues - goods and services	690.492	1.221.533	622.977
2)		variation in product inventory	756	-309	-83
3)		variation in contract work in progress	4.100	23.131	6.881
4)		increases on internal work capitalised under fixed assets	50.042	67.501	20.141
5)		other revenues and income			
	-	*Other revenues and income*	6.184	10.865	5.916
	-	*Grants received*	4.313	8.578	3.738
		Total	755.887	1.331.299	659.570
B)		**(-) PRODUCTION COST:**			
6)		raw materials, consumables and supplies	-307.603	-527.626	-279.188
7)		services	-172.028	-301.744	-123.597
8)		use of third party assets	-27.388	-58.217	-33.666
9)		personnel expense			
	a)	*wages and salaries*	-69.185	-134.010	-66.186
	b)	*social security contributions*	-24.300	-47.473	-23.698
	c)	*employee leaving indemnity*	-5.058	-9.922	-5.472
	d)	*pension and similar costs*	-12	-2	-23
	e)	*other costs*	-1.685	-1.022	-1.494
10)		amortisation, depreciation and write-downs			
	a)	*amortisation of intangible fixed assets*	-17.485	-38.025	-19.357
	b)	*depreciation of tangible fixed assets*	-29.678	-57.493	-28.210
	c)	*other write-downs of fixed assets*	0	-23	0
	d)	*write-down of assets forming part of working capital*	-3.313	-3.775	-699
11)		variation of raw materials, consumables and supplies	-2.547	7.043	5.161
12)		provisions for contingencies	-727	-3.456	-1.386
13)		other provisions	-13.790	-26.903	-14.352
14)		other operating cost	-11.660	-15.824	-9.298
		Total	-686.459	-1.218.472	-601.465
(A - B)		**DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION**	69.428	112.827	58.105
C)		**FINANCIAL INCOME AND CHARGES**			
15)		*(+) income from investments:*			
	a)	Dividends	238	0	0
	b)	Gains on trading	452	0	214
	c)	Other income	0	0	93
16)		*(+) other financial income:*			
	a)	from receivables classified under non-current assets			
	-	from third parties	4	20	8
	-	subsidiaries not consolidated	0	0	6
	-	associated companies	1	0	0
	-	parent companies	0	0	0
	b)	from securities classified under non-current not constituting participations	1	13	35
	c)	from securities classified under current not constituting participations	80	126	1
	d)	other income than above:			
	-	from third parties	1.801	3.653	1.826
	-	subsidiaries not consolidated	0	4	7
	-	associated companies	0	15	1
	-	parent companies	0	133	0
17)		*(-) interest and other financial charges:*			
	a)	from third parties	-11.710	-19.287	-8.926
	b)	subsidiaries not consolidated	0	-320	0
	c)	associated companies	-23	-351	0
	d)	parent companies	0	0	0
17) bis		*(+) Exchange gains and losses*	-5		0
		Total	-9.161	-15.994	-6.735

CONSOLIDATED INCOME STATEMENT (continued)			June 30,2004	Dec 31, 2003	June 30,2003
D)		**ADJUSTMENT TO FINANCIAL ASSET VALUES**			
18)		*(+) revaluations:*			
	a)	investments	335	630	481
	b)	financial assets - not constituting investments	0	0	0
	c)	from securities classified under current assets not constituting investments	0	0	0
19)		*(-) write-downs:*			
	a)	investments	-2.281	-5.795	-3.346
	b)	financial assets - not constituting investments	0	-51	0
	c)	from securities classified under current assets not constituting investments	0	0	0
		Total adjustments	-1.946	-5.216	-2.865
E)		**EXTRAORDINARY INCOME AND (EXPENSE)**			
20)		*(+) extraordinary:*			
	a)	gains	1.997	5.773	3.329
	b)	gains on asset sales	234	46	24
21)		*(-) extraordinary expenses:*			
	a)	expense	-3.823	-8.662	-6.306
	b)	loss on asset sales	-811	-62	-176
	c)	taxes relating to prior years	0	-117	-53
		Total extraordinary items	-2.403	-3.022	-3.182
		Profit before taxation	55.918	88.595	45.323
22)		***(-) taxation on profit for the year:***			
	a)	current taxation	0	-43.975	0
	b)	deferred tax charge	0	8.387	0
	c)	deferred tax income	0		
23)		**Net profit for the period**	55.918	53.007	45.323
		Net profit for the period pertaining to minority interests	-3.065	-3.553	-2.136
		Net profit for the period pertaining to the Group	52.853	49.454	43.187

Notes to the six-month interim financial statements

Notes to the consolidated financial statements of the Hera Group as at June 30, 2004

Form and contents of the consolidated half-year interim financial statements

The half-year interim report as at June 30, 2004 was prepared in accordance with article 81 of the Consob Regulation 11971 of May 14, 1999 and subsequent amendments and integrations and articles 25 and subsequent articles of Legislative Decree 127/91.

The consolidated half-year interim report consists of the balance sheet and income statement (prepared in accordance with article 32 of Legislative Decree 127/91) and the present notes that provide the information required by article 38 of Legislative Decree 127/91. All additional information is provided that is considered necessary to represent in a true and fair manner the balance sheet, financial situation and results of the Group even if not required by specific legislation. The cash flow statement is attached to the notes.

Comparative date as at December 31, 2003 is shown for the balance sheet, while the income statement is compared to the first half-year of the previous year.

The format for the balance sheet and the income statement have been prepared in accordance with the new provision following legislative decree n° 6 of January 17, 2003. For comparatives porposes figures of the previousperiods were reclassified.

The notes to the balance sheet and income statement are stated in *thousands of Euro*.

Consolidation area

The consolidated half-year interim financial statements of the Hera Group includes the half-year financial statements of the Parent Company Hera and those companies in which Hera directly or indirectly controls the majority of the voting rights at an ordinary shareholders' meeting, the companies in which it holds sufficient voting rights to exercise a dominant influence at an ordinary shareholders' meeting, the companies in which it has a dominant influence in virtue of a contract or the bye-laws of the company, where the applicable law consents this, and the companies in which it has autonomous control of the majority of the voting rights based on shareholder agreements.

Excluded from the consolidation or from a net equity valuation, and consequently valued at cost are the companies inactive, in liquidation, insignificant in size and the companies held exclusively for sale.

There are no companies consolidated under the proportional method.

LIST OF COMPANIES CONSOLIDATED BY THE LINE-BY-LINE METHOD

Company	Registered office	Share capital	Percentage held		Total	Total interest
			Direct	Indirect		
Parent Company:						
Hera S.p.A.	Bologna	793,202,121				
Subsidiaries:						
Akron S.p.A.	Imola (BO)	1,000,000	51.00%		51.00%	51.00%
Amga Energia S.r.l.	San Mauro Pascoli (FC)	1,331,783	80.00%		80.00%	80.00%
Ares S.p.A. consortile	Bologna	1,125,240	65.00%		65.00%	65.00%
Baricella Ambiente S.p.A. *	Baricella (BO)	258,230	50.00%		50.00%	50.00%
Cales S.r.l.	Imola (BO)	11,000	50.09%		50.09%	50.09%
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	100,104	50.00%		50.00%	50.00%
Geat Service S.r.l.	Riccione (RN)	163,000	100.00%		100.00%	100.00%
Hera Bologna S.r.l.	Bologna	1,250,000	100.00%		100.00%	100.00%
Hera Comm S.r.l.	Imola (BO)	88,591,541	100.00%		100.00%	100.00%
Hera 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%
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%
Romagna Compost S.r.l.	Cesena (FC)	310,000	60.00%		60.00%	60.00%
SBI S.r.l.	Bologna	100,000	51.00%		51.00%	51.00%
Seas Lavori e Servizi s.c.ar.l.	Bologna	51,000	6.00%	94.00%	100.00%	85.30%
Selecta S.r.l.	Voltana di Lugo (RA)	1,666,600	49.00%	51.00%	100.00%	77.01%
Sinergia S.r.l.	Forlì (FC)	414,000	51.00%		51.00%	51.00%
Sotris S.p.A.	Ravenna	2,340,000	62.00%		62.00%	62.00%
Uniflotte S.r.l.	Bologna	2,254,177	51.00%		51.00%	51.00%

** company controlled in virtue of important contractual obligations with Hera SpA*

Compared to the consolidation area at December 31, 2003, the following changes have occurred in the Group:

- the companies Selecta S.p.A and Cir Secco S.p.A. merged by incorporation into Dirama S.r.l. , that was renamed Selecta S.r.l. ;

- the company Eos Energia S.p.A. was renamed Hera Trading S.r.l.

LIST OF COMPANIES CONSOLIDATED BY THE NET EQUITY METHOD

Company	Registered office	Share capital	Percentage held		Total	Total interest
			Direct	Indirect		
Acantho S.p.A.	Imola (BO)	1,240,000	93.00%		93.00%	93.00%
Adriatica Acque S.r.l.	Rimini	209,435	41.78%		41.78%	41.78%
Agess s.c.ar.l.	Forlì (FC)	79,750	21.44%		21.44%	21.44%
Amav Ambiente S.p.A.	Sant'Anastasia (NA)	103,200	49.00%		49.00%	49.00%
Asa S.p.A.	Castelmaggiore (BO)	1,820,000	20.00%		20.00%	20.00%
Aspes Multiservizi S.p.A.	Pesaro	10,963,627	24.00%		24.00%	24.00%
Attivabologna S.r.l. consortile	Bologna	2,558,600		48.00%	48.00%	48.00%
Azimut S.r.l.	Rimini	50,000	29.00%		29.00%	29.00%
Energica S.p.A.	Faenza (RA)	200,000	50.00%		50.00%	50.00%
Italgestioni S.r.l.	Bologna	14,000,000	49.00%		49.00%	49.00%
Leucopetra S.p.A.	Ercolano (NA)	350,880	48.00%		48.00%	48.00%
Linpha S.r.l.	Empoli (FI)	90,000		50.00%	50.00%	25.50%
Locride Ambiente S.p.A.	Siderno Superiore (RC)	1,522,745	25.00%		25.00%	25.00%
Oikothen s.c.ar.l.	Siracusa	1,101,730		46.10%	46.10%	29.97%
Penisola Verde S.p.A.	Sorrento (NA)	103,200	48.00%		48.00%	48.00%
Recupera S.r.l.	Cassana (FE)	413,200	24.50%		24.50%	24.50%
Service Imola S.r.l.	Borgo Tossignano (BO)	10,000	40.00%		40.00%	40.00%
SGS S.r.l.	Rimini	52,000	41.00%		41.00%	41.00%
Sinergie Ambientali S.r.l.	Bologna	100,000	50.00%		50.00%	50.00%
Viviservizi S.r.l. consortile	Bologna	451,500	48.00%		48.00%	48.00%
Yele S.p.A.	Vallo della Lucania (SA)	103,400	35.00%		35.00%	35.00%

The investment in Acantho S.p.A. was not consolidated under the line-by-line method but under the net equity method following the signing of a sales contract with a strategic partner external to the group that provides, on the finalisation of the agreement, that the quota held by Hera S.p.A. decreases to 48% by the end of 2004.

The following subsidiaries and associated companies are excluded from the consolidation area and thus valued at cost:

Company	Registered office	Share capital	Percentage held		Total	Total interest
			Direct	Indirect		
Agea S.p.A.	Cassana (FE)	15,016,100	43.05%		43.05%	43.05%
Ambiente 3000 S.r.l.	Bologna	100,000	51.00%		51.00%	51.00%
Consorzio Energia Servizi Bologna	Bologna	5,200	51.50%		51.50%	51.50%
Consorzio Frullo	Bologna	1,500	33.33%	66.67%	100.00%	67.33%
Consorzio Rizzoli Energia	Bologna	10,400	27.00%		27.00%	27.00%
Hera Clion S.r.l.	Napoli	200,000	100.00%		100.00%	100.00%
Hera Immobiliare S.r.l.	Bologna	100,000	100.00%		100.00%	100.00%
Hydrolazio S.c.a.r.l.	Bologna	510,000	32.00%		32.00%	32.00%
Ideametropoli S.r.l.	Bologna	21,045	76.98%		76.98%	76.98%
Immobiliare Berti Pichat S.r.l.	Bologna	10,000	100.00%		100.00%	100.00%
Inter.imm. S.r.l.	Carpegna (PU)	10,200	100.00%		100.00%	100.00%
Rio d'Orzo S.r.l.	Castello di Serravalle (BO)	59,000	21.00%		21.00%	21.00%

The investment in Agea SpA was maintained at cost as the company is currently in the process of a merger by incorporation into Hera S.p.A.. The merger is subject to the approval of the extraordinary shareholders' meetings of the companies, fixed in first convocation for October 4, 2004 and if necessary, in second convocation for October 5, 2004. This merger is part of a wider integration project which began with the acquisition by HERA, through the awarding of a public tender, of 42% of the share capital of AGEA. Currently, HERA holds 43.05% in the share capital of AGEA.

The project also provides for HERA to hold 49% of the share capital of AGEA by September 20, 2004 and in any case before the date of the above-mentioned extraordinary shareholders' meetings, called to deliberate on the merger project. The project provides for a share swap with Hera S.p.A. shares for the remaining 51% of the share capital.

CONSOLIDATION PRINCIPLES

The financial statements used for the consolidation are the financial statements for the six-month period of the individual companies approved by their respective Board of Directors.

These financial statements have been duly reclassified and adjusted so that they comply with the accounting principles of the Parent Company, which are in compliance with Articles 2423 and subsequent articles of the Civil Code and those recommended by CONSOB.

In the preparation of the consolidated financial statements, the assets and liabilities as well as the income and expenses of companies included in the consolidation are fully included. However, the receivables and payables, income and expenses, profits and losses resulting from operations carried out between companies included in the consolidation have been eliminated. The carrying value of the participations consolidated is eliminated against the corresponding quota of the subsidiary's net equity.
The carrying value of treasury shares are deducted from the carrying value of the participations and net equity of the companies included in the consolidation. These amounts are recorded in the Consolidated Balance Sheet in the accounts "treasury shares" and "reserve for treasury shares".
The difference between the carrying value of the participations that are eliminated and the corresponding quota of net equity is recorded in the consolidated net equity. In the event of acquisitions, the aforesaid difference is attributed to the elements of assets and liabilities of the companies included in the consolidation. Any remaining difference, if negative, is recorded in the account consolidation reserve, or, where it is the result of expected unfavourable economic results, in the account consolidation provision for future contingencies and charges. If it is positive, the difference is recorded in the balance sheet under consolidation difference. The amount of capital and reserves of subsidiaries relating to third parties are recorded within shareholders' equity in the account "Total shareholders' equity pertaining to minority interests". The portion of the consolidated result relating to third parties is recorded in the account "Net profit (loss) for the period pertaining to minority interests".

ACCOUNTING PRINCIPLES

General criteria

The accounting principles adopted in the consolidated half-year interim financial statements at June 30, 2004 are in conformity with Legislative Decree 127/91, integrated and interpreted by the Accounting Principles issued by the Italian accounting profession (Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri).

The accounting principles utilised in the period do not differ from those utilised in the preparation of the consolidated financial statements in the previous year with the exception of inventory as commented upon below.
In the preparation of the half-year financial statements no departures from accounting principles took place as permitted by paragraph 4, article 29 of Legislative Decree 127/91. Therefore, the valuation of the accounts in the half-year interim financial statements are in full compliance with the provisions of the above-mentioned Legislative Decree.

The accounts in the financial statement have been valued in accordance with the general criteria of prudence and accruals and on a going concern basis. Consideration is given to the underlying economic substance of operations over their legal form in accordance with the new corporate legislative; in relation to financial assets these are recorded at the moment of their settlement.

No revaluations have ever been made except those as permitted by specific legislation in relation to tangible fixed assets.

In adhering to the faculty conceded by the regulations issued by Consob, no calculation is made in the interim accounts for taxation, including deferred tax income and charges.

The most important accounting principles are as follows:

INTANGIBLE ASSETS

Intangible assets are recorded at the acquisition or production cost inclusive of directly allocated charges or at conferment value established by expert's valuations, and amortised on a straight-line basis for the period of their envisaged future use.

The amortisation commences when the asset is available for utilisation or in any case begins to produce economic benefit for the business.

Formation, start-up and similar costs, and research and development costs that generate future benefits are recorded in the balance sheet and amortised over the period of their future economic use, but in any case not greater than five years.

Advertising costs are charged directly to the income statement.

The industrial patent rights and copyright utilisation rights must represent values which are specifically identified, they must be valued separately and they must be legally protected. They are amortised based on their presumed future use, but in any case not greater than that fixed in the license contracts. Normally they are amortised over five years. The costs for the acquisition of software are amortised on a straight-line basis over three years; the costs relating to the implementation of R/3 are amortised over 5 years.

Concessions, licences, trademarks and similar rights recorded under assets are amortised based on the presumed period of utilisation; in any case not greater than that fixed in the purchase contract; where it is not possible to establish the period of utilisation or there does not exist a contract, the duration is established as five years. This account principally relates to concession rights for the management of public services and are amortised on a straight-line basis over the lesser period between the economic/technical life of the assets granted and the duration of the concession. The residual value of the intangibles assets corresponding to water concessions resulting from the merged companies and/or business divisions spun-off, however, are amortised for the residual duration of 11 years considering the residual duration of the transitory management period provided for in the Regional Law no. 25 of 1999; the residual value of the intangibles assets corresponding to the management of the methane gas distribution network resulting from the merged companies and/or spun-off are amortised for the duration of 8 years considering the residual duration of the transitory management period provided for in the Letta Decree no. 164 of 2000.

Goodwill is recorded only if purchased, within the limit of the cost paid and is amortised over a period not greater than its utilisation. The account principally relates to the share swap deficit deriving from the integration process of Hera Spa in 2002 and supported by specific valuation reports. The goodwill is amortised over a period of ten years commencing from the effective legal date of the integration process, in consideration of the benefits that the Company considers it will obtain in this period.

Assets under construction and payments on account relate to sums paid on account and the costs sustained for which the full rights have not yet been acquired or for research and development activity relating to projects not yet completed.

The other intangible assets relate principally to leasehold improvements. The amortisation is calculated on a straight-line basis based on its residual utilisation within the limits of the relative contracts.

Intangible assets are written-down if there is a permanent impairment in their value; the original value is restored if the reasons for their write-down no longer exist, adjusted only for amortisation.

The consolidation differences are amortised over the period in which the benefits are expected to arise, with a maximum limit of ten years.

TANGIBLE ASSETS AND DEPRECIATION

Tangible assets are recorded at the acquisition or production cost including accessory costs, or at conferment value established by expert's appraisals on the business assets.

The acquisition cost, in addition to the purchase price resulting from the invoice net of VAT, also includes directly attributable incidental expenses such as transport, customs duty, insurance and installation costs incurred up to the moment the asset enters into the production process, net of rebates and discounts.

The cost of production includes directly and indirectly attributable expenses.

Normal on-going maintenance costs are charged in full to the income statement in the year in which they are sustained. Maintenance costs that are of an incremental nature are attributed to the assets to which they refer and amortised according to the possible residual utilisation of such assets.

Financial leasing contracts are recorded within tangible assets in the category of assets they refer to and are amortised, as for propriety assets, over the period of possible residual utilisation. Within liabilities a payable is recorded, under short-term and medium term, towards the leasing company; the lease payments are reversed from expenses for the use of third party assets and the quota for the period of financial charges are recorded in the financial statements. In this manner a representation of financial leasing contracts is obtained in accordance with the so-called “finance method” as required by IAS 17, that best represents the economic substance of the financial leasing contracts in place.

Tangible assets are depreciated on a straight-line basis on economic/technical rates considered representative of the residual possible future use of the asset.

The depreciation rates normally applied for each operating sector are shown in the table below:

General services	**Min %**	**max %**
Land	-	-
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
Data processing machinery	10.00	20.00
Vehicles and internal means of transport	10.00	20.00
Auto vehicles	12.50	25.00
Laboratory and measurement instruments	5.00	10.00
Remote control	10.00	20.00
Electric cabins	3.50	7.00

Purification services	**min %**	**max %**
Land	-	-
Buildings/Civil works	1.50	3.00
Buildings/IDAR construction section	1.50	3.00
General and specific plants	7.50	15.00
Specific IDAR plants	5.00	10.00
Specific ITFI plants	5.00	10.00
Specific plants	7.50	15.00
Lifting plants	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	-	-
Stage one units – abstraction		
- Buildings	2.75	5.50
- General plant	7.50	15.00
- Specific plant	5.00	10.00
Stage two units – district – specific plants	5.00	10.00
User reduction unit – 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 plants	3.50	7.00
Co-generation and district heating:		
- Production – buildings	2.75	5.50
- Production – general plants	4.50	9.00
- Production – specific plants	4.50	9.00
- Distribution network	4.00	8.00
- Heat exchange unit	4.50	9.00
- Electric cabins	3.50	7.00
Equipment	5.00	10.00

Water service	**min %**	**max %**
Land	-	-
Buildings/CMI 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 plants	7.50	15.00
- Specific plants	6.00	12.00
- Fresh water plants	4.00	8.00
Reservoirs	2.00	4.00
Pipeline 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

Auto vehicles	10.00	20.00

Waste management service	min %	max %
Land	-	-
Buildings	1.50	3.00
Warehouses	1.50	3.00
General plants	7.50	15.00
Specific IIR plants	5.00	10.00
Specific BIOGAS plants, storage & IRE	5.00	10.00
Specific waste composting plants	5.00	10.00
Vehicles and internal means of transport	10.00	20.00
Waste containers and equipment	5.00	10.00
General equipment	5.00	10.00
Show service equipment	5.00	10.00
Hygienic equipment	5.00	10.00
Light constructions	5.00	10.00
Auto vehicles	12.50	25.00

The landfills are depreciated on the basis of the percentage utilised.

The depreciation rate applied in the year of acquisition is 50% of the normal rates considered a reasonable approximation of the period held for the acquisitions made in the year.

For the assets whose unitary cost is not superior to Euro 516, which can only optimally be used within the course of the year, in view of their rapid consumption and high susceptibility to damage, the write-down has been calculated on a prudent basis envisaging a single depreciation rate equal to the cost of the asset.

FINANCIAL ASSETS

EQUITY INVESTMENTS

The investments recorded in this item relate to long-term investments.

The investments in "non-consolidated subsidiary companies", as they are not fully operative at the period-end or not significant in relation to the consolidated net equity or result, or in liquidation, are recorded in the financial statements at acquisition cost or subscription.

The investments in "associated companies" are valued according to the net equity method and thus for an amount equal to the corresponding fraction of the net equity resulting from the half-year financial statements of the company, after the deduction of dividends and the adjustments required by the accounting principles of the consolidated financial statements. The profits and losses deriving from the application of the net equity method are recorded in the income statement under the line items "revaluation of investments" and "write-down of investments" respectively. In the case of non-operative companies the investments in associated companies are valued under the cost method.

The other investments are valued at cost. The investments valued under the cost method are recorded at the cost of acquisition effectively incurred or subscription. The cost is reduced for any permanent impairment in value, in the case where losses are incurred and profits are not expected in the immediate future to absorb such losses. The original amount is reinstated whenever the reasons for the adjustment no longer apply.

RECEIVABLES

Non-current receivables represent long-term commitments of capital, independent of their repayment period (short or medium term); they are recorded at their realisable value.

Trade receivables are recorded under current assets.

OTHER SECURITIES

This account includes securities held for the long-term, normally for investment, other than equity investments. They principally relate to bonds and government securities. These securities are recorded at cost including incidental expenses. The cost value is written down in the case of permanent impairment in value.

INVENTORY

Inventories are recorded at the lesser value between cost of acquisition, inclusive of incidental expenses, and their market value at the end of the period.

During the year 2004, the criteria for the valuation of inventory changed from the LIFO method to the weighted average cost method; the differences recorded as a consequence of this change are not significant.

The market value is determined based on current costs of inventory held at the period end date.

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

Contract work in progress is valued at cost, or at the price agreed, if lower.

RECEIVABLES

Receivables are recorded at their realisable value. The recording of receivables at realisable value is made through the creation of a doubtful debt provision, determined in an analytical manner for the most significant positions and as a general provision for the other positions, shown in the financial statements as a direct deduction of the receivables. This provision is considered sufficient to cover the losses on non recovery situations which have already emerged and on those which have not yet emerged.

Trade receivables also include the allocation of income for services provided but not yet invoiced. This is estimated at the end of the period on the basis of historical analyses determined according to previous consumption levels.
Other receivables under current assets include the deferred tax asset.

CURRENT FINANCIAL ASSETS

The securities and investments, held for the short-term or which mature within one year, are valued at the lower of purchase cost and market value at the period end. The cost value is restored if the reasons for the write-down no longer exist.

PREPAYMENTS AND ACCRUED INCOME

Prepayments and accruals are recorded based on the accruals principle of costs and revenues covering more than one accounting period.

PROVISION FOR CONTINGENCIES AND CHARGES

Provisions for contingencies and charges are recorded in respect of certain or probable losses or liabilities, the amount or due date of which could not be determined at year-end. The provisions reflect the best possible estimate on the basis of the elements available.

The reserve made against the post-closure landfill costs are charged to the income statement based on specific external technical expert's appraisals.

The reserve for the restoration of third party assets relates to the provisions charged to the income statement to ensure the restoration of the networks, plant and assets under rental at the moment of restitution.

EMPLOYEE LEAVING INDEMNITY PROVISION

The employee leaving indemnity relates to the entire liability due to employees under current laws and collective labour/supplementary company contracts in force in Italy.

PAYABLES

They are recorded at nominal value.

MEMORANDUM ACCOUNTS

The guarantees are shown in the memorandum account at the nominal amount of the guarantees given. The secured guarantees are shown in the memorandum account only if connected to payables of third parties. The secured guarantees given against payables of the group are illustrated in the account in which the asset is recorded.

The commitments for contracts deriving from interest rate swaps, commodity swaps, etc are recorded at the nominal value of the capital amount. The other commitments are shown in the memorandum account for the amount corresponding to the effective obligation of the company at the period end.

The risks, possible but not certain, as a consequence of claim for damages or disputes, are recorded in the memorandum account for the amount requested or, if the claims are unfounded or not quantifiable, they are mentioned under commitments and risks.

REVENUES AND COSTS

Revenues and costs are stated net of returned items, discounts and rebates, and net of direct taxes related to the sales of products and services rendered.

More specifically:

- revenues from energy, gas and water sales are recognised and recorded at the time they are supplied;
- revenues from services rendered are recognised on the basis of services provided and in compliance with the relevant contracts;
- revenues from the sales of goods are recognised at the time of the transfer of ownership;
- revenues for connection are recorded in accordance with the accruals principle;
- grants are recorded at the moment of receipt or, if prior, on the formal deliberation of the grant; They are deducted from the value of the assets to which they refer and are recorded in the income statement in line with the depreciation period on the assets;
- costs are stated in accordance with the accruals principle;
- financial income and charges are recognised in accordance with the accruals principle;
- dividends from subsidiaries are recognised on a cash basis, at the moment of the relative right, as this becomes due only on the day the dividends are paid.

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

INCOME TAXES

The consolidated half-year interim financial statements have been prepared before the calculation of income taxes availing of the faculty accorded by paragraph 7 of article 81 of the Consob Regulation 11971 of May 14, 1999 and subsequent modifications. Therefore the Group did not provide for the adjustments and provisions for current and deferred taxes deriving from the application of fiscal regulations and the accounting principle relating to income taxes.

CONVERSION CRITERIA OF FOREIGN CURRENCIES

The assets and liabilities in currencies other than the EU currency are converted to Euro at the exchange rate at the date in which they originate. The exchange differences on the payment of payables and the receipt of receivables are recorded in the income statement. If from the conversion of payables and receivables in foreign currencies, at the exchange rates at the balance sheet date, there is a loss, this is recorded in the income statement; if from the conversion however there is a net profit, this is recorded in the income statement in the account financial income.

COMMENTS ON THE FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS

FIXED ASSETS

SUBSCRIBED CAPITAL UNPAID

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Part called	256	87	169
Part not called	0	501	-501
TOTAL	**256**	**588**	**-332**

The receivables from shareholders for unpaid capital relates to one tenth of the share capital still to be paid by the companies Romagna Compost Srl and Ares SpA consortile. The increase in the period, for the part called, is due to the share capital increase of the company Ares SpA Consortile, in which the third party shareholders must pay the remaining ten per cent; the decrease in the part not called is related to the payment of the remaining ten per cent by the company Hera Trading Srl (ex Eos Energia Srl).

INTANGIBLE ASSETS

The intangible assets consist of:

	June 30, 2004			December 31, 2003		
	Cost	**(Amort.)**	**Net value**	**Cost**	**(Amort.)**	**Net value**
Formation, start-up and similar costs	18,779	-7,565	11,214	17,307	-4, 715	12,592
Research, development and advertising costs	16,538	-14,907	1,631	16,446	-14, 505	1,941
Industrial patents and intellectual property licenses	20,613	-10,539	10,074	17,044	-7, 699	9,345
Concessions, licenses, trademarks and other	241,391	-91,078	150,313	304,599	-95, 959	208,640
Goodwill	102,963	-16,949	86,014	105,108	-13, 341	91,767
Assets under construction and payments on account	23,637	0	23,637	15,210	0	15,210
Others	30,241	-12,909	17,332	29,540	-13, 047	16,493
Consolidation difference	8,062	-3,036	5,026	6,693	-1, 849	4,844
TOTAL	**462,225**	**156,983**	**305,241**	**511,947**	**-151, 115**	**360,832**

The movements in the period were as follows:

	BALANCE 31/12/2003	*Increases*	*Reval. (Write-down)*	*Other Movements*	*Amort.*	*BALANCE 30/06/2004*
Formation, start-up and similar costs	12,592	478		-33	-1,823	11,214
Research, development and advertising costs	1,941	110		32	-452	1,631
Industrial patents and intellectual property licenses	9,345	1,741		164	-1,176	10,074
Concessions, licenses, trademarks and other	208,640	569		-52,085	-6,811	150,313
Goodwill	91,767			-559	-5,194	86,014
Assets under construction and payments on account	15,210	8,963		-536		23,637
Others	16,493	2,388		77	-1,626	17,332
Consolidation difference	4,844			585	-403	5,026
TOTAL	***360,832***	***14,249***	***0***	***-52,355***	***-17,485***	***305,241***

Formation, start-up and similar costs, equal to Euro 11,214 thousand at June 30, 2004, principally relate to the quotation costs and non-recurring charges relating to the integration process of Hera S.pA.

Research and development costs, equal to Euro 1,631 thousand at June 30, 2004, principally relate to the charges to obtain new services or rights to improve those existing.

The account Industrial patents and intellectual property rights, equal to Euro 10,074 thousand at June 30, 2004, principally relates to costs incurred for the purchase and implementation of SAP R/3 information systems. The increases in the period, of approximately Euro 550 thousand, relate to charges incurred for the implementation of the company cartography and the residual for the renewal of various computerised procedures.

The account Concessions, licenses, trademarks and others, equal to Euro 150,313 thousand at June 30, 2004, principally relates to the concessions held by the parent company relating to water and gas plant; the right for their use is amortised over the lower between the technical economic life of the assets and the duration of the concession. As already previously indicated in 2002, the Parent Company prudently began to amortise the residual value of the intangible assets relating to the water concessions received from the companies merged and spun-off into HERA for a period of 11 years, considering the residual duration of the transitory management period provided for in the regional law 25/1999; the residual value of the intangible assets corresponding to the management concessions of the methane gas distribution network of the companies merged and spun-off are amortised over 8 years, considering the residual duration of the transitory management period provided for in the Letta decree 64/2000. The increase, of Euro 500 thousand, represents the acquisition of the water concessions from the municipality of Carpegna (RN), while the net negative change of Euro 52,085 thousand, relates to the reclassification of the propriety concessions of assets relating to the water and gas service for the municipalities of Bologna, Argelato, Calderaia di Reno, Castel Maggiore and Ozzano Emilia in accordance with the relative contracts following the reaching of the expiry term for these concessions.

The account goodwill, equal to Euro 86,014 thousand at June 30, 2004, principally relates to the “share swap deficit” generated following the extraordinary operations of the partial spin-off and merger by incorporation of the companies participating in the integration of Hera. This account is amortised over 10 years from the effective legal date of the operation.

The account Assets under construction, equal to Euro 23,637 thousand, principally relate to IT projects not yet finalised, in particular the increase recorded in the period is prevalently related to the implementation in the Parent Company of the new customer management system SAP IS-U

The account “Other intangibles” of Euro 17,332 thousand at June 30, 2004 consist of improvements to third party assets, costs incurred on access roads to plants and indemnity for the redemption of the gas concessions. The increase in the period principally relates to the capitalisation of the interest paid on the loans received for the acquisition of the quota in AGEA.

The Consolidation difference, equal to Euro 5,026 thousand, arises from the allocation of the positive differences between the purchase value of the equity investments and the quota of the net equity in Nuova Geovis and Medea. This is amortised over 10 years.

TANGIBLE ASSETS

The tangible assets consist of:

	June 30, 2004			**December 31, 2003**		
	Cost	**(Amort.)**	**Net value**	**Cost**	**(Amort.)**	**Net value**
Buildings and land	173,399	-24,872	148,527	149,439	-20,236	129,202
Plant and machinery	762,681	-257,183	505,498	672,384	-219,403	452,981
Industrial and sales equipment	66,883	-32,955	33,928	67,178	-30,506	36,672
Other fixed assets	113,335	-61,950	51,385	104,075	-62,238	41,838
Assets under construction and payments on account	258,416		258,416	249,139		249,139
TOTAL	**1,374,714**	**-376,960**	**997,754**	**1,242,215**	**-332,383**	**909,832**

The movements during the period in relation to the cost of tangible fixed assets are shown below:

COST	*BALANCE 31/12/2003*	*Increases*	*Revaluations*	*Other Movements*	*(Disposals)*	*BALANCE 30/06/2004*
Buildings and land	149,439	1,148	783	22,063	-34	173,399
Plant and machinery	672,384	19,615	83	70,792	-193	762,681
Industrial and sales equipment	67,178	1,995		-1,265	-1,025	66,883
Other fixed assets	104,075	11,170		5,659	-7,569	113,335
Assets under construction and payments on account	249,139	23,330		-14,053		258,416
TOTAL	**1,242,215**	**57,258**	**866**	**83,196**	**-8,821**	**1,374,714**

For an analysis of the investments made by the Group in the half-year reference should be made to the directors' report on operations.

The movements during the period in relation to the depreciation of tangible fixed assets are shown below:

DEPRECIATION	*BALANCE 31/12/2003*	*Depreciation*	*Write-downs*	*Other Movements*	*(Disposals)*	*BALANCE 30/06/2004*
Buildings and land	20,236	2,711	23	1,902		24,872
Plant and machinery	219,403	19,586	7	18,255	-68	257,183
Industrial and sales equipment	30,506	2,403		602	-556	32,955
Other fixed assets	62,238	4,978		445	-5,711	61,950
TOTAL	***332,383***	***29,678***	***30***	***21,204***	***-6,335***	***376,960***

FINANCIAL ASSETS

EQUITY INVESTMENTS

The equity investments consist of:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Investments in subsidiaries not consolidated	919	1,035	-116
Investments in associated companies	86,725	88,204	-1,479
Investments in other companies	22,034	21,716	318

TOTAL	***109,678***	***110,955***	***-1,277***

INVESTMENTS IN SUBSIDIARIES NOT CONSOLIDATED

The investments in subsidiaries not consolidated are as follows:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Campania Bio Energie S.r.l.	0	495	-495
Hera Immobiliare S.r.l.	100	100	0
Sister S.p.A.	0	369	-369
Hera Clion S.r.l.	200	10	190
Immobiliare Berti Pichat S.r.l.	10	10	0
Acantho S.p.A.	492	0	492
Ambiente 3000 S.r.l.	51	51	0
Inter.imm S.r.l.	19	0	19
Consorzio Energia Servizi	3	0	3
Consorzio Frullo	1	0	1
Ideametropoli S.r.l.	43	0	43
TOTAL	**919**	**1,035**	**-116**

The account decreased in the half-year by Euro 116 thousand due to:
- sale of the quota held in Campania Bio Energie Srl and Sis.Ter Srl, in the first months of the year, for a total amount of Euro 864 thousand;
- subscription to the share capital increase in the company Hera Clion Srl, made by the sole shareholder Hera S.p.A. for Euro 190 thousand;
- reclassification of the investment in Acantho SpA from associated company to non consolidated subsidiary resulting from the subscription in 2004 of a share capital increase by the Parent Company, increasing the quota held to 93%.

INVESTMENTS IN ASSOCIATED COMPANIES

They consist of:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Asa S.p.A.	488	526	-38
Acantho S.p.A.	0	120	-120
Adriatica Acque S.r.l.	29	121	-92
Agea S.p.A.	58,039	58,039	0
Amav Ambiente S.p.A.	280	218	62
Aspes Multiservizi S.p.A.	13,359	14,109	-750
Attivabologna	1,044	1,113	-69
Energica S.p.A.	60	73	-13
Italgestioni S.p.A.	11,375	11,191	184
Leucopetra S.p.A.	342	459	-117
Locride Ambiente S.p.A.	398	396	2
Penisola Verde S.p.A.	97	79	18

Recupera S.r.l.	166	160	6
Viviservizi S.r.l.	191	200	-9
Yele S.p.A.	195	189	6
Other holdings	662	1,211	-549
TOTAL	**86,725**	**88,204**	**-1,479**

The change in the period, equal to Euro 1,479 thousand, is essentially attributable to the adjustments to the value of the investments following the application of the net equity method.

<u>INVESTMENTS IN OTHER COMPANIES</u>

The investment in other companies consist of:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Energia Italiana S.p.A.	21,120	19,910	1,210
Other companies	914	1,806	-892
TOTAL	**22,034**	**21,716**	**318**

During the period the company Energia Italiana SpA deliberated a share capital increase equal to Euro 11,000 thousand, proportionally subscripted by the shareholders : Hera SpA subscribed its quota of 11%, equal to Euro 1,210 thousand.

RECEIVABLES

At June 30, 2004, the receivables from non consolidated subsidiaries principally related to the receivable from the company Ideametropoli Srl in liquidation.

At June 30, 2004, the receivables from associated companies related to two loans: short-term to the company Energica equal to Euro 150 thousand and medium-term to the company Rio d'Orzo equal to Euro 150 thousand.

The composition of other receivables is as follows:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Deposits	6,940	3,884	3,056
Loans receivable	0	191	-191
Employee leaving indemnity advances	1,616	1219	397
Receivables from the asset companies and Con.Ami.	51,840	38,904	12,936
Other	1,069	699	370
TOTAL	***61,465***	***44,897***	***16,568***

The increase in other receivables, equal to Euro 16,568 thousand, is principally due to the increase of receivables from the Asset Companies and from Con.Ami relating to the investments made by HERA in the business divisions rented. These investments, having been directly acquired by the leasee, give rise to a corresponding receivable under non-current assets of the leasee (HERA SpA), against the indemnity at the end of the rental contract.

OTHER SECURITIES

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Other securities	2	260	-258
TOTAL	***2***	***260***	***-258***

They essentially relate to Government bonds held by the Parent Company.

CURRENT ASSETS

INVENTORY

The inventory consists of:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Raw materials, supplies and consumable stores	25,987	26,556	-569
Work in progress and semi-finished products	186	1,372	-1,186
Contract work in progress	17,042	13,280	3,762
Finished goods	795	904	-109
Payments on account	519	506	13
TOTAL	***44,529***	***42,618***	***1,911***

Inventories consist principally of spare parts and equipment used primarily to maintain and run plant in operation. This account also includes the inventories of gas held in storage by the subsidiary Hera Comm Srl.

Inventory is shown net of the obsolescence provision as shown below:

	BALANCE 31/12/2003	***Provision***	***Utilisation***	***Other movements***	***BALANCE 30/06/2004***
Inventory obsolescence provision	660	46	0	0	706
TOTAL	***660***	***46***	***0***	***0***	***706***

RECEIVABLES

FROM USERS AND CUSTOMERS

Trade receivable are comprised of:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Customers	486,224	552,037	-65,813
Contentious receivables	2,587	2,587	0
(Provision for doubtful debts)	-13,968	-11,044	-2,924

TOTAL	***474,843***	***543,580***	***-68,737***

At June 30, 2004 the account trade receivables includes invoices to issue of Euro 203,148 thousand.

The contentious receivable relate to those in which legal procedures for recovery have commenced.

The receivables are shown net of the doubtful debt provision, which recorded the following movements in the period:

	BALANCE 31/12/2003	***Provision***	***Utilisation***	***Other movements***	***BALANCE 30/06/2004***
Provision for doubtful debts	11,044	3,299	-919	544	13,968
TOTAL	***11,044***	***3,299***	***-919***	***544***	***13,968***

FROM SUBSIDIARIES NOT CONSOLIDATED

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Receivables from subsidiaries not consolidated	11,819	0	11,819
TOTAL	***11,819***	***0***	***11,819***

The increase in the period principally relates to the inclusion of the trade receivables from Acantho Spa, previously classified under associated companies at December 31, 2003.

The receivables from subsidiaries not consolidated at June 30, 2004 relate to :

	SALDO 30/06/2004
Acantho Spa	11,776
Ambiente 3000 Srl	27
Other	16
TOTAL	***11,819***

These receivables principally relate to transactions of a commercial nature at normal market conditions.

FROM ASSOICATED COMPANIES

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***

Receivables from associated companies	2,349	9,207	-6,858
TOTAL	***2,349***	***9,207***	***-6,858***

The receivables from associated companies consist of:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Acantho Spa	0	6747	-6747
Aspes Multiservizi Spa	620	1,857	-1237
Agea Spa	361	0	361
Attiva Bologna Srl Consortile	355	207	148
Recupera Srl	605	255	350
Others	408	141	267
TOTAL	***2,349***	***9,207***	***-6,858***

These receivables principally relate to transactions of a commercial nature at normal market conditions.

TAX RECEIVABLES

This breakdown of the account is as follows:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Due within one year	11,048	23,970	-12,922
Due over one year	1,737	2,708	-971
TOTAL	***12,785***	***26,678***	***-13,893***

The balance consists of:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Due within one year			
Indirect taxes (VAT and consumption tax)	1,686	2,194	-508
Direct taxes	565	718	-153
Irpeg and Irap advances	7,774	16,454	-8,680
Withholding tax on dividends	918	4,415	-3,497
Withholding tax on interest	105	189	-84
TOTAL WITHIN ONE YEAR	***11,048***	***23,970***	***-12,922***
			0
Due over one year			0
Direct taxes	434	681	-247
Withholding tax on interest	157	153	4
Other tax receivables	1,146	1,874	-728

TOTAL OVER ONE YEAR	***1,737***	***2,708***	***-971***
TOTAL TAX RECEIVABLES	***12,785***	***26,678***	***-13,893***

The reduction in the tax receivables due within one year equal to Euro 12,922 thousand is principally due to the payment on account for the period.

DEFERRED TAX ASSET

This account consists of:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Due within one year	385	55	330
Due beyond one year	16,270	14,810	1,460
TOTAL	***16,655***	***14,865***	***1,790***

The balance of this account principally relates to provisions for contingencies and charges deductible in future periods.

FROM OTHERS

This account consist of:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Due within one year:			
State and public entity grants	1,109	1,111	-2
Advances to trade payables	4,832	4,190	642
Employees	87	31	56
Social security institutions	492	305	187
Receivables for loans to receive	2,342	4,150	-1,808
Receivables for insurance reimbursements	159	3	156
Other receivables	15,681	13,854	1,827
TOTAL WITHIN ONE YEAR	***24,702***	***23,644***	***1,058***
Due over one year:			
Loans to employees	13		13
Receivables for loans to receive	146		146
Other receivables	553	943	-390
TOTAL OVER ONE YEAR	***712***	***943***	***-231***
TOTAL OTHER RECEIVABLES	***25,414***	***24,587***	***827***

At June 30, 2004, the account “Other receivables due within one year” includes, for Euro 8,620 thousand, receivables of the Parent Company from the Asset Companies on the settlement deriving from the integration into Hera Spa.

CURRENT FINANCIAL ASSETS

The account consists of:

	BALANCE 30/06/2004	BALANCE 31/12/2003	Change
Other securities	10,464	9,935	529
TOTAL	***10,464***	***9,935***	***529***

The account principally relates to UNIPOL Assicurazioni insurance certificates.

CASH IN BANKS AND ON HAND

Includes cash and cash equivalents, cheques held in the main offices, deposits held at banks, postal offices and credit institutions.

	BALANCE 30/06/2004	BALANCE 31/12/2003	Change
Bank and postal accounts	98,133	92,152	5,981
Cheques	4		4
Cash-in-hand and cash equivalents	119	566	-447
TOTAL	***98,256***	***92,718***	***5,538***

PREPAYMENTS AND ACCRUED INCOME

The account consists of:

	BALANCE 30/06/2004	**BALANCE 31/12/2003**	**Change**
ACCRUED INCOME:			
Rental income	12		12
Interest on securities	72	15	57
Financial interest	88		88
Other accrued income	37	59	-22
TOTAL ACCRUED INCOME	***209***	***74***	***135***
PREPAYMENTS:			
Insurance premiums	141	103	38
Rent	199		199
Substitute tax	16,661	15,462	1,199
Other prepayments	7,603	3,287	4,316
TOTAL PREPAYMENTS	***24,604***	***18,852***	***5,752***
TOTAL PREPAYMENTS AND ACCRUED INCOME	***24,813***	***18,926***	***5,887***

At June 30, 2004 the account "Other prepayments" includes, for Euro 16,661 thousand, the substitute tax, paid by the Parent Company in order to obtain fiscal relief on the amortisation on the share swap deficit, in order to correlate the cost with the amortisation period on the share swap deficit. This account increased in the period following the spin-off of the business from Geat Spa and the loans received from UnipolBanca and Monte Paschi Siena.

SHAREHOLDERS' EQUITY

Shareholders' equity consists of:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*
Share capital	793,202	793,202
Share premium reserve	12,253	12,253
Legal reserve	7,215	4,789
Revaluation reserve Law 342/2000	3,048	3,048
Other reserves:		
Extraordinary reserve	4,874	820
Capital grant reserve	6,000	6,000
Reserve for accelerated depreciation	2,194	2,194
Share swap surplus reserve	9,335	9,335
Undistributable reserves	-8,364	-10,780
Total other reserves	**14,039**	**7,569**
Retained earnings (losses) carried forward	1	1
Net profit for the period	52,853	49,454
TOTAL SHAREHOLDERS EQUITY	***882,611***	***870,316***
Minority interest	23,188	24,192
TOTAL GROUP AND MINORITY INTEREST	***905,799***	***894,508***

SHARE CAPITAL

The share capital of the company consists of 793,202,121 ordinary shares at a nominal value of Euro 1 each.

LEGAL RESERVE

At June 30, 2004 the reserve amounted to Euro 7,215 thousand: the increase of Euro 2,426 thousand compared to December 31, 2003, is due to the allocation of 5% of the profit in the previous year, as per article 2430 of the civil code.

REVALUATION RESERVE

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

- Law 74/1952	110
- Law 576/1975	127
- Law 72/1983	438
- Law 413/1991	34
- Law 342/2000	2,339
Total	**3,048**

EXTRAORDINARY RESERVE

At June 30, 2004 the reserve amounted to Euro 4,874 thousand, the increase of Euro 4,054 thousand compared to December 31, 2003 is due to the allocation of the profit in the previous year, as deliberated by the Shareholders' Meeting of April 27, 2004.

CAPITAL GRANTS RESERVE

This reserve, equal to Euro 6,000 thousand, has not changed from the previous year.

SHARE SWAP SURPLUS RESERVE

This reserve, equal to Euro 9,336 thousand, has not changed from the previous year.

RESERVE FOR ACCELERATED DEPRECIATION

This reserve, equal to Euro 2,194 thousand, relates to accelerated depreciation for fiscal purposes.

SCHEDULE OF THE CHANGES IN THE SHAREHOLDERS' EQUITY ACCOUNTS

The present schedule shows the movements in the shareholders' equity during the period:

	Share capital	*Legal reserve*	*Other reserves*	*Result for the period*	*N.Equity Min. interest*	*Result Min. interest*	*Total*
SHAREHOLDERS EQUITY AS AT DECEMBER 31, 2003	***793,202***	***4,789***	***22,871***	***49,454***	***20,639***	***3,553***	***894,508***
Allocation to reserves of result for period	-	2,426	4,988	-7,414	-	-	-
Distribution of dividends	-	-	-	-42,040	-	-4,425	-46,465
Increase in share capital	-	-	-	-	1,206	-	1,206
Other changes in reserves	-	-	1,482	-	-1,722	872	632
Profit for the period	-	-	-	52,853	-	3,065	55,918
SHAREHOLDERS EQUITY AS AT JUNE 30, 2004	***793,202***	***7,215***	***29,341***	***52,853***	***20,123***	***3,065***	***905,799***

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

	June 30, 2004		December 31, 2003	
	Net result	**Net equity**	**Net result**	**Net equity**
BALANCES AS PER THE PARENT COMPANY FINANCIAL STATEMENTS	***11,848***	***849,971***	***48,523***	***880,164***
Elimination of operations between consolidated companies net of fiscal effect:				
Reversal of write-downs in subsidiary companies	-	-	3,969	-
Dividends received from consolidated companies	-	-	-36,538	-36,538
Effect of uniform accounting principles with the group net of fiscal effects:				
Application of finance method for leased assets	670	1,833	547	1,339
Valuation of net equity for companies recorded at cost	-1,929	-3,488	1,307	-1,147
Carrying value of the consolidated companies		**-139,024**		**-133,488**
Net equity and result for the period of consolidated companies	**42,511**	**174,409**	**36,844**	**161,600**
Allocation of difference to assets of consolidated companies and related amortisation:				
Consolidation goodwill	-403	5,026	-1,101	4,844
Effect of adjustments:				
Elimination conferment	123	-4,640	-4,763	-4,763
Other adjustments	33	-1,476	666	-1,695
CONSOLIDATED FINANCIAL STATEMENTS – GROUP QUOTA	***52,853***	***882,611***	***49,454***	***870,316***
CONSOLIDATED FINANCIAL STATEMENTS – MINORITY INTERESTS	***3,065***	***23,188***	***3,553***	***24,192***
CONSOLIDATED FINANCIAL STATEMENTS	***55,918***	***905,799***	***53,007***	***894,508***

PROVISION FOR CONTINGENCIES AND CHARGES

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

	BALANCE 31/12/2003	***Provisions***	***Utilisations***	***Other movements***	***BALANCE 30/06/2004***
Pension and similar	36	0	0	0	36
For taxation	1,901	0	-986	848	1,763
Other:					
Reserve for legal cases and litigation with personnel	3,685	399	-1,318	1,115	3,881
Other reserves	103,383	14,118	-391	-1104	116,006
TOTAL OTHER RESERVES	***107,068***	***14,517***	***-1,709***	***11***	***119,887***
TOTAL	***109,005***	***14,517***	***-2,695***	***859***	***121,686***

The provision for taxes principally includes the provision for deferred tax liability made in previous years on timing differences between values attributed to the assets and liabilities in the statutory accounts and values attributed to the assets and liabilities for fiscal purposes.

The reserve for legal cases litigation with personnel relates to prudent provisions made on legal action in course and cases brought by employees.

At June 30, 2004 the account “Other provisions” consist of:

- the landfill closure and post-closure expenses reserve, equal to Euro 49,987 thousand at June 30, 2004, represents the reserve made by the Group in order to meet future costs for the management of the landfills currently in use in the post-closure period.

- the restoration of third party assets reserve, equal to Euro 52,269 thousand, consists of provisions made in accordance with current legislation and contractual obligations of the Parent Company as leasee of the distribution network from the Asset Companies. These provisions are made based on the depreciation rates provided contractually, in order to guarantee at the end of the rental period the restoration of the assets to their original state at the commencement of the rental period.

EMPLOYEE LEAVING INDEMNITY PROVISION

The movements in the employee leaving indemnity provision is as follows::

	BALANCE 31/12/2003	*Provisions*	*Utilisations*	*Other movements*	*BALANCE 30/06/2004*
Employee leaving indemnity	68,372	5,058	-3,658	-265	69,507
TOTAL	***68,372***	***5,058***	***-3,658***	***-265***	***69,507***

The provisions represents the effective payable to employees at the date indicated in accordance with legislation net of advances made to employees.

PAYABLES TO SHAREHOLDERS FOR LOANS

The table below shows the composition of payables to shareholders for loans received:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Payables to shareholders for loans	1,176	0	1,176
TOTAL	***1,176***	***0***	**1,176**

This account represents the payable by the subsidiary FEA Srl to the shareholder Actelios Spa.

PAYABLES TO BANKS

The table below shows the composition of payables to banks:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Short-term payables to banks (due within December 2004)	166,724	191,646	-24,922
Medium/Long-term payables to banks	308,950	323,766	-14,816
TOTAL	***475,674***	***515,412***	**-39,738**

This account includes the payables to banks for bank overdrafts and loans.

The amount also includes the loan provided to the subsidiary F.E.A. amounting to Euro 89,640 thousand. The loan is guaranteed by mortgages and special privileges equal to Euro 216,909 thousand in favour of a pool of banks that subscribed to the project financing, guaranteeing the financing. The repayment of this loan with final expiry date of December 31, 2017, is contractually agreed on a half-yearly basis, commencing from June 30, 2004 at an interest rate of "Euribor 6 months + spread", with interest rate swap agreements for a notional amount of

Euro 48,906 thousand, that convert the interest rates from variable to fixed, at conditions substantially in line with the market.

SUMS DUE TO OTHER LENDERS

The table below shows the composition:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Payables to other lenders - short-term (within December 2004)	3,539	2,441	1,098
Payables to other lenders - medium/long-term	37,690	28,882	8,808
TOTAL	***41,229***	***31,323***	***9,906***

This account consists of loans contracted by Group companies with the Cassa Depositi e Prestiti. This account also includes payables recorded to other lenders due to the effect of the application of IAS 17 for finance leases amounting to Euro 20,902 thousand.

PAYMENTS ON ACCOUNT

The account consists of:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Payments on account – short-term	729	3,122	-2,393
Payments on account – medium/long-term	3,436	1,527	1,909
TOTAL	***4,165***	***4,649***	***-484***

These amounts principally relate to advances received from customers for work still to be performed.

TRADE PAYABLES

The account consists of:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Trade payables – within one year	274,807	373,768	-98,961
Trade payables – over one year	1,745	957	788

TOTAL	***276,552***	***374,725***	***-98,173***

At June 30, 2004 the trade payables include the invoices to receive of Euro 123,595 thousand. The reduction of the trade payables in the period is principally related to the seasonality of the gas service that in November and December records significant increases in consumption and thus in the purchase of methane gas.

PAYABLES TO SUBSIDIARIES NOT CONSOLIDATED

The account consists of:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Payables to subsidiaries not consolidated	2,744	347	2,397
TOTAL	***2,744***	***347***	***2,397***

The breakdown is as follows:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Acantho Spa	2,573	0	2,573
Campania Bio Energie Srl	0	346	-346
Idea Metropoli Srl in liquidation	13	0	13
Inter.Imm Srl in liquidation	10	0	10
Others	148	1	147
TOTAL	***2,744***	***347***	***2,397***

These payables principally relate to transactions at normal market conditions.

PAYABLES TO ASSOCIATED COMPANIES

The account consists of:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Payables to associated companies	3,176	6,184	-3,008
TOTAL	***3,176***	***6,184***	***-3,008***

The breakdown is as follows:

	BALANCE	***BALANCE***	***Change***

	30/06/2004	31/12/2003	
Acantho Spa	0	2,171	-2,171
Adriatica Acque Srl	3	0	3
Agea Spa	0	31	-31
Agess Scarl	17	0	17
Asa SpA	799	487	312
Aspes Multiservizi Spa	28	65	-37
Attivabologna Srl consortile	162	676	-514
Hydrolazio Scrl	0	151	-151
Service Imola Srl	17	80	-63
SGS Srl	483	475	8
Sinergie Ambientali Srl	33	32	1
Vivi servizi Srl consortile	1,634	1,663	-29
Other associated companies	0	353	-353
TOTAL	***3,176***	***6,184***	***-3,008***

These payables principally relate to transactions at normal market conditions.

PAYABLES TO TAX AUTHORITIES

The composition of the account is as follows:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Due within one year			
Income taxes	42,650	42,532	118
VAT	20,732	6,371	14,361
Employee retention taxes	2,629	4,079	-1,450
Consumption taxes	65,726	5,784	59,942
Other taxes	17,696	8,318	9,378
TOTAL DUE WITHIN ONE YEAR	**149,433**	**67,084**	**82,349**
Due over one year			
VAT	123	123	0
Income taxes (and substitute taxes)	70	0	70
TOTAL DUE OVER ONE YEAR	**193**	**123**	**70**
TOTAL	***149,626***	***67,207***	***82,419***

The payables to the tax authorities within one year at June 30, 2004 increased by a net amount of Euro 82,349 thousand compared to the previous year and are principally represented by payables for income tax of Euro 42,650 thousand and payables for consumption tax of Euro 65,726 thousand (this tax is paid by the public service management companies on the basis of the consumption in the previous year).

PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS

The composition of the account is as follows:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Social security institutions – within one year	10,672	10,284	388
Social security institutions – over one year	21	23	-2
TOTAL	***10,693***	***10,307***	***386***

These payables relate to the Group payable positions with the social security institutions for June 2004 not yet paid.

OTHER PAYABLES

The composition of the account is as follows:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Dividends to shareholders	430	0	430
Employees for vacation not taken, productivity and salaries	13,554	15,145	-1,591
Directors for emoluments	75	0	75
Statutory auditors for emoluments	60	0	60
Payables to shareholders for dividends	188	188	0
Others	31,899	25,363	6,536
TOTAL WITHIN ONE YEAR	**46,206**	**40,696**	**5,510**
Deposits	44,434	39,890	4,544
Others	223	54	169
TOTAL OVER ONE YEAR	**44,657**	**39,944**	**4,713**
TOTAL OTHER PAYABLES	***90,863***	***80,640***	***10,223***

At June 30, 2004 the account "Others within one year" principally relates for Euro 4,400 thousand to payables to the Asset Companies and for Euro 10,954 thousand to payables relating to purification and sewerage concessions.

ACCRUED EXPENSES AND DEFERRED INCOME

The composition of the account is as follows:

	BALANCE 30/06/2004	BALANCE 31/12/2003	Change
Accrued expenses:			
Interest expense	840	560	280
Others	2,445	2,028	417
TOTAL	***3,285***	***2,588***	***697***
Deferred income:			
Contributions for plant and equipment	203	332	-129
Other deferred income	40,277	39,714	563
TOTAL	***40,480***	***40,046***	***434***
TOTAL	***43,765***	***42,634***	***1,131***

The account "other deferred income" principally relates to the contributions for new connections received from customers deferred to future years in proportion to the quota of amortisation on the related asset. In relation to this account the Parent Company, from 2001, directly records the contribution in the income statement in the period to which it refers; the amount recorded in deferred income refers to contributions matured in previous years.

MEMORANDUM ACCOUNTS

The memorandum account is comprised of:

GUARANTEES

	BALANCE 30/06/2004	**BALANCE 31/12/2003**	**Change**
Sureties on behalf of:			
- associated companies;	599	0	599
- others	95,779	106,071	-10,292
TOTAL	**96,378**	**106,071**	**-9,693**
Other non secured guarantees on behalf of:			
- associated companies;	0	2,547	-2,547
- others	5,008	7,467	-2,459
TOTAL	**5,008**	**10,014**	**-5,006**
Secured guarantees:			
- others	127,658	129,153	-1,495
TOTAL	**127,658**	**129,153**	**-1,495**

OTHER MEMORANDUM ACCOUNTS

	BALANCE 30/06/2004	**BALANCE 31/12/2003**	**Change**
Commitments:			
- third party assets in use at the company	1,183,023	1,156,224	26,799
- companies in usufruct	11,396	10,854	542
- hedging contracts:			
- on interest	101,993	83,116	18,877
- on commodity swap	46,795	30,536	16,259
- others	38,629	2,004	36,625
TOTAL	**1,381,836**	**1,282,734**	**99,102**

SURETIES

Included in this item is the surety given by UniCredit Banca d'Impresa SpA, for an amount of Euro 27,681 thousand, in favour of the Municipality of Pesaro, as mandate of the public shareholders of Aspes Multiservizi SpA, and on behalf of Hera SpA to guarantee compliance with the obligations of this latter following the signing of the sales contract. In particular, on September 19, 2002, Hera SpA signed a contract in which it acquired a shareholding equal to 24% of the share capital in Aspes Multiservizi S.p.A.. Based on this contract Hera Spa is also committed to acquire, by simple request of the public shareholders of Aspes Multiservizi S.p.A., further holdings up to the maximum amount of 65% of the share capital. This obligation expires on September 18, 2006. The guarantee has a duration equal to 4 years, from the moment of the signing of the contract, extendable to an unappealable request by the Municipality of Pesaro for a further 6 months.

GUARANTEES

The secured guarantees principally relate to mortgages and special privileges on land, plant and machinery, recorded by the subsidiary FEA Srl in favour of a pool of banks for the project financing received.

OTHER MEMORANDUM ACCOUNTS

The “Other memorandum accounts” consist of:

Third party assets in use at the company

The third party assets, in concession and rental, principally relate to the water and gas plant received from the municipalities and the Asset Companies.

Company in usufruct

At June 30, 2004, the account amounted to Euro 11,396 thousand and represents the value of the landfill of the companies Baricella Ambiente SpA and Gal.A. SpA taken in usufruct.

Interest hedge cover

At June 30, 2004 the account amounts to Euro 101,993 thousand and represents the notional amount of the interest derivative instruments agreed by the Parent Company. The current value of these financial instruments, at June 30, 2004, is a negative amount of Euro 2,531 thousand.

Commodity swap contracts

At June 30, 2004 the subsidiary Hera Comm Srl had commodity swap cover contracts for a nominal amount of Euro 46,795 thousand determined by converting the underlying nominal quantity to the contractual price. These contracts were made in order to reduce the exposition of the Group to the risk in commodities price variations deriving from the purchase of fuel.

INCOME STATEMENT

For comments relating to operating costs and revenues and industrial margins of the Group reference should be made to the directors' report on operations.

VALUE OF PRODUCTION

REVENUES – GOODS AND SERVICES

The composition of the account is as follows:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Revenues—goods and services	690,492	622,977	67,515
Variation in product inventory	756	-83	839
Variation in contract work in progress	4,100	6,881	-2,781
Increases on internal work capitalised under fixed assets	50,042	20,141	29,901
Other revenues and income	10,497	9,654	843
TOTAL	***755,887***	***659,570***	***96,317***

For comments relating to the performance of sales by business division reference should be made to the director's report on operations.

The company operates only in Italy.

OTHER REVENUES AND INCOME

The other revenues and income are shown below:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Reimbursements insurance companies, social security insti. and other	1,742	2,705	-963
Grants	4,316	3,738	578
Other	4,439	3,211	1,228
TOTAL	***10,497***	***9,654***	***843***

The other revenues and income principally relate to the quota of grants and subsidies in the period.

COSTS OF PRODUCTION

RAW MATERIALS, CONSUMABLES AND SUPPLIES

The analysis of purchases is as follows:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Methane gas for re-sale	184,311	204,012	-19,701
Fuel for heat generation	30	477	-447
Electricity for re-sale	71,546	35,838	35,708
Water for re-sale	12,892	12,247	645
LPG	1,052	1,606	-554
Materials for maintenance	14,816	13,442	1,374
Methane for industrial use	777	1,529	-752
Water for industrial use	158	0	158
Chemical products	3,368	2,427	941
Other materials	18,653	7,610	11,043
TOTAL	***307,603***	***279,188***	***28,415***

SERVICES

The analysis and the composition of services is as follows:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Water, methane, heat and energy services	1,440	5,843	-4,403
Expenses on works and maintenance of plant and network	59,820	44,920	14,900
Costs for electricity transport	26,700	7,375	19,325
Storage costs	4,761	520	4,241
Insurance costs	3,924	3,899	25
IT and CED	1,575	2,670	-1,095
Cleaning services	1,538	1,424	114
Waste transport, collection and treatment	34,014	19,305	14,709
Announcements, insertions and advertising	2,315	662	1,653
Transport expenses	357	1,103	-746
Legal and consultant costs	8,083	11,124	-3,041
Directors, statutory auditors and independent auditors	1,735	1,590	145
Meter reading	492	1,369	-877
Post and telephone	2,079	2,515	-436
Selection personnel, training and other	3,100	1,988	1,112
Environmental hygiene	3,112	7,275	-4,163
Costs for services to associated companies	5,102	598	4,504
Other	11,881	9,418	2,463
TOTAL	***172,028***	***123,597***	***48,431***

USE OF THIRD PARTY ASSETS

The costs for the use of third part assets principally relate to the concession fees due to the Local Entities (equal to Euro 19,650 thousand) and rental charges (Euro 5,472 thousand).

PERSONNEL COSTS

The composition of personnel costs in the period is as follows:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Wages and salaries	69,185	66,186	2,999
Social security contributions	24,300	23,698	602
Employee leaving indemnity	5,058	5,472	-414
Pensions and similar costs	12	23	-11
Other costs	1,685	1,494	191
TOTAL	***100,240***	***96,873***	***3,367***

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

Category	30/06/2004	30/06/2003	Change
Blue-collar	2,487	2,511	-24
Temporary	155	132	23
White-collar	1,720	1,636	84
Senior Managers	72	69	3
TOTAL	***4,434***	***4,348***	***86***

OTHER OPERATING COSTS

The composition of other operating costs are as follows:

	BALANCE 30/06/2004	BALANCE 31/12/2003	Change
Other taxes	2,777	1,324	1,453
Fees for use of public areas	617	602	15
Association fees	426	370	56
Special landfill levy	3,882	2,395	1,487
Ecological tax on landfills	668	321	347
Subscriptions, newspapers	101	118	-17
Carious contributions	70	304	-234
Postage	7	68	-61
Ordinary under accruals	51	84	-33
Loss on sale of ordinary fixed assets	578	215	363
Trade receivables losses not covered by provision	11	36	-25
Other minor charges	2,472	3,461	-989
TOTAL	***11,660***	***9,298***	***2,362***

FINANCIAL INCOME AND CHARGES

INCOME FROM INVESTMENTS AND RECEIVABLES CLASSIFIED UNDER NON-CURRENT ASSETS

Financial income is comprised of:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
FROM INVESTMENTS			
Subsidiaries not consolidated	238	0	238
Associated companies	42	214	-172
Other companies	410	93	317
FROM RECEIVABLES IN NON-CURRENT ASSETS			
From others	4	8	-4
Subsidiaries not consolidated	0	6	-6
Associated companies	1	0	1
TOTAL	***695***	***321***	***374***

In the account income from investments from other companies an amount of Euro 284 thousand was recorded resulting from the gain on the sale of a quota in the company Hera Luce Spa to a company outside of the Group.

OTHER FINANCIAL INCOME

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
From securities classified under non-current assets not constituting participations			
FROM GOVERNMENT SECURITIES			
Interest	0	35	-35
FROM OTHER SECURITIES			
Others	1	0	1
TOTAL	***1***	***35***	***-34***
From securities classified under current assets not constituting participations			
FROM GOVERNMENT SECURITIES			
Others	80	1	79
TOTAL	***80***	***1***	***79***
Income other than above from third parties			
Interest income from banks	633	782	-149
Interest on other short-term receivables	262	41	221
Other financial income	906	1012	-106
TOTAL	***1.801***	***1.835***	***-34***

<u>*INTEREST AND OTHER FINANCIAL CHARGES*</u>

Other financial charges are comprised of:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Financial charges:			
Bank current accounts	3,593	4,980	-1,387
Medium/long-term loans	6,323	3,629	2,694
Other payables	9	143	-134
Other financial charges:			
Commission and bank charges	188	142	46
Others	1,620	32	1,588
TOTAL	***11,733***	***8,926***	***2,807***

<u>*EXCHANGE GAINS AND LOSSES*</u>

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Losses on exchange	-5	0	-5
TOTAL	***-5***	***0***	***-5***

ADJUSTMENT TO FINANCIAL ASSETS

The breakdown is as follows:

	BALANCE 30/06/2004	***BALANCE 31/12/2003***	***Change***
Revaluations	335	481	-146
Write-downs	-2,281	-3,346	1,056
TOTAL	***-1,946***	***-2,865***	***919***

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

EXTRAORDINARY INCOME (CHARGES)

Below is shown the composition of extraordinary income:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Extraordinary income:			
Over accruals and similar in prior years	162	3,312	-3,150
Correction to significant errors in prior years	7		7
Other extraordinary income	1,828	17	1,811
TOTAL	***1,997***	***3,329***	***-1,332***
Gains on fixed asset sales:			
Gains on tangible asset sales	5		5
Gains on conferment of business units	225		225
Other extraordinary gains	4	24	-20
TOTAL	***234***	***24***	***210***
TOTAL EXRTAORDINARY INCOME	***2,231***	***3,353***	***-1,122***

Below is shown the composition of extraordinary charges:

	BALANCE 30/06/2004	*BALANCE 31/12/2003*	*Change*
Extraordinary expenses:			
Expenses and losses of an extraordinary nature	0	29	-29
Correction to significant errors in prior years	18	40	-22
Under accruals and similar in prior years	3,802	5,931	-2,129
Other extraordinary expenses	3	306	-303
TOTAL	***3,823***	***6,306***	***-2,483***
Losses on sales of fixed assets:			
Losses on tangible asset sales	713	176	537
Other extraordinary losses	98	0	98
TOTAL	***811***	***176***	***635***
Taxes relative to previous years:			
Charges for taxes assessed on previous years	0	53	-53
TOTAL	**0**	**53**	**-53**
TOTAL EXTRAORDINARY CHARGES	***4,634***	***6,535***	***-1,901***

CASH FLOW STATEMENT

		June 30, 2004		Dec. 31, 2003
CASH FLOW GENERATED FROM ORDIANRY ACTIVITIES:				
Result for the period		**52,853**		**49,454**
Adjustment for items not affecting liquidity:				
Amortisation & depreciation	47,163		95,518	
Employee leaving indemnity matured during the year	5,058		9,922	
Employee leaving indemnity paid during the year	-3,923		-15,759	
Provision (utilisation) provision for contingencies and charges	12,682	**60,980**	25,883	**115,564**
Changes in current assets and liabilities:				
Trade receivables	68,737		-75,342	
Receivables from parent, subsidiary and associated companies	-4,961		-4,490	
Other receivables	10,747		53,302	
Inventory	-1,911		-9,164	
Prepayments and accrued income	-5,887		589	
Trade payables	-98,173		71,093	
Advances	-484		2,724	
Payables to parent, subsidiary and associated companies	-611		3,457	
Other payables	10,610		-15,173	
Accruals and deferred income	1,131		-1,349	
Tax authorities	82,419	**61,617**	-28,087	**-2,440**
Cash flow generated from operating activities		**175,450**		**162,578**
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY:				
Net book value of assets disposed of	2,486		1,371	
Purchases on tangible assets	-120,086		- 194,266	
Increases in intangible assets	38,103		-15,515	
(Increase) decrease in equity investments	1,277	**-78,220**	-85,294	**-293,704**
CASH FLOW GENERATED FROM FINANCIAL ACTIVITIES:				
Net change in loans	-8,899		148,074	
Other movements in net equity	478		7,296	
Dividends and reserves distributed	-42,040		-27,528	
Decrease (Increase) subscribed share capital	332		130	
Decrease (Increase) in other fixed assets	-16,642		-28,113	
		-66,771		**99,859**
INCREASE (DECREASE) IN CASH AND BANK		**30,459**		**-31,267**
CASH AND BANK AT BEGINNING OF PERIOD*		**-98,927**		**-67,660**
CASH AND BANK AT END OF PERIOD		**-68,468**		**-98,927**

* The account “Cash and banks” at the end and beginning of the period results from the sum of the accounts “Cash in banks and on hand” and “Payables to banks” short-term.

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AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2004

**To the Shareholders of
HERA S.p.A.**

We have reviewed the accompanying interim consolidated financial statements of HERA S.p.A. for the six-month period ended June 30, 2004, consisting of the consolidated balance sheet, income statement and related explanatory notes. These interim consolidated financial statements are the responsibility of the Company's directors. Our responsibility is to issue a report on these interim consolidated financial statements based on our review. In addition, we have verified the consistency of the management discussion and analysis with the other data contained in the above interim consolidated financial statements.

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

As far as comparative figures related to the six-month period ended June 30, 2003 and the year ended December 31, 2003 are concerned, reference should be made to our auditors' review report dated September 14, 2003 and our auditors' report dated April 9, 2004, respectively.

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

As disclosed in the explanatory notes to the semi-annual report, the company took advantage of the conecession made by comma 7 of article 81 of CONSOB's regulations approved by Resolution n. 11971 on May 14, 1999 and subsequent modifications and presented its result for the period gross of income taxes. Therefore, income and deferred taxes resulting from the application of the income tax accounting principle have not been included in the interim consolidated financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by
Antonio Cocco
Partner

Bologna, Italy
September 14, 2004

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