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annual report
as at 31 december,
2004



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Annual Report as at December 31, 2004



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THE HERA
GROUP

Letter to the Shareholders

Dear shareholders,
the year 2004 was for your company a year of important consolidation, of many initiatives and of assertion in the Italian utilities market.

The financial statements that we present in fact confirm significant economic growth in the three principal market areas and underpins a solid business, that operates consistently with the objectives indicated in the industrial plan and in the knowledge that a large part of its resources derive from its traditional attachment to the region in which it operates.

For this reason the Hera Group proposes to adopt a socially responsible enterprise model, in which economic growth is in equilibrium with the legitimate expectations of all of the stakeholders and with the development of the region.
We believe that the commercial and financial successes are achievable exclusively adopting behaviour that strengthens competitiveness, without causing harm to the environment and protecting the interests of all of the shareholders, clients and all other stakeholders.

Thanks to these principles, in the past year, your company was one of the most dynamic operators: the integration with Agea Ferrara, the acquisition of the Ravenna Ecologic Centre and the participation in other important initiatives in the electricity generation sector and the gas networks are among the principal projects realised in 2004 and testifies the vocation of the company to be capable of delivering on the guidelines contained in the industrial plan in terms of equilibrated growth, also availing in a timely manner from the expansion opportunities offered by the market.

In relation to the group plant and the important investment plans, the efficiency optimisation process of the production structure continued with a view to sustainable development in the region.
The main investments related to the completion of the waste-to-energy plant at Frullo, that will contribute to guarantee by 2007 a substantial elimination of the landfill waste and the full alignment to the most recent European legislation together with three further similar plants planned in the region.

The significant amount of the investments did not however change the soundness of the net financial position of the Group that was recognised an A+ long-term rating.

At the same time, the Hera Group continued to pursue the objective of constant improvement of the quality of the services and of the satisfaction of the clients and, in relation to which the first customer satisfaction research was conducted in the region that provided important indications and stimulus to continue while at the same time reassuring us, with on average high levels of appreciation, in the opinions of the clients on the services offered.

In relation to the tariffs, the dialogue with the ATO's, although still in need of urgent completion, and the measures taken by the relevant authorities resulted in an average increase of the tariffs for the services offered lower than inflation, as further confirmation of the willingness to listen to the needs of the clientele especially in a year characterised by difficulties in relation to the general economy.

The Hera Group has a well structured shareholder base, that constitutes a model of success, to which other companies are aspiring, in the knowledge that the co-existence of experience and regional presence on the one hand and innovation and dynamism on the other can be strategic to operate with success in this sector.

The growth of the Group in the past two years is confirmation that the dialogue and the commitment by all of the parties that constitute Hera provide the winning solutions to pursue challenging objectives which can be measured both in terms of quality of the services and of economic-financial growth providing value, as in the past year, to the capital invested by all of the shareholders.

For this reason, also for the future, we trust in your certain support, in pursuing the growth which the company has as its principal point of reference the level of service offered and a development profile that we hope is shared and sustained by all of the shareholders of the Group.

This is the occasion, in concluding the first life cycle of the company with the Shareholders' Meeting of today, to thank the Board of Directors, the Board of Statutory Auditors and all of the employees for the intense contribution made. ■





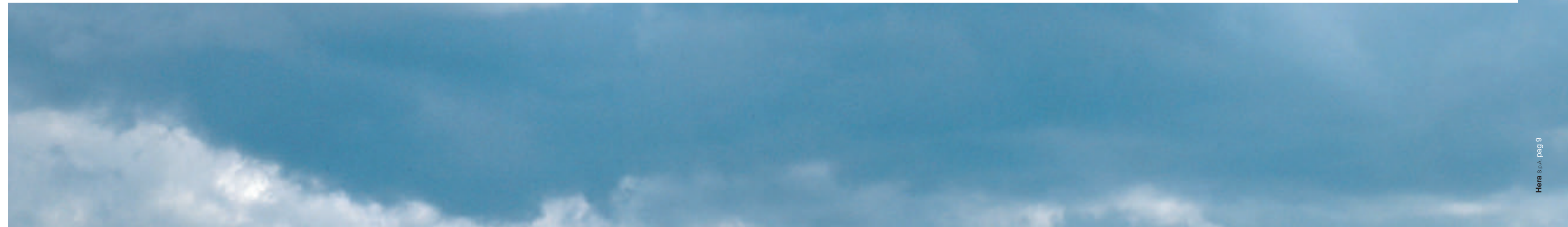
1.1 The mission of Hera

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 progressive liberalisation of the markets

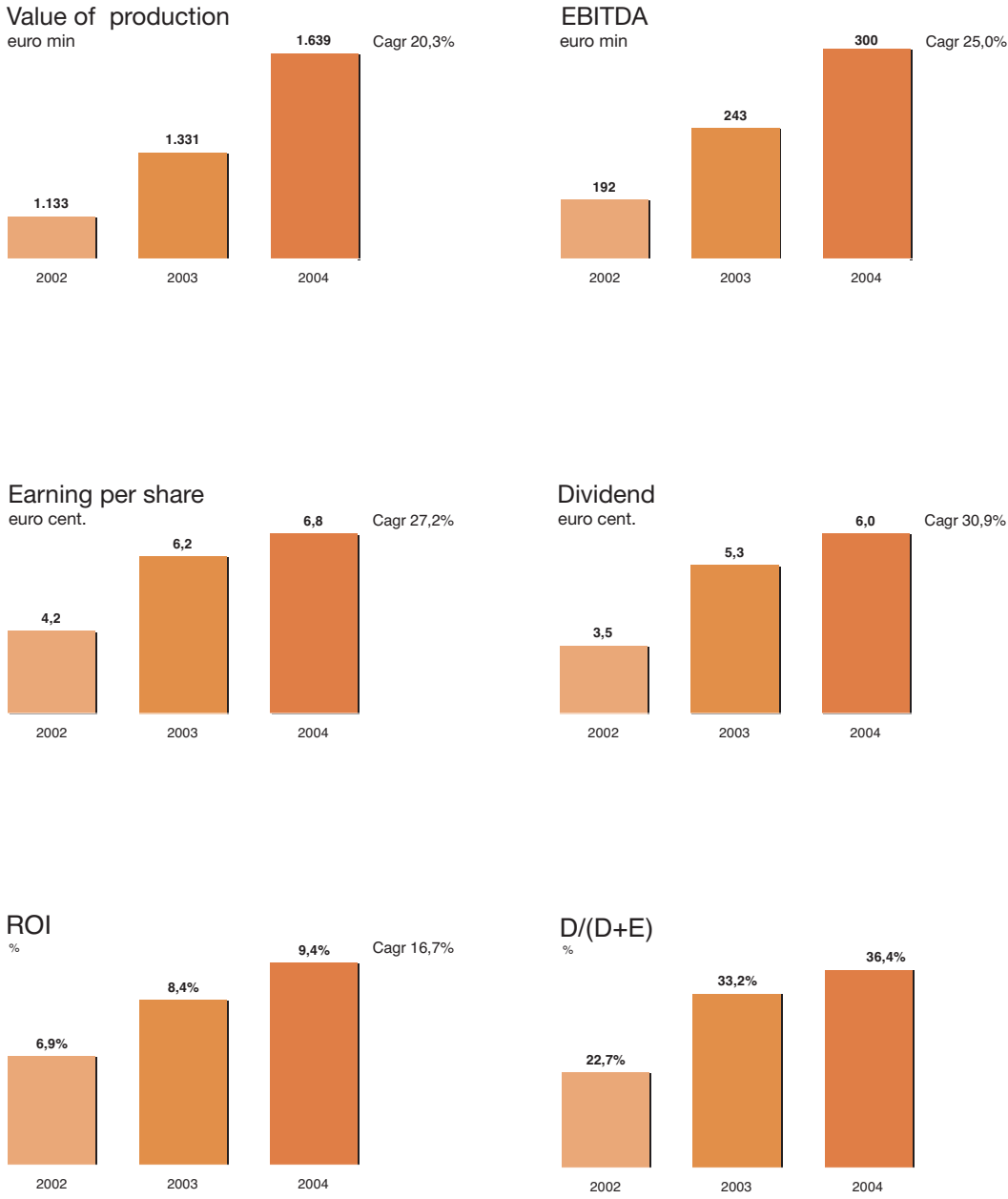
To fulfil the “Hera system”, creating synergies, optimising the available resources to achieve a better price/quality structure and ensuring further margins of growth and development

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



1.2 Summary results



Board of Directors

Office	Name and 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 (1)
Director	Nicodemo Montanari
Director	Fabio Roversi Monaco
Director	Roberto Sacchetti
Director	Giovanni Tamburini

Board of Statutory Auditors

Carica	Name and Surname
Chairman	Antonio Venturini
Standing auditor	Fernando Lolli
Standing auditor	Sergio Santi
Alternate auditor	Stefano Ceccacci
Alternate auditor	Roberto Picone

Committee for Internal control

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

Remuneration committee

Carica	Nome e Cognome
Chairman	Aleardo Benuzzi
Member	Piero Collina
Member	Gianluigi Magri (1)

1.3 Company officers

(1) The director Gianluigi Magri resigned from the Board of Directors of HERA S.p.A. as of October 15, 2004

1.4 The History

Hera is one of the most important Italian Local Utilities, operating in the Emilia – Romagna Region, and it is currently within the top 55 companies listed on the Italian Stock Exchange following an intense growth process that is still in course.

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

The aggregation related to 11 "Local Utilities" in the Emilia-Romagna region, consolidated according to a model, unique in its characteristics, that reorganised the business activities and that were then incorporated into 5 new "Local Operating Companies" (LOC) held and coordinated by the Industrial Holding.

After a period of 8 months from its incorporation the Group was successfully privatised, in June 2003, with the placing on the Stock Exchange of 44.5% of the share capital.

After the quotation, Hera continued the consolidation process with the aggregation of other Multi-Utilities. In July 2003, the Group was enlarged with the aggregation of Geat (Multi-utility company of Riccione) and in 2004, with the consolidation of Agea (Multi-utility company of Ferrara) and the acquisition of the Ravenna Ecologic Centre (company specialised in the treatment of industrial waste).

Hera continued the development of the Group focussing the growth on operating companies in neigh-

bouring territories with similar Business portfolios reaching, as a consequence, primary market positions and achieving economies of scale in all the main businesses (Energy, Waste Management and Water Cycle)

In only two years, the "Hera" aggregation model, together with the reorganisation and the modernisation of the activities, permitted one of the most important growths in profitability in the sector and has laid the foundations for such further growth in the future. ■

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

The dimensional growth pursued by the Group in the core businesses has also been achieved through external lines with the integration of other Multi-Utilities through the replication of the "open" organisational model adopted and "vertical" type integrations in some core businesses (in particular Energy and Waste Management).

The strategy of the Group is centred on pursuing specific growth opportunities in line with the following guidelines:

- 1. **Growth of the core businesses**, through greater commercial penetration in the liberalised sectors with:
 - a. the plant consolidation and integration in electricity generation, in a sufficient manner to serve its market, in the treatment of urban and special waste and in the distribution of gas;
 - b. the continuation of the consolidation process (through the process of mergers) of multi-utility companies operating in neighbouring regions and with a similar business profile;
- 2. **Increase the economic-financial efficiency**, exploiting the synergies and the economies of scale of the Group in terms of cross-selling, reduction of costs and improvement in operational efficiency through the sharing of "internal" best practices;

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

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

These four strategic priorities unite all of the activities of Hera in the search for opportunities in the creation of value emerging from the Group "internally" and "externally" and in continual evolution. ■

1.5 The Strategy



The Hera Group operates in the provision of public utility services in over 150 municipalities in the Emilia – Romagna region within the provinces of Bologna, Rimini, Ravenna, Forlì – Cesena and Ferrara, a region with a GDP and 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 has a multi-business portfolio that guarantees an optimal diversification of the typical regulation risk of the sector, that includes services regulated and managed under “monopoly regimes” (such as the integrated water cycle, collection and treatment of solid urban waste, distribution of methane gas and electricity) and businesses managed under “free competition” (such as the sale of methane gas and electricity, the treatment of special and industrial waste, the management of public lighting).

The complementary nature of the businesses favours the generation of significant expansion opportunities in turnover (based on the market opportunities pursued with “multi-service” commercial proposals), in addition to the realisation of cost synergies and the reaching of higher levels of efficiency.

Solid urban waste business

The Hera Group plays a primary role in Italy in the solid urban waste business (that includes collection and transport of refuse, urban hygiene and the recovery and disposal of refuse).

In Italy, these activities are managed by local operators based on concessions with an average duration of 10 years. The tariffs of the services are regulated by the Ronchi Decree and agreed with the “local” regulators (Autorità Territoriali d’ambito Ottimale: ATO) on a three yearly basis.

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

The Group is the owner of one of the most important plant compositions in Italy that consists of 12 plants specifically dedicated and another 24 with share usage (urban-industrial wastes), that include selection plants, chemical-physical and inert treatment, in addition to landfills and waste-to-energy plants. The “integrated” management of a high number of plants geographically located in different parts of the region permits an efficient and advanced logistical management, and also in terms of environmental impact.

The Group is among the main Italian operators in the exploitation of waste-to-energy plants (WTE). In fact, Hera operates 5 WTE plants (including the plant of Canal Bianco conferred by Agea of Ferrara) with a total waste treatment capacity equal to approximately 500,000 tonnes annually and electricity generation capacity equal to 57 MW.

Hera has an investment plan that provides for the increase in the waste-to-energy capacity of the group (up to almost 1 million tonnes) and energy production capacity up to a total of 95 MW installed. These projects will permit an increase in the sale of electricity and of green certificates and to further reduce the quota of urban waste not utilised that is currently transferred to landfills. The first construction in relation to this plan was the new waste-to-energy plant at Bologna, that entered into service in October; this plant has a treatment capacity of approximately 180,000 tonnes/year, with a recovery of electrical equal to approximately 150 GWh/year sold to GRTN at CIP6 tariffs.

The Hera Group manages the service, placing particular attention on the environmental impact of its activities; in 2004 over 60% of the waste managed was subjected to treatment and recovery activity which was above the national average of the operators by 50%. In addition, many plants managed by the Group have ISO 14000, ISO 90000 and EMAS certificates confirming the good management and low environmental impact.

Special waste business

The Hera Group is among the first 4 operators in Italy in the Special Waste sector. The activities are prevalently connected to the treatment and disposal of harmful and non-harmful special waste.

These activities are operated in a freely competitive Italian market that is particularly fractioned with small sized operators. Hera is among the main operators at a national level with a disposal capacity equal to 2.2 million tonnes per year concentrated in the region in which it operates (where it holds 40% of the market).

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

The Hera Group has 22 specifically dedicated plants and 24 shared usage plants available (both special and urban wastes), which were further increased with the acquisition of the Ravenna Ecologic Centre in 2004.

The treatment and disposal capacity now reached permits the group to expand its presence in a market that offers significant growth opportunities.

Hera has recently reorganised its commercialisation activities with the objective of implementing a multi-service marketing strategy centred on the “Business” clientele already served by the Group with other services.

Integrated Water Cycle

The Hera Group is one of the five leading Italian operators that includes abstraction, adduction, distribution, sewerage and purification services.

In Italy, these activities are managed by “local” operators on the basis of concessions with an average duration of twenty years. The tariffs of the services are

regulated by the Galli Decree and agreed with the “local” regulators (Autorità Territoriali d’ambito Ottimale: ATO) on a three yearly basis.

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

The Group has a complete and efficient water system of approximately 17,600 km, on a surface area of 9,000 km squared serving approximately 2 million inhabitants that increases considerably in the tourist areas of the Adriatic Riviera during the summer period.

Completing the plant structure utilised for the water service is the sewerage network that extends over 6,600 km and over 350 purification plants.

Energy: Methane Gas and Electricity

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

The sale of these energy products is an activity in an advanced stage of liberalisation while that of distribution is still managed under a monopoly regime based on long-term concessions (expiry 2012 for those relating to methane gas and 2030 for those relating to electricity).

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

The Hera Group has a reduced electricity generation capacity (in that the production is with dedicated plants prevalently from other production processes of cogeneration, waste-to-energy, biogas and turbo-expansion, of which a significant part is sold directly to GRTN at subsidised tariffs). To satisfy the market demand, Hera has signed long-term contracts with national and foreign suppliers.

In order to optimise the electricity procurement costs, the Hera Group has implemented an Up stream integration strategy. During 2003, this policy resulted in the acquisition (through the consortium Energia Italiana/Acea-Electrabel) of an investment equal to 5.5% of the share capital of **Interpower** S.p.A. (the third generation company sold by ENEL S.p.A. with an annual production equal to 2,600

MWh) and in 2004 continued with the acquisition, first of 15% of **Calenia Energia** (company set up for the construction of a CCGT plant of 800 MW at Sparanise), and then of 39% of **SET** (company set up for the construction of a CCGT plant of 400 MW at Teverola).

In completion of the Up Stream integration strategy the investment plan of the Group provides for the construction of new medium/small sized CCGT plants for a total installed capacity of 310 MW.

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

In relation to the procurement of methane gas, Hera was able to increase the capacity of its international shipping activity being awarded, in 2004, further importation quotas of 200 million cubic metres of gas obtained from the so-called “Gas Release”.

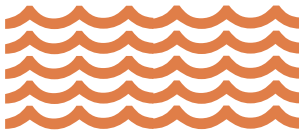
All of the energy resources procurement activities are directly managed by Hera Trading, a company specialised in optimising the purchases of electricity through the Borsa Elettrica Italiana. Hera has thus prepared strategic and organisational initiatives that provide the Group with the possibility of maximising its level of competitiveness and profitability within the energy business which is in progressive liberalisation.

Other Businesses: District Heating and Public Lighting

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

The Group provided over 240 GWh/h in 2004 and managed over 220,000 light points within the area in which it operates.

These activities are considered strategic in view of the potential growth of the market and of the efficiencies obtained thanks to the economies of scale achieved with the size of the Hera Group. ■



1.7 Structure of the Group

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

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

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

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

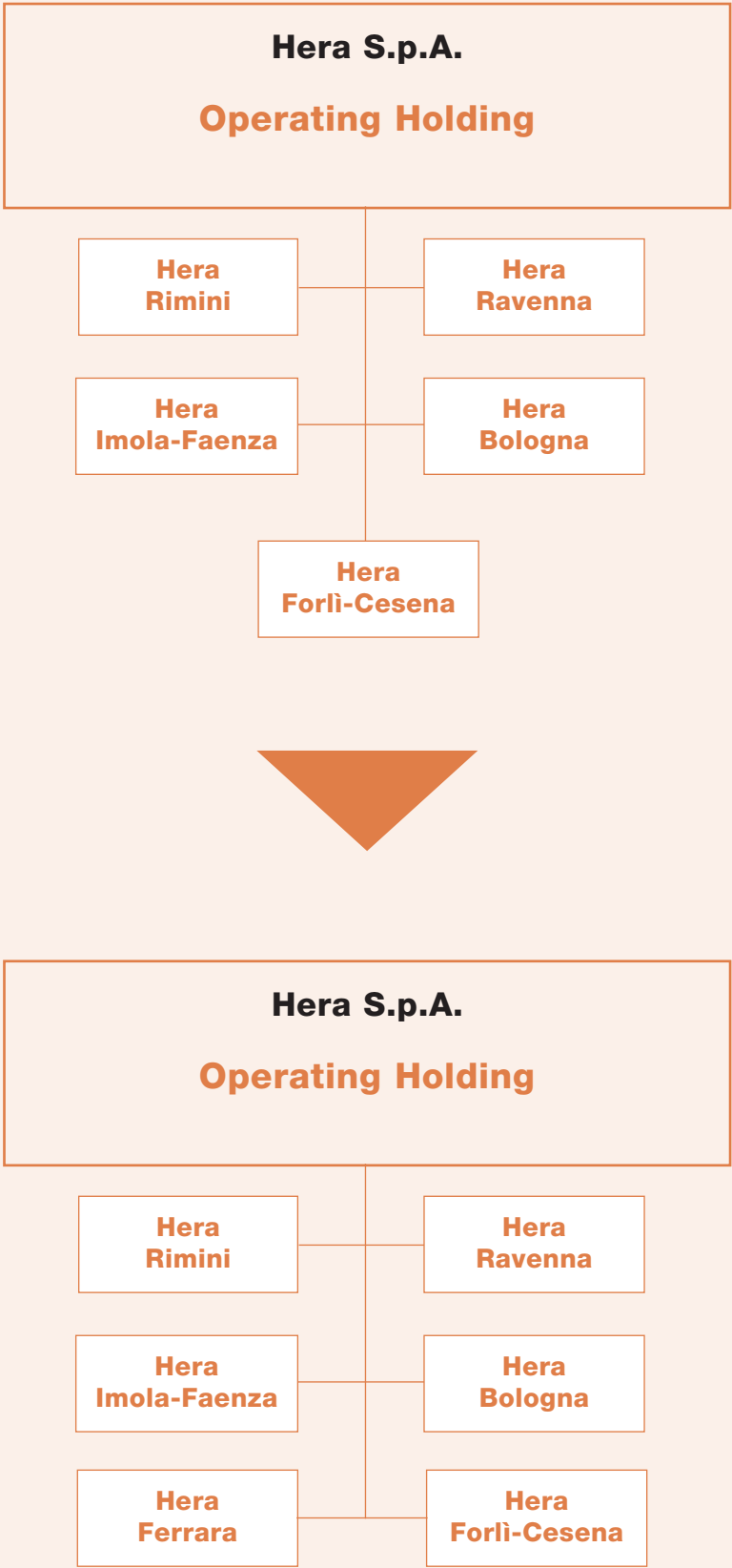
The LOC's, resulting from the reorganisation of the companies merged into Hera, which contain the historical memory of the Group and the technical and managerial know-how – have the task to carry out the activities in the territory, developing efficiencies and quality in the services provided and maintain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

efficiency through the sharing of best practices.

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

The success of the model described is evidenced by the group synergies achieved and the further aggregations carried out with success in a short time period. A demonstration of this is the recent merger with Agea, multi-utility of the municipality of Ferrara whose complete integration occurred in less than 3 months from the shareholder approval with the consequent incorporation of "Hera Ferrara", 6th LOC of the Group, fully operative from January 1, 2005.

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



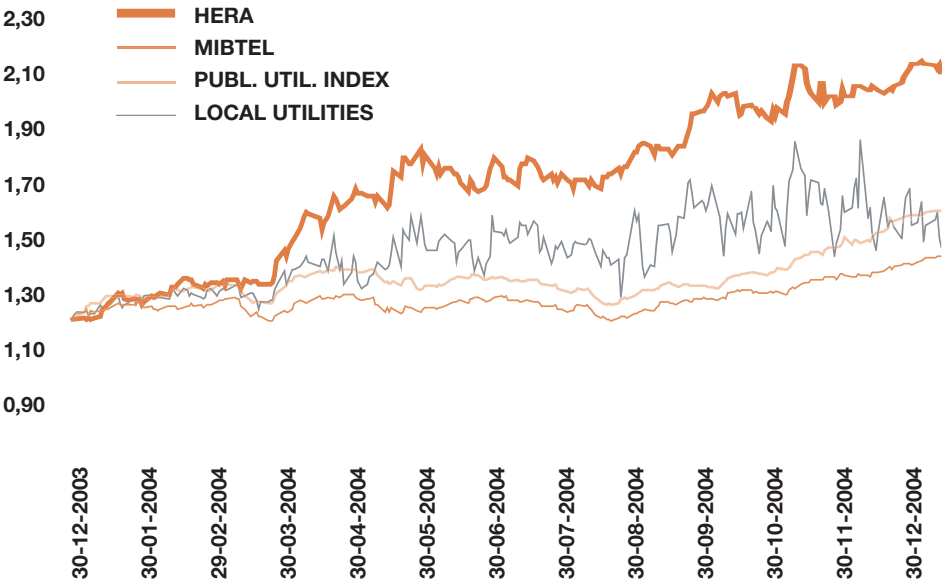
1.8 Hera on the Stock Exchange

Performance of the Hera share price

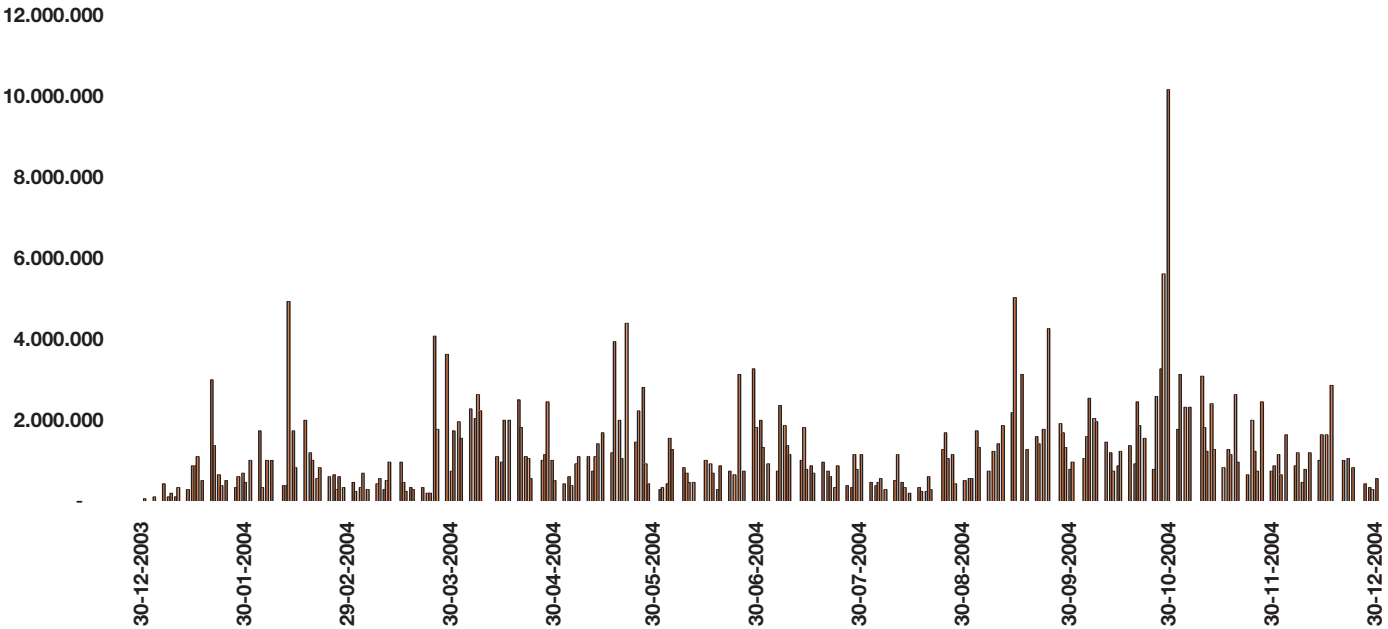
IThe Hera share price in 2004 recorded one of the most positive performances in the entire Italian stock market closing the year at Euro 2.12 with an increase of 71% (equal to over a double of the increase recorded by the Italian public utility services index).

This important increase was recorded from the communication of the annual results for 2003 and continued uninterrupted for the whole year. The positive stock exchange performance was achieved thanks to cost synergies, the success in the continuation of the aggregation process with other multi-utility companies and also the dividend distribution policy (85% of the net profits).

Performance of the Hera Share Price



Hera volumes traded

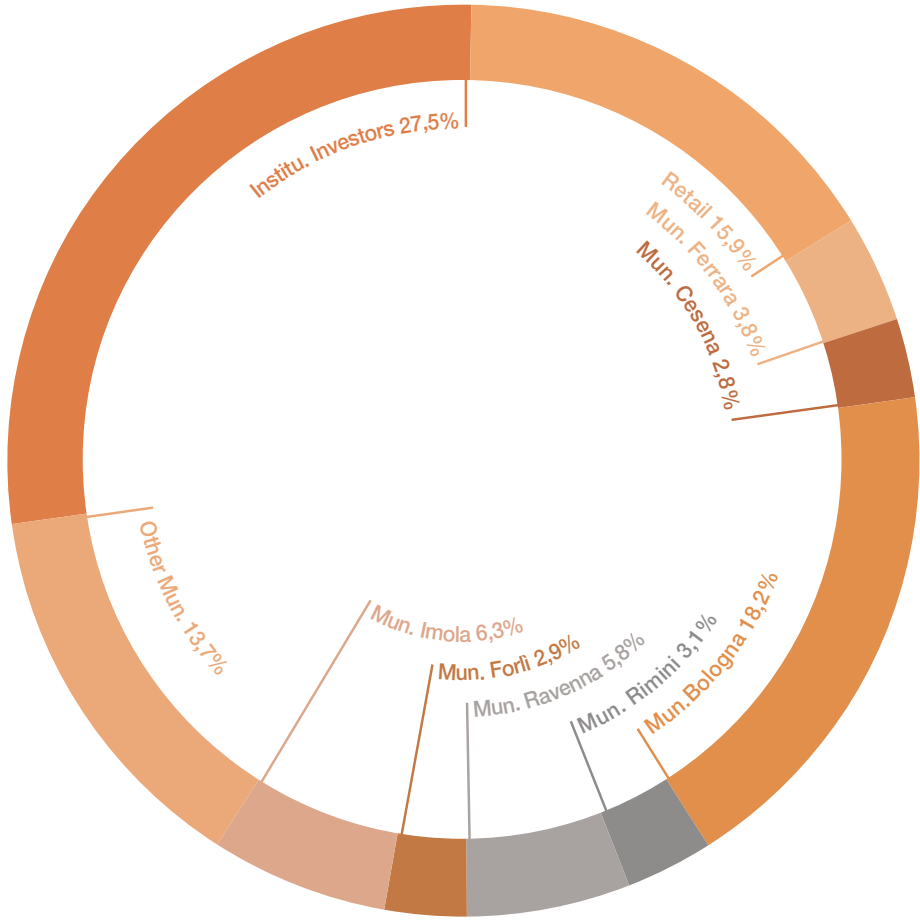


The improvement in the prospects of the medium-term result, a consequence of the out-performance of the results achieved in the previous year and the increase in the target of the industrial plan communicated in September, have also attracted many international investors (European and American), and have continued to increase the level of liquidity in the trading of Hera shares; the average daily value increased from Euro 0.7 million in 2003 to almost Euro 2.3 million in the last year.

Following the increased liquidity, Borsa Italiana communicated that, from March 21, 2005, the Hera share price will enter into the Midex index. The Hera share price also enters into the "Dow Jones Stoxx TMI" and "TMI Utilities", in addition to the ethical indices of "Axia Ethical Index" and "Kempen SNS Smaller Europe SRI Index".

Coverage of the share

The Hera Group currently has a "coverage" amongst the widest in the sector in Italy that confirms the interest generated from the financial market. Since the beginning of the year 11 independent analyst offices have regularly covered the Hera share (of which half international): ABN Amro, Actinvest, Axia (ethical analyst) Caboto, Credit Agricole Indosuez, Euromobiliare, ING, Intermonete Securities, Jefferies, IMI, Kepler, Rasbank, Unicredit Italiano; also added to this list in 2005 is Banca Akros.



Share structure

Hera S.p.A. has a widespread shareholding structure with over 150 different public shareholders (municipalities from the Emilia Romagna Region), approximately 300 Italian and international institutional investors and over 40,000 private shareholders. The absence of a controlling shareholder in Hera (the largest shareholder is the municipality of Bologna with approximately 19%) consists of a unique characteristic of the Local Utility companies.

Shareholder Structure

On June 26, 2004 the rights on the bonus share matured, guaranteed to private shareholders who held the shares assigned in the IPO for 12 consecutive months. The delivery of the bonus shares, by the public shareholders took place at the beginning of September and resulted in an increase in the free float by 8.7 million shares.

Following the merger by the incorporation of the company Agea, 46.7 million new Hera shares were issued. The total number of Hera ordinary shares is therefore increased from 793.2 million to 839.9 million shares.

Relations with the financial market

The relations with the market operators were closely followed by the company and resulted in the recognition of the award "Leone d'Oro" from the Milano Finanza daily newspaper and 3 other awards.

In particular, the Investor Relations of Hera maintained a close relationship with the institutional investors on the publication of the annual accounts, on the presentation of the new industrial plan and in relation to particularly significant events in 2004 (acquisition of the Ravenna Ecologic Centre and merger with Agea S.p.A.).

From a series of interviews with investors, with the purpose of feedback on the consensus on the strategy and operations of the company, elements emerged that justified the choices and the activities of Investor Relations undertaken by the Group.

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. In 2004, the web site of Hera obtained recognition from Halverson & Halverson for its access to disabled persons. ■

1.9 Notice of convocation of the Shareholders’ Meeting

HERA S.p.A.
Registered office at Bologna Viale C. Berti Pichat n. 2/4
Share capital Euro 839,903,881 fully paid in
Company Register Office at Bologna, Fiscal and VAT number 04245520376

The Shareholders are called to an Ordinary Shareholders' Meeting at la Sala Alpi, Via del Frullo (Granarolo dell'Emilia), on April 27, 2005 at the time of 11.00 am on first convocation and on April 28, 2005, at the same time and place on second convocation, to discuss and resolve the following:

Agenda

Financial statements at December 31, 2004, Director's Report on Operations and proposal for the allocation of the net profit and Report of the Board of Statutory Auditors: consequent deliberations;

Notice is taken to appoint the Board of Directors ex art.2449 of the Civil Code;

To appoint the non designated members of the Board of Directors ex art.2449 of the Civil Code;

To appoint the members of the Board of Statutory Auditors and Chairman;

To determine the remuneration of the members of the Board of Directors;

To determine the remuneration of the members of the Board of Statutory Auditors.

The reports on the matters and proposals on the Agenda, including the parent company and consolidated financial statements at December 31, 2004 and Director's Report on operations, have been deposited at the registered offices of the company and at Borsa Italiana S.p.A., in accordance with law and available to persons who may request a copy.

In accordance with article 17 of the Company By-Laws:

1. the outgoing directors and Shareholders, with the exception of Shareholders with rights as per art. 2449 of the Civil Code, that represents at least 1% of the shares having the right to vote at an Ordinary Shareholders' Meeting, have the right to present lists for the nomination of three members of the Board of Directors;
2. the above lists, in which the candidates must be listed in progressive order equal to the maximum number of members to be elected, will be made public through deposit at the company registered office and publication in three national newspapers of which two economic newspapers, at least 10 days before the Shareholders' Meeting;
3. each Shareholder may present and vote for only one list;
4. the votes in violation of this are not attributed to any list;
5. together with the lists must be deposited, under responsibility of the parties presenting the list, a professional curriculum of the candidates, irrevocable acceptance by the candidates (on condition of their appointment) and certification of no cause for ineligibility;
6. no candidate may be presented on more than one list and the acceptance of the candidate to more than one list renders the candidate ineligible.

In accordance with article 26 of the Company By-Laws:

1. Shareholders who, alone or together with other shareholders, represent at least 3% of the shares with voting rights at an Ordinary Shareholders' Meetings, have the right to present lists for the nomination of the members of the Board of Statutory Auditors. In particular, the Municipalities, Provinces and Consortiums in accordance with art. 31 of Legislative Decree 267/2000 will present a single list, while the other Shareholders have the right to present lists for a standing auditor and alternate auditor;
2. the above lists must not include a number above the number of members to be elected and lists must be by means of progressive numbering; each candidate can be presented on one list at the risk of being declared ineligible;
3. each Shareholder may present and vote only one list;
4. in the case of violation of this rule no consideration is taken on the vote of the shareholder on any list;
5. These lists must be made public through deposit at the company registered office and publication in three national newspapers of which two economic newspapers, at least 10 days before the Shareholders' Meeting;
6. within the terms fixed for the deposit, each candidate must deposit acceptance of their candidature and certify, under their own responsibility, the inexistence of any cause of ineligibility or incompatibility in accordance with law, as well as the requisites of honourability and professionalism prescribed by law for members of a Board of Statutory Auditors;
7. all those entitled to vote shall vote for only one list.

Shareholders in possession of the certificate given by the respective intermediaries in accordance with law have a right to intervene in the Shareholders' Meeting.

The shareholders or their proxy attending the Shareholders' Meeting may send by post or fax (number 051-287.244), to the legal affairs secretary of HERA S.p.A., a copy of the documentation certifying their right to intervene at the Shareholders' Meeting, at least three days before the shareholders' meeting held in first convocation.

The persons who are not shareholders and wish to attend the Shareholders' Meeting must do so in the same manner as for the shareholders.

Where the necessary quorum of the shareholders' meeting is not constituted in first convocation, the shareholders' meeting will be held in second convocation on April 28, 2005 at the time of 11am at la Sala Alpi, Via del Frullo n. 5 – Granarolo dell'Emilia (BO).

Bologna, March 17, 2005

The Chairman of the Board of Directors
(Tomaso Tommasi di Vignano)



2.1 Corporate events and Group structure

The year 2004 was characterised by intense corporate activity in relation to the rationalisation of the Group structure and in relation to targeted strategic acquisitions. Already during 2003 the corporate rationalisation process resulted in the disposal/liquidation/merger of some 28 holdings, inherited from the local utilities merged into Hera and not entering into the development strategies or core business of the Group. This process continued in 2004 with the disposal/liquidation of another 12 holdings, as well as the merger of 4 operating companies in the waste management sector.

Of particular importance was the sale to Enel of the 49% holding in Italgestioni and Italgestioni Gas, companies operating in the distribution and sale of gas in Calabria and Campania; this operation enters within the rationalisation initiatives and responds to the wishes of the Group to strengthen the activities in the regions in which it operates.

For the year 2005 further corporate rationalisations are planned relating in particular to the equity investments acquired with the integration of Agea/Acosea in Hera.

Commencing with the latter acquisition, the most important in the year just ended, the M&A operations carried out in 2004 are reported below.

Merger of Agea S.p.A. into Hera S.p.A.:

on December 14, 2004, with the signing of the public merger deed of Agea S.p.A. into Hera S.p.A. and the simultaneous spin-off of the water service business of Acosea S.p.A. in favour of Hera S.p.A., the final step was completed in the long path that began some 18 months beforehand with the acquisition through a public tender of 42% of Agea. This deed, effective as of December 31, 2004 with consequent share capital increase of Hera from 793.2 to 839.9 million shares, resulted in retrospective accounting and fiscal effects to January 1, 2004.

Acquisition of the Ravenna Ecologic Centre:

in data 16 ottobre 2004 con la firma del contratto tra Hera e Ambiente S.p.A., società controllata del Gruppo Eni, Hera è diventata proprietaria del 100% di Ecologia Ambiente; tale società, che ha apportato una dotazione impiantistica di livello europeo nel settore del trattamento dei rifiuti speciali, in particolare nella tecnologia della termovalorizzazione, consente al Gruppo di divenire un operatore leader a livello nazionale.

Acquisizione del 39% della società SET:

on October 16, 2004, with the signing of the contract between Hera and Ambiente S.p.A., subsidiary of the Eni Group, Hera became the 100% owner of Ecologica Ambiente. This company that is equipped with important plant at a European level in the sector for the treatment of special waste, in particular in relation to waste-to-energy technology, permits the Group to become a leading domestic operator.

Acquisition of 39% of the company SET:

on December 15, 2004 formal execution was given to the entry of Hera into the share capital of the company SET S.p.A., a subsidiary of the Swiss company Raetia Energie AG that is constructing a new combined cycle plant of 400 MW at Teverola (CE).

Acquisition of 15% of the company Calenia Energia:

on September 28, 2004 Hera formalised the acquisition of 15% of the share capital of Calenia Energia (of which it previously held 10% through the subsidiary Cales), a subsidiary of the Swiss company EGL AG that is constructing a combined cycle plant of 800 MW in the municipality of Sparanise (CE). This acquisition, similar to that relating to the company SET, constitutes for Hera another important step in the creation of a portfolio of production capacity capable of sustaining the sales objectives of electricity to the eligible clients in the area served.

Increase in the holding in Aspes Multiservizi S.p.A.:

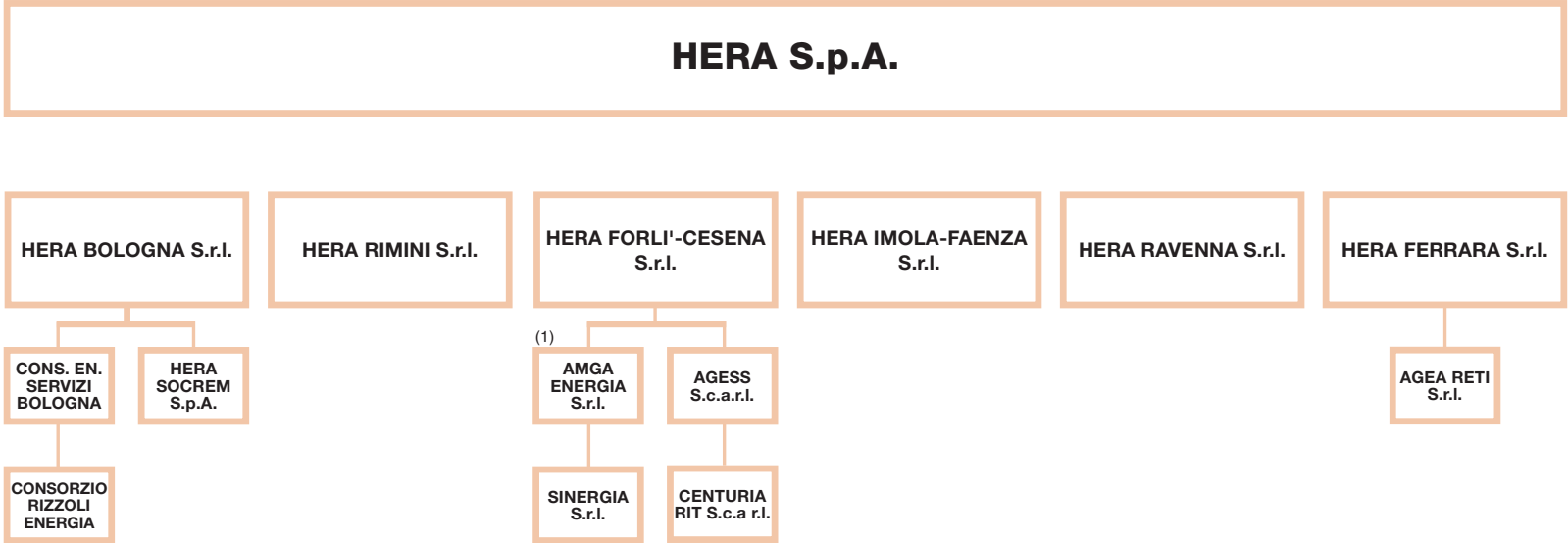
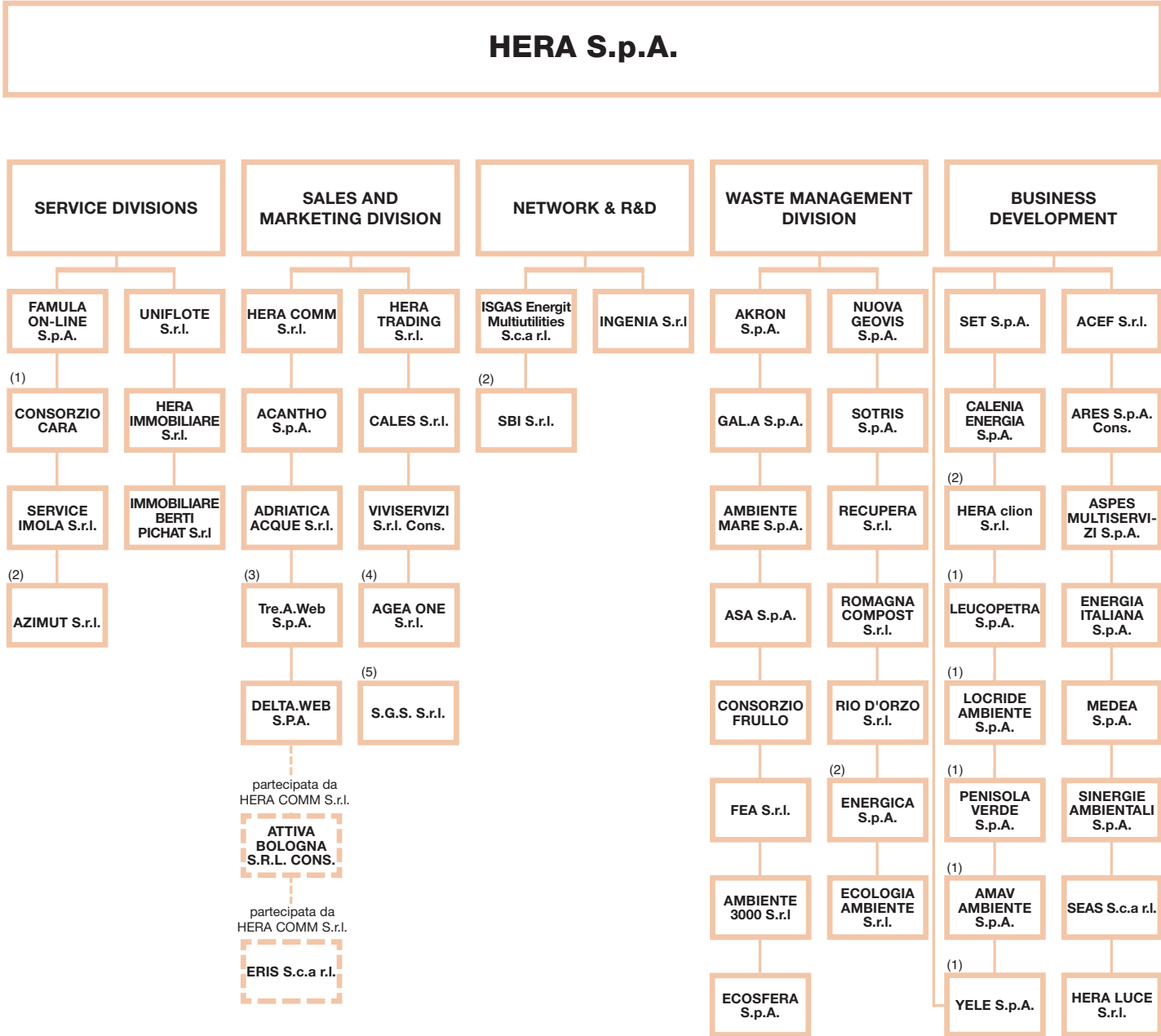
on September 14, 2004 Hera acquired a further 315,113 shares in Aspes Multiservizi, the company that provides energy and waste management services in the Pesaro region, increasing its holding from 24% to 26.874%. This acquisition is the first exercise of the PUT right in favour of the public shareholders, governed by a sales contract signed on September 19, 2002 between the public shareholders of Aspes Multiservizi and the then named SEABO S.p.A. that was awarded with a public tender a holding equal to 24% of the share capital of the company.

Entry of Infracom into Acantho:

on October 15, 2004 an agreement was signed between Hera, ConAmi and Infracom Italia, primary national operator in technological infrastructure and telecommunication services. Infracom acquired a quota of 48% in the share capital of Acantho, while Hera and ConAmi hold respectively 48% and 4% in the share capital. The Company Tre.A.Web will be integrated into Acantho in 2005, a company in which Hera inherited 29% following the integration of Agea.

Acquisition of 20% of SGR Servizi S.p.A. :

on November 10, 2004 an agreement was signed between Hera and the Società Gas Rimini Group for the acquisition by Hera of a holding of 20% in the company SGR Servizi, operating in the sale of gas in the provinces of Rimini, Pesaro-Urbino and Macerata. This therefore strengthens the partnership between the Hera Group and the SGR Group that already sees the purchases and trading of gas and has widened, with this operation, to the sales activity.



(1) Investments sold/to sell in the first months of 2005.
(2) Companies placed/to be placed in liquidation in the first months of 2005.
(3) During 2005 the integration operation will be completed of TRE.A.WEB S.p.A into Acantho S.p.A.
(4) During 2005, the integration operation will be completed of AGEA ONE S.r.l. into Hera Comm S.r.l.
(5) In 2005 the investment will be disposed of. It is also expected the disposal of the following investments Cispel Service S.c.a r.l., 4 Italy S.r.l. Energy & Environment, Acosea Impianti S.r.l., Consorzio Ferrara E-care, Ferrara T.U.A. - Traffico Urbano Autoparking S.p.A., Estense Global Service S.c.a r.l. and Consorzio V.E.R.A. Energia, acquired from the merger/spin-off operation of AGEA and ACOSEA into HERA S.p.A.

2.2 Performance of the Hera Group in 2004:

2.2.1 Results

The process of rationalisation and recovery of efficiency contained within the Group plans, which resulted in excellent results in 2003, continued in 2004 that recorded further improvements in the principal economic indicators, in line with the forecasts made at the beginning of the year and the industrial plan presented in September 2004.

The results of the Group include the extraordinary

integration operations of the companies of Ferrara, Agea S.p.A. and Acosea S.p.A., whose merger had effect from December 31, 2004 and fiscal and accounting effects retrospective to January 1, 2004 as well as the acquisition of 100% of Ravenna Ecologic Centre at the end of October and whose economic effects for the year 2004 are negligible.

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

euro millions	Dec 31, 03	%	Dec 31, 04	%	Change %
Revenues	1.221,5	91,8%	1.491,4	91,0%	22,1%
Other incomes	19,5	1,5%	27,8	1,7%	42,6%
Internal const. & work in progress	90,3	6,8%	119,8	7,3%	32,7%
Value of production	1.331,3	100,0%	1.639,0	100,0%	23,1%
Raw materials	(520,6)	(39,1%)	(619,6)	(37,8%)	19,0%
Services	(301,7)	(22,7%)	(407,8)	(24,9%)	35,2%
Use of third party assets	(58,2)	(4,4%)	(66,3)	(4,0%)	13,9%
Other operating charges	(15,9)	(1,2%)	(24,6)	(1,5%)	54,7%
Total operating charges	(896,4)	(67,3%)	(1.118,3)	(68,2%)	24,8%
Personnel costs	(192,4)	(14,5%)	(220,6)	(13,5%)	14,7%
Ebitda	242,5	18,2%	300,2	18,3%	23,8%
Ammort. depreciation & provisions	(129,7)	(9,7%)	(155,8)	(9,5%)	20,1%
Ebit	112,8	8,5%	144,3	8,8%	27,9%
Financial income and charges	(16,0)	(1,2%)	(20,4)	(1,2%)	27,5%
Extraordinary income and charges	(3,0)	(0,2%)	(3,8)	(0,2%)	26,7%
Adjustments to value of financial assets	(5,2)	(0,4%)	(3,0)	(0,2%)	(42,3%)
Pre-tax profit	88,6	6,7%	117,1	7,1%	32,2%
Income Taxes	(35,6)	(2,7%)	(55,1)	(3,4%)	54,8%
Net profit	53,0	4,0%	62,0	3,8%	17,0%
Profit pertaining to min. interests	(3,5)	(0,3%)	(5,3)	(0,3%)	51,4%
Profit pertaining to Group	49,5	3,7%	56,7	3,5%	14,6%

The **Value of production** as at December 31, 2004 increased by 23.1% from Euro 1,331.3 million to Euro 1,639.0 million compared to the previous year: this increase, in addition to the above-mentioned integration of the companies of Ferrara, was achieved with an increase in turnover in almost all of the business areas (Electricity, Integrated Water Cycle, Waste Management and Other Services), the Gas business recorded the expected reduction of the tariffs at the beginning of the year.

The increase was obtained 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 profitability on gas sales: The increase in revenues in this sector was approximately Euro 80 million.
- *Expansion into new municipalities and new services*
In the comparison between the two periods consideration is taken of the contribution from the consolidation of Ferrara, equal to approximately Euro 146 million (+8.9%) and the acquisition of further services in some municipalities which also have the scope of covering 100% of the ATO's in the Waste Management and Water sectors.

- *Organic growth in volumes*
In the Water and Gas businesses the organic growth continued relating to residential clients and in the Waste Management business the quantities of waste treated increased; for details reference should be made to the individual business areas.

In relation to the trend in the tariffs, as described in more detail in the analysis by business area, against increases in the Waste Management area there were significant reductions, as expected, in the Gas and Electricity Distribution areas. In relation to the Water cycle business, without the necessary CIPE resolutions, no tariff increases were applied to users in 2004.

The account **increase of internal constructions and work in progress** increased from Euro 90.3 million to Euro 119.8 million (+ Euro 29.5 million, equal to 32.7%) due to the entry of the companies of Ferrara and the consolidation, in 2004, of the Group organisational structure that provides that the operating investments on the distribution network are made by the Local Operating Companies with invoicing to the Holding.

In relation to costs, in addition to the obvious increase in the Raw Materials and Purchases related to increase in electricity volumes sold, there was also an increase in **Service costs** (+Euro 106.1 million, equal to 35.2%).

This account was impacted for almost 80% from the already mentioned consolidation of Ferrara and the increase in the transport cost of electricity whose greater volumes sold were transported on the networks of third parties. The remaining 20% is the balance between the higher costs from the increase in turnover, principally made through recourse to external contractors, and the operational efficiencies obtained on traditional services.

In the account **Other operating charges** (Euro +8.7 million, equal to 55%), it should be noted that, net of the Ferrara contribution, the increase is almost completely absorbed by the increase of special taxes on waste in favour of public entities (approximately Euro 4 million).

The **Personnel costs** increased from Euro 192.4 million to Euro 220.6 million principally due to the acquisition of Ferrara that resulted in an increase in the number of employees by over 600 (+ Euro 25.9 million). Net of this effect the increase would have been only Euro 2.3 million, equal to 1.2%, despite the renewal of the Federambiente National Contract in 2003 and that had an important impact also on the current year: this containment was made possible by the continuation of the efficiency measures in the utilisation of personnel.

The above-mentioned efficiencies permitted the reduction in personnel costs as a percentage of the Value of Production which reduced from 14.5% to 13.5%.

Thanks to the containment of the operating costs and despite the fact that the distribution tariffs decreased for gas and electricity and the fact that they did not increase for the water cycle, the Group Consolidated **Ebitda** increased by 14.1% net of the consolidation of Ferrara and 23.8% with its integration, from Euro 242.5 million to Euro 300.2 million fully in line with the forecasts.

The synergies achieved permitted an increase in the Group margins that, net of the Ferrara contribution, would have resulted in an improvement in the Ebitda percentage on the Value Production by 0.6 percentage points from 18.2% in 2003 to 18.8% in 2004.

The improvement is even more marked at **EBIT** level, that increases to Euro 144.3 million compared to Euro 112.8 million in the previous year (+27.9%): net of the consolidation of the companies of Ferrara the increase would have been 18.0%, with an increase on the percentage of the Value Production of 0.5 percentage points to 9.0%.

Euro millions	Dec-31-03	%	Dec-31-04	%
Intangible assets	360,8	26.9%	379,5	24.6%
Tangible assets	909,8	68.0%	1,167,3	75.8%
Financial assets	156,7	11.7%	175,6	11.4%
Total fixed assets	1,427,3	106.6%	1,722,4	111.8%
Net working capital	88,9	6.6%	56,7	3.7%
(Provisions)	(177,4)	(13.3%)	(238,8)	(15.5%)
Net capital employed	1,338,8	100.0%	1,540,3	100.0%
Net Equity	894,5	66.8%	979,0	63.6%
Long term debt	352,1	26.3%	498,8	32.4%
Net short-term position	92,2	6.9%	62,5	4.1%
Net financial position	444,3	33.2%	561,3	36.4%
Total source of financing	1,338,8	100.0%	1,540,3	100.0%

The **Amortisation, depreciation and provisions** recorded an increase of 20.1% (+10.6% net of Ferrara), from Euro 129.7 million to Euro 155.8 million, which as a percentage on the value of production decreases from 9.7% to 9.5%, despite the strong commitment of the Group to invest in production investments in 2004.

The **Financial management**, taking into account the adjustments to financial assts, recorded a negative balance of Euro 23.4 million compared to Euro 21.2 million in 2003. Against an increase in financial charges, from Euro 16.0 million to Euro 20.4 million, in line with the increase in the debt and the consolidation of the net financial position of the companies of Ferrara, there was a reduction of over 40% in the losses deriving from holdings in non-consolidated companies.

The **Extraordinary charges** are substantially in line with the previous year increasing from Euro 3.0 million to Euro 3.8 million, with a percentage on the Value of Production of 0.2%.

The year 2004 thus closed with a **Pre-Tax Profit** that increased from Euro 88.6 million to Euro 117.1 million, an increase of 32.2% compared to the previous year.

The **Income taxes** for 2004 amounted to Euro 55.1 million with a percentage on the Value of Production of 3.4% and 47.0% on pre-tax profits. Taking into account that the previous year benefited from a fiscal recovery of approximately Euro 8.3 million the tax rate improved by approximately 3 percentage points.

The **Net profit** for the year 2004 was equal to Euro 62.0 million compared to Euro 53.0 million in the previous year with a percentage increase of 17%: excluding the above-mentioned fiscal benefit in 2003 the increase would have been above 38%.

The **Net profit pertaining to the group** increased from Euro 49.5 million to Euro 56.7 million in 2004 with a percentage increase of 14.6%: the minority interest share increased (from Euro 3.5 million to Euro 5.3 million) in 2004 thanks to the improved results in some of the consolidated companies not wholly owned, in particular Fea S.r.l. Also in this case, net of the relative fiscal effect in 2003, the increase would have been much higher.

Below is shown a reclassification of the Group balance sheet at December 31, 2004 compared with the results in 2003 that shows the evolution of the net capital employed and the source of financing:

The net capital employed increased at December 31, 2004 by Euro 201.5 million from Euro 1,338.8 million to Euro 1,540.3 million. The return on Investment (ROI) increased from 8.4% in 2003 to 9.4% in 2004, despite the fact that some important investments have not yet fully contributed to the operating result: the new waste-to-energy plant at Bologna and the plants at the Ravenna Ecologic Centre in fact only contributed to the result for the year in the final quarter.

The financial assets, considering the full consolidation of Ferrara and the sale of the equity holdings in Italgestioni and Acosea Impianti, increased by over Euro 12 million in relation to:

- share capital increase in Tirreno Power relating to the plant re-powering of the electricity production plants;
- 39% acquisition of Set, company that is constructing the 400 Mw plant at Teverola (CE);
- increase in the holding from 10 to 15% in the company Calenia Energia that is currently constructing the 800 Mw plant at Sparanise (CE);
- increase in the holding in Aspes Multiservizi Pesaro

The tangible and intangible fixed assets at December 31, 2004 totalled Euro 1,546.8 million, an increase of Euro 276.2 million compared to December 31, 2003, relating to the integration of the companies of Ferrara, to the acquisition of the Ravenna Ecologic Centre and to the investments detailed in the following paragraph.

	Dec-31-03	Dec-31-04
Non-current securities and other financial receivables	0.3	18.9
Receivables for loans covered by state transfers	0.3	-
Bank payables-long term	(352.6)	(517.7)
Medium/long-term debt	(352.1)	(498.8)
Short-term bonds payable	(5.2)	-
Other financial receivables/payables	4.4	1.4
Bank payables-short-term	(194.1)	(270.7)
Cash in banks and on hand	92.7	172.4
Current financial assets	9.9	34.5
Net short-term debt	(92.2)	(62.4)
Total net debt	(444.3)	(561.3)

Confirming the solid economic structure and asset backing of the Group the rating A+ on the long term was attributed by Standard & Poor's.

Investments

The operating investments of the Group, net of capital contributions and disposals (equal to approximately Euro 8.7 million), and without considering assets in leasing (treated applying IAS criteria), amounted to Euro

(Euro millions)	Dec-31-03	%	Dec-31-04	%
Gas area	21.4	10.2%	23.4	11.6%
Electricity area	2.7	1.3%	3.8	1.9%
Integrated water cycle area	54.8	26.0%	67.1	33.2%
Waste management area	77.4	36.8%	36.4	18.0%
Other services	23.5	11.2%	29.4	14.5%
Central structures	30.8	14.6%	42.1	20.8%
Total	210.6	100.0%	202.2	100.0%

The net working capital decreased from Euro 89.2 million to Euro 56.7 million despite the significant increase in turnover. In 2004, also thanks to the progressive rationalisation and integration of the information systems, the credit management activity was intensified.

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, that increased from Euro 894.5 million to Euro 979.0 million includes the share capital increase of Euro 46.7 million on the entry into the shareholding of the company of the Municipalities relating to the integration operation with Ferrara.

Thanks also to the above-mentioned working capital policy, the net financial position increased from Euro 444.3 million at December 31, 2003 to Euro 561.3 million at the end of 2004, confirming the capacity of the Group to sustain the important investments planned.

The solid asset backing of the Group illustrates, in addition to the favourable debt ratio on the total sources of financing equal to 36.6%, also the increase in the quota of financing covered by medium/long-term debt that increased from 79.2% to 88.9% of the total financing from third parties.

Below is shown the detailed analysis:

202.2 million compared to Euro 210.6 million in the previous year. If it is considered that this amount also includes the investments of the companies of Ferrara, of approximately Euro 21.1 million, the net operating investments of similar consolidation area would have been Euro 181.1 million, a decrease of 14%.

Below are listed the investments divided by business area made in 2004.

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 2004, in which the work was completed, the amount was less than Euro 4 million.

Integrated water system (Ferrara)	Dec-31-03	%	Dec-31-04	%
Aqueduct system	38.9	71.0%	43.2	64.4%
Sewerage/purification system	15.9	29.0%	23.9	36.6%
Total	54.8	100.0%	67.1	100.0%

The civil aqueduct network managed by the Group increased from 18,000 to 20,700 kilometres (+15%): net of the Ferrara network the amount of kilometres were 18,300 (+1.7%).

In relation to the Waste Management area the waste-to-energy plant at Bologna was completed and whose contribution to the quota of investments in the period decreased from Euro 55.5 million to Euro 12.3 million in 2004. The plant, that has a waste treatment capacity of 180 thousand tonnes/year benefits from CIP 6 authorisation for the 20 Mw installed electricity generation capacity.

In 2004, the activities relating to the construction of the new waste-to-energy plant at Ferrara (Canal Bianco) commenced.

(Euro millions)	Dec-31-03	%	Dec-31-04	%
Buildings	2,8	9,1%	5,5	13,1%
Information systems	16,8	54,5%	24,4	58,0%
Other investments	11,2	36,4%	12,2	29,0%
Total	30,8	100,0%	42,1	100,0%

In relation to the buildings, new offices were constructed at Rimini (approximately Euro 1.5 million) and the rationalisation of the real estate assets continued, that in 2004 resulted in the first disposals of approximately Euro 1.7 million.

The year just ended also saw the activity relating to the organisational and operational improvements with the Group strongly involved in the improvement of its

In relation to the Gas area the investments, that include Euro 5.3 million relating to the methane network at Sassari made through the subsidiary Medea, principally relate to extraordinary maintenance, reclamation and extensions (including new connections) of the distribution network.

In the Other Services area the increase was substantially related to the integration of Ferrara that saw important investments especially in the District Heating and Heat Management areas. Overall in this sector the investments of the Group amounted to approximately Euro 8.9 million and related to the maintenance, reclamation and extension of approximately 185 kilometres of distribution network.

The investments continued in 2004 relating to the Regional Telematic Plan that, net of the relative contributions, amounted to approximately Euro 9.8 million. The residual amount related to investments on the public lighting network and plants (Euro 2.8 million) and in the cemeterial services (Euro 2.1 million) in addition to other investments relating to minor services.

The investments of the central structures related to the following.

information systems. In particular it is noted the development of the new customer system which, in addition to being integrated with SAP/R3, will permit further organisational and commercial efficiencies (SAP/ISU and CRM of Siebel). The new system is operational in the Rimini area, installed at Bologna and Ravenna and, by 2005 will be activated in all of the territory of the Group including Ferrara. ■

2.2.2 Regulatory framework
Principal modifications in the regulation of the markets

1 Energy (electricity and gas)

1.1 Legislation

With the final approval and publication in the Official Gazette, on September 13, 2004, of the law on the reorder in the energy market, the legislation on the electricity and gas sector has changed considerably.

The concluding opening of competition on the electricity market for domestic clients has been brought forward to July 1, 2007; further accelerations may be decided by the Government in relation to legislation on competition. There is confirmation of the provision, anticipated by the European directive 55 of 2003 ("Common regulations for the internal gas market", that substitutes the previous 98/30/EU), of the principle of the regulated access of third parties to importation, re-gasification and natural gas transport infrastructures: the companies that invest in new infrastructures can reserve, for 20 years, 80% of the capacity.

The reorder law concerns the residual duration of the concessions for the distribution of natural gas, extending to 2007 the maximum duration of the transitory period, previously fixed at 2005, at the end of which the local entities will consider tenders for the awarding of the concessions, and rescind the cumulative benefits that the legislative decree 164 (Letta decree) of May 23, 2004, recognised to the companies that increased their size and area served.

The combined abolition of the benefits accumulated and the extension of the transitory period however leaves unaltered the residual duration of the concessions for those companies that, like HERA, could avail of the benefits contained in the Letta decree. This residual duration, therefore, can be extended by a year "for reasons of public interest" with the agreement of the local conceding public body. It is added that an interpretive circular of the Productivity Ministry clarified the nature of "acquired right" to the accumulation contained in the Letta decree, where this was matured at the date of entry into force of the new law; according to this interpretation the transitory period will conclude for HERA in 2011, net of any further one year concessions for public interest.

The whole matter of the residual duration of the gas distribution concessions is the subject of a dialogue between regulators and companies instituted by the Productivity Ministry (so-called "Dell'Elce table"), that will clarify the technical and legal aspects.

Among the new aspects introduced by the reorder law is the attribution of the green certificates to district heating for the quota of energy distributed by the co-generation plants in the form of heat.

In relation to green certificates, it is noted that the final approval of the environmental law, that assigns to the Government the responsibility to review the incentives for renewable sources including through the extension of the period of the benefit of the certificates to 12 years from the current 8 years.

In line with the European community principle of the integration of the environmental policies with those relating to energy, the Government has reviewed the legislation in relation to energy efficiency obligations by the distributors (that in 2005 must achieve primary energy savings of 0.2 million tonnes of petroleum equivalent through the mechanism of the "energy efficiency certificates") and presented to the European Commission the national allocation plan of the emission permissions contained in the "emissions trading" directive enforced since January 1, 2005.

In both cases, the obligations in relation to environmental compatibility are in line with a market organisation that permits the utilities to value efficiency gains and the reduction of emissions compared to minimum obligatory standard; in addition to resulting in, compared to purely administrative obligations, greater flexibility in the programming of the plants and of the production "mix", the market instruments contained in the Kyoto protocol offer to the companies significant opportunities to create value.

1.2 Regulations and tariff framework

In virtue of the end of the first regulation period, in 2004 the Authority for electricity and gas issued important revision regulations on the tariffs.

The principal aspects introduced for "the provision of transmission, distribution, sales and measuring of electricity services" consisted in the introduction of a specific company equalisation regime with integration of a general equalisation mechanism; the objective of the equalisation regime is to ensure an appropriate integration of the revenues for the distributors of electricity that incur excessive costs compared to the levels of coverage guaranteed by the national single tariff.

The tariff reform in the electricity sector superimposes the full operation of the "electricity exchange" contained in the Bersani decree; the exchanges, that began on April 1, 2004, resulted in a persistent high level of prices that resulted in the Authority undertaking an investigation into the abuse of dominant positions.

With the entry into function of the exchange, the previous procurement mechanisms of the distributors were substituted by the obligation to acquire energy destined for non-eligible clients from the Single Purchaser.

1.2.1 The tariff framework for natural gas and electricity

The second half of 2004 was characterised by an intense activity of legislation by the Authority for electricity and gas, that reformed the distribution tariffs for the period 2005-2008 (the previous tariff period concluded in June 2004), and related to the adjustment criteria of the "raw material" component to the variations of the prices of primary sources.

The resolution 170/04 of September 30, that defines the new criteria "for the determination of the tariffs for the natural gas distribution activity", would result in a total reduction of 6.3% in the distribution tariffs with an average impact on the final tariffs of a little over 1%.

The resolution 248/04 of December 30 introduced important changes to the method of updating the natural gas supply tariffs, with the objective of containing the changes in relation to significant movements in the quotation of combustible fuels. The regulation redefines the indexing criteria of the raw material component to the quotation of petroleum products present in the reference basket and modifies, with effect from January 1, 2005, the variable wholesale commercialisation payment. The increase of the final tariffs avoided with this regulation, would amount according to the valuation of the Authority, to 3.7%

For both the resolutions, operators and associations brought actions to the regional administrative Courts that found in favour of companies.

While awaiting the final pronouncement by the Council of State, to which the Authority made recourse to obtain the cancellation of the regulations, the distribution tariffs reformed by resolution 170 were applied (for which the Authority obtained from the Council of State the suspension of the cancellation made by the TAR), while in relation to the supply there was the normal quarterly updating without considering the regulation 248/04, suspended until the pronouncement expected in June.

In relation to the electricity tariffs the containment is recalled which was due to the purchases made by the Single Purchaser, of the increases of the wholesale energy prices despite the important increase in crude oil prices and the evolution of trading on the exchange (as per previous paragraph).

The increases in the electricity tariffs expected for the first half of 2005 compared to the previous tariff are quantified by the Authority as 1.5% gross of the taxes for the domestic sector (1.7% net of the taxes). On an annual basis, the increase in the electricity tariff for the domestic sector amounts to 1.2% nominal, equal to a reduction in real terms of almost 1 percentage point.

1.3 Regulations and procurement policy

The commencement, from January 1, 2005, of the active participation of demand in the trading of the electricity exchange does not appear to have had particular effects on the formulation of prices. In the first month of the year, there was an average national purchase price, weighed on consumption, higher than the average price recorded during the first six months of trading (68.16 €/MWh compared to 57.88 €/MWh in the period April-September).

To counter the persistent formation of a high level of the price on the day before market and promote competition between producers, the Authority intervened at the end of 2004 with new regulations for participation in the market. The monitoring of the behaviour of the operators was created based on certain indicators that analyse the offers presented, both in terms of price and associated quantities. There remain "structural problems" of an exchange mechanism that, as evidenced by the investigations of the Authority, permit the formation of dominant positions in the different geographic areas, and limited by scarce effective liquidity and do not permit the exchange of financial derivative products.

In the gas sector the old debate on the "structural bottleneck" in the top end of the chain entered into a decisive phase. Following the conclusions of the joint report of the regulation Authority and antitrust Authority of June 2004, that evidenced the negative effects on the development of the market of the dominant position of the ENI Group, the Authority for electricity and gas presented, with specific notifications to the Government and to Parliament, some concrete proposals for the greater opening of the market with effective competition.

The proposals presented by the Authority included the reduction of the holding of ENI in Snam Rete Gas and STOGIT up to 5% of the share capital, the transfer to Snam Rete Gas of the ownership rights, concessions and transport currently held by the Eni Group for the management of the interconnections (except for the execution of contracts in force), the sale to third parties of part of the long-term importation contracts and part of the national production of the ENI Group and the temporary extension of the antitrust limits (to-date planned up to 2010).

The proposal of the Authority is within the context of considerable dynamism for the completion of the internal natural gas market, that is founded on two shared "pillars": the knowledge that the formal opening to competition must be accompanied by structural regulations that limit the market powers of the dominant companies and the necessity to increase the interconnection capacity available to the operators. In this context there are, therefore, the presentation of important construction programmes of new gas importation infrastructures (among these, the GALSI project for a new Italy – Algeria gas duct).

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

2.1 Legislation

With the sentence of July 27, 2004, the Constitutional Court finally clarified the prevalence of the State and European community laws over regional laws in relation to competition and, thus, the residual duration of the local public services awarded directly by the local entities.

It follows the right of the companies quoted on the stock exchange to have recognised the original duration of the concessions awarded to them, where this does not exceed the average duration of the concessions awarded by tender in the sectors.

Following the intervention of the Court, the Environmental Ministry intervened with circulars in the awarding of the so-called "in house" concessions, one of the operational models (with the tender for the attribution of the capital of the ex municipal companies) that permits, also in the new regulations, the direct awarding and non competition of the service. In line with the spirit of the regulation and European law, the Minister clarified the "exceptional" and residual nature of the "in house" direct awarding, for which it is always necessary to delimit the management to the local entities served and to the type of service contemplated.

The important innovation in the constitutional legislation was not reflected in an acceleration of market reforms that commenced with the revision, in 2000, of the law on the governing of the local bodies.

Despite the entry in force, from July 2004, of the normalised method of calculation and the application of the water tariffs, the CIPE has not yet pronounced on the tariff adjustment that should have preceded the commencement of the new method.

For the purpose of this adjustment the report of the technical valuation (NARS), preparatory to the CIPE resolution and currently under review at the Economy Ministry, provides for important tariff increases based on the efficiency of the management and the state of the networks. The CIPE resolution, that must necessarily have retroactive effect to cover the tariff income in the period between June 30, 2004 and July 1, 2005, will result in an adjustment at least in line with inflation.

An important debate is therefore ongoing on the structural reform of the tariff system for the integrated water sector that has demonstrated significant limits in the realisation of the tenders for the awarding of the services, notoriously of little interest due to the limited remuneration of the investments.

Progressive limits were also recorded in relation to the environmental hygiene services, for which the finance act for 2005 has once again postponed the full application of the tariff method to fully cover the costs contained in the Ronchi decree and subsequent DPR 158/1999. This appears in contrast with the environmental law approved by the Parliament that assigns to the Government the responsibility to define the tariff reform for urban hygiene services in a short time frame.

2.2 Regulations and tariff framework

The Romagna regional law 25/1999, implemented by the Ronchi decree (waste) and by the Galli law (integrated water service), fixed to December 20, 2004, the date of agreeing the conventions for the regulation of the technical/economic aspects of the management.

HERA, that in all of the areas in which it operates has obtained the qualification of "safeguarded operator" based on the efficiency and cost characteristics in the operations, has concluded the signing of the convention documents with the local Agencies (sub-entered to the municipalities by effect of law 25/1999) of Bologna, Ferrara, Rimini, Pesaro, Forli-Cesena and Ravenna (for these latter two the convention must be defined for the waste management service). The definition of the conventions for the waste management service with the Agency of the Ravenna province and that of the province of Forli-Cesena is expected by April 2005.

The conclusion of the conventions represents a fundamental element in the development of the management and in its conformation to shared cost criteria, responding to the needs and uniformity of the services in each territory served; it is important to underline that, in accordance with the law, at the same time as defining the conventions that regulate the management of the services, the local Agencies adopted the respective area Plans, planning instruments that the

national and regional legislation provide for the protection of the efficiency of the service and of the quality provided to citizens. Delays or difficulties in the implementation of the conventions negatively impact on the preparation of the planning instruments and, in the final analysis on the modernisation and on the efficiency of the services.

The conclusion of the conventions, at the same time as the approval of the area plans by the relevant Agencies, consent:

- the stabilisation of the contractual conditions, particularly important in sectors with high investment needs
- the precise definition of the qualitative and quantitative levels of services
- the tendency of uniformity in services, of the qualitative levels and of the tariff structures in each Area, in accordance with regulations and the expressed wishes of the parties
- the quantification, for regulatory periods of three–four years, of a certain flow of tariff revenues and the planning of investments, in respecting the forecast plan in relation to improving existing services, to their extension and to the planning of new services.

Particularly important is the fact that in the definition of the conventions and the payments in the waste management sector, reference was taken of the tariff method even though some municipalities still avail of the taxation method (TARSU) for the financing of the operation. HERA has also commenced, together with the area Agencies and with the municipalities concerned with the passage to tariffs, specific projects for the future management of the tariff system (that provides for the acquisition and the normalisation of the data banks, the calculation of the payments based on consumption levels contained in the law, implementation of the invoicing system), including the computerisation of the procedures and their coordination with other tariff information.

2.2.3 Tariffs

1. Gas distribution: tariff framework

The year 2004 was a year of transition for the tariff system that regulates the gas distribution with two distinct regulatory periods:

- the first period, that commenced in 2001 and concluded in September in 2004, provided (resolution AEEG 237/00), in order to determine the revenues of the Distributor, a remuneration of the capital invested equal to 8.8% and a programmed productivity recovery equal to 3% applied on all the costs permitted in the binding calculation (including the remuneration of the capital invested);
- the second period, commenced in October 2004, provides (AEEG resolution 170/04), on the other hand, a remuneration of the capital invested equal to 7.5% and a programmed productivity recovery

equal to 5% applied only on the operational costs recognised. The impact on the distribution revenues expected by the new tariff system appears to configure a decrease in the first thermal year of application equal to 6/7%.

In 2004, following the resolution 237/00, 170/04 and 104/04 there was thus three distinct periods:

- January - June (last half-year of thermal year 03/04): with application of the 2003-04 tariffs;
- July - September (extension of the thermal year 03/04 as per AEEG resolution 104/04): with application of 2003-04 tariffs, maintaining to June 30 the cancellation of consumption, for the purposes of the allocation of different consumption levels;
- October - December: with the application of the 2004/05 tariffs defined in accordance with resolution 170/04 that provides, in addition to the different remuneration of the capital invested and of the price cap admitted, the determination of the new consumption levels and a different balancing between the fixed and variable component of the tariff.

In February 2005 the TAR of Lombardy suspended, accepting the recourse of some distributors, resolution 170/04. The Council of State activated by AEEG

Gas distribution	2003	2004	%
Hera without ex AGEA			
Revenues Mln of €	100,7	99,8	-1%
Volumes Mln mc	1661	1690	2%
Avarage tariff (€/mc)	6,1	5,9	-3%
Hera with ex AGEA			
Revenues Mln of €		113,3	
Volumes Mln mc		1912	
Avarage tariff (€/mc)		5,9	

The positive effect relating to the 4th quarter of 2004 will be reabsorbed in the 1st quarter of 2005 (2nd quarter of the thermal year 04/05) resulting in a net reduction in the following half-year of the distribution revenues on an annual thermal basis equal to approximately Euro 6-7 million in line with the expected impact (already included in the budget 2005) from the application on an annual basis of the new tariffs.

2. Electricity Distribution: tariff framework

Also for the tariff system that regulates the electricity distribution, 2004 was a transition year that saw two distinct regulatory periods:

- the first, that commenced in 2000, concluded in January 2004 provided for (AEEG resolution 228/01):
- a distribution tariff for clients other than domestic including all of the services provided by the Distributor (transmission, distribution, measurement and commercialisation);
- the application to domestic clients of the obligatory tariffs D2 (residents) and D3 (non residents) and, while awaiting the definition of the subsidised regime for domestic clients in economic difficulty (social

on this suspension, while awaiting to examine the reasons for the TAR suspension, pronounced in favour of a continuance solution in application of the tariff regime in force and decreed the suspension of the TAR sentence and the consequent application of resolution 170/04. The Financial Statements of Hera for the year 2004 therefore reflect the effects of Resolution 170/04.

In this context the gas distribution revenues in 2004 were equal to approximately Euro 113 million of volumes distributed equal to approximately 1.9 million cubic metres with an average unitary tariff of Euro 5.9 cents/mc.

For the purposes of comparison with 2003 the revenues in parity consolidation area (excluding ex Agea) were equal to approximately Euro 100 million (-1% vs 2003) with volumes distributed equal to approximately 1.7 million cubic meters (+2% vs 2003). The year 2004 therefore saw a decrease in the average unitary tariff of 3% deriving from the combination of two effects:

- the substantial decrease of the 03/04 Tariffs compared to the 02/03 Tariffs (-7%);
- the positive effect generated by the new 04/05 Tariffs (+4%) applied on the final quarter of 2004.

tariff), the creation of the base tariff D1 not applied to final clients;

- a programmed level of productivity recovery (X-factor) equal to -4% annually;
- the second, in force since February 2004 provides for (AEEG resolution e/04):
- the inclusion of the distribution tariffs for non domestic clients of the components relating to the transmission, measurement and commercialisation services, transferred onto the sales tariff and applied only to clients on the eligible market (with significant level variations of the tariff in 2004);
- the commencement of the general equalisation of revenues, obtained from the application of the D2 and D3 tariffs to domestic clients, utilising as reference the D1 tariff;
- the transfer of the sales quota of the component to cover the costs of transport, carried out by the Single Purchaser with the start up of the electricity exchange;
- a programmed level of productivity recovery (X-factor) equal to 3.5% annually for distribution and 2.5% annually for transmission.

In this context, of substantial discontinuity for the electricity distribution in terms of inclusion of the tariff components and application of the coefficients of

Elettricity Distribution	2003	2004	%
Revenues Mln of €	10,3	10,0	-2,9%
Volumes Mln Gwh	509	536	5,4%
Avarage tariff (€/Kwh)	2,0	1,9	-7,8%

The year 2004 therefore recorded a decrease in the average unitary tariffs slightly lower than 8%. This decrease resulted from the combination of three factors:

- 1.3% effect from the application of AEEG resolution (balance effect of the price cap and recovery of costs);
- 3.7% for changes in the distribution mix originating from an increase in the distribution of medium and high voltage (+10%) against a slight decrease in the low voltage volume distributed which have higher average tariffs (Euro 3.8 c/kwh vs Euro 0.9 c/kwh);
- 2.8% effect from the dilution of the fixed distribution component (approximately 50% of revenues) against higher volumes sold (+5%).

3. Integrated water cycle: tariff framework

The tariff regulations in the integrated water cycle-sector have not seen changes for the Hera group since June 2003; in particular:

Water cycle	2003	2004	%
Hera without ex AGEA			
Revenues of Mln of €	212,3	217,6	2,5%
Volumes Mln mc	180,4	184,6	2,3%
Avarage tariff (€/mc)	1,18	1,18	0,1%
Hera with ex AGEA			
Revenues Mln of €		243,2	
Volumes Mln mc		205,5	
Avarage tariff (€/mc)		1,18	

For the purposes of comparison with 2003, the revenues of parity area (excluding ex Agea) are equal to approximately Euro 218 million (+2.5% vs 2003) against volumes sold equal to approximately 185 million cubic metres (+2.3% vs 2003). The year 2004, therefore, recorded an average increase in unitary income of 0.1% deriving from the combination of three factors:

- +0.6% due to the effects deriving from the application of the CIPE increase expected for the period June 03 – July 04 and not fully received in 2003;
- +0.4% due to the completion of the water cycle in municipalities where the aqueduct service was already provided (extension of the sewerage

plant productivity recovery, the revenues in 2004 were equal to approximately Euro 10 million (-3% at parity of tariff area), with volumes distributed equal to approximately 536 GWh (+ 5% vs 2003).

- the adjustment expected of the tariffs for the period July 2003 – June 2004 were not established by CIPE; the size of this adjustment, that for Hera in the previous 12 months was equal to 3.6%, is dependent on the efficiency of the management and of the state of the networks and in any case not lower than the recovery of inflation; on the basis of this criteria an increase of 2% is considered probable;

- the application of the normalised method for the determination of tariffs, initially expected from July 2004, will in fact only commence from January 2005.

From January 2005, the increased tariffs will enter in force as defined in the agreements with the ATO's that provides for a progressive tariff recovery with the objective of remunerating the capital invested in line, commencing from 2008, with that defined by the normalised method. With the commencement of the new tariffs, the ATO's will also undertake a progressive unification process of the tariffs (structure and amount) at each ATO level.

The revenues from the integrated water cycle of the Group for 2004 were equal to approximately Euro 243 million against volumes of water sold equal to approximately 206 million cubic metres with an average unitary tariff of Euro 1.18 per cubic metre.

services in 7 municipalities and purification service in 2 municipalities);

- 0.9% due to higher consumption levels at lower unitary tariffs.

4. Urban hygiene: tariff framework

In 2004 the urban hygiene service was provided in the region to 111 Municipalities in application of the Ronchi Decree on a completely non uniform basis.

The year 2004 should have been, as provided for by the Ronchi decree and by the subsequent DPR 158/1999, the year for the commencement of the

application of the urban hygiene "tariff" and full application of the normalised method in the determination of the revenues for the operator of the service. The signing of the conventions with the area Agencies expected for 2004, however, took place in the first months of 2005 for all of the ATO's except those of Forlì-Cesena and Ravenna expected in the coming months.

In this context 2004 was characterised:

- by the application of the tariff only in 30% of the municipalities served, corresponding to 48% of the population served (all of the Regional capitals with the exception of Bologna changed to tariffs), in line with 2003;
- by the presence of largely non uniform situations in the application of the normalised method for the

Urban Env. services	2003	2004	%
Hera without ex AGEA			
Revenues Mln of €	194,3	213,4	9,8%
Inhabitants served (000)	1770	1791	1,2%
Avarage revenues per inhabitant (€)	110	119	8,5%
Volumes collected per inhabitants (kg)	631	650	3,0%
Hera with ex AGEA			
Revenues Mln of €		236,8	
Inhabitants served (000)		1924	
Avarage revenues per inhabitant (€)		123	

For the purposes of comparison with 2003, the revenues in parity area (excluding ex Agea) were equal to approximately Euro 213 million (+9.8% vs 2003) against an increase in the population of 1.2% and result in an increase in the average unitary revenue per inhabitant served equal to 8.5% deriving from a combination of three components:

- +2.6% higher revenues to cover costs incurred against higher volumes collected per inhabitant (+3.0%);
- +2.0% effect of the greater services requested by the Municipalities;
- +3.9% effect of the higher "prices" practiced, including the inflation recovery, of the partial commencement of the recovery of the misalignment between revenues deriving from the application of the normalised method and that effectively received, and from the reduction of the evasion in the Municipalities already on a tariff basis.

(Euro millions)	Dec-31-03	Dec-31-04
Ebitda Gas area	99.7	108.8
Ebitda Hera Group	242.5	300.2
In percentage terms	41.1%	36.2%

In 2004, the percentage of the Gas sector decreased by almost 5 percentage points in favour of the other business areas of the Group, in line with the plan

determination of the revenues that resulted in significant gaps between expected revenues and effective revenues, only marginally recovered during 2004 (urban hygiene is the only administrative service provided by Hera with average unitary revenue growth above inflation).

The year 2004 saw a progressive increase in the services requested by the municipalities and an increase in the volumes collected equal to 5% (+1% for population increase and +4% for greater production) with an increase in the differentiated collection of an average 27% from 2003 to 28% in 2004.

The revenues from the urban hygiene management of the Group, including the Ferrara area, were equal to approximately Euro 237 million with an average revenue per inhabitant served equal to Euro 123/inhabitant.

2.2.4 Analysis by Business Area

In order to provide more detailed information on the results of 2004, an analysis is provided of the results by business sector. The composition and 2003-2004 evolution of Revenues and Ebitda are 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.

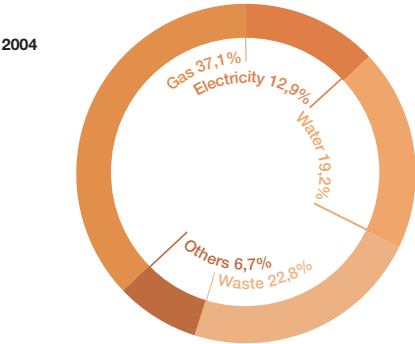
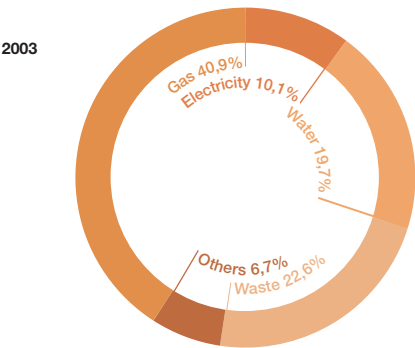
Gas Area – Distribution and sales activity

Importance of the Gas business for the Group

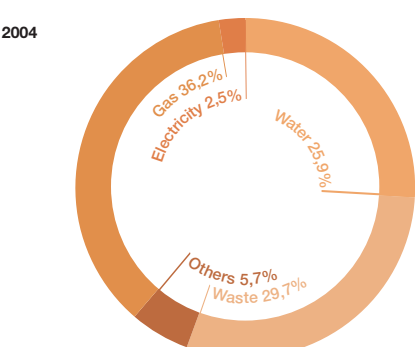
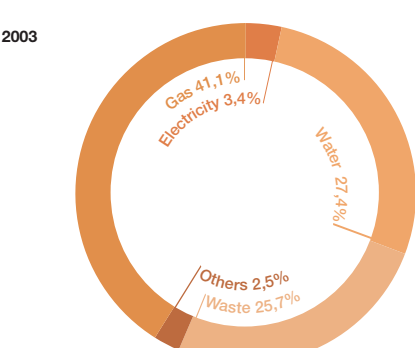
Below is shown the importance of the business compared to the Group:

forecasts, confirming the validity of the multi-business model of Hera that permits the compensating of contrasting performances in the single businesses.

REVENUES



EBITDA



Results in the Gas business

During 2004, the favourable climatic trend permitted higher gas volumes than those in the previous year

(Euro millions)	Dec-31-03	%	Dec-31-04	%	Variaz. %
Revenues	514.1	100.0%	589.8	100.0%	14.7%
Operating costs	(387.6)	(75.4%)	(448.2)	(76.0%)	15.6%
Per. Costs (incl. Employee leav. Indem.)	(26.8)	(5.2%)	(32.8)	(5.6%)	22.4%
Ebitda	99.7	19.4%	108.8	18.4%	9.1%

The revenues from Gas sales increased by 14.7% from Euro 514.1 million to Euro 589.8 million.

This increase is principally due to the consolidation of the Gas activities in Ferrara, for approximately Euro 60.2 million, and the trading activities performed in 2004, for almost Euro 30 million. Negatively affecting the revenues were the variations in the distribution tariffs (-3%) and the sales price (-7%), partially compensated by the increase in the volumes treated.

Gas area	Dec-31-03	Dec-31-04	Change. %
Number of customers (units)	699,885	798,716	14,1%
Volumes distributed (millions of mc)	1,661	1,912	15,1%
Volumes sold (millions of mc)	1,634	1,886	15,4%
Volumes traded (millions of mc)		176	

lThe number of clients served reached almost 800 thousand units. The gas business of Ferrara contributed to the increase of approximately 91 thousand clients, without which the increase would have been 1%, in line with the historical trend.

The Ebitda increased from Euro 99.7 million to Euro 108.8 million (+9.1%), with a decrease of one percentage point, from 19.4% in 2003 to 18.4% in 2004, due to the combined effect of the reduction in margins caused by the reduction of the distribution tariffs and the consolidation of the gas business of Ferrara.

(Euro millions)	Dec-31-03	Dec-31-04
Ebitda Electricity Area	8,2	7,5
Ebitda Hera Group	242,5	300,2
In percentage terms	3,4%	2,5%

The electricity business remains a strategic sector for the Group that permits the completion and protection of the sale of gas to its customers in the region. The limited importance from a profit view point is compensated by the margins in the gas sector.

(Euro millions)	Dec-31-03	%	Dec-31-04	%	Change. %
Revenues	126,6	100.0%	205,0	100.0%	61,9%
Operating costs	(114,7)	(90.6%)	(195,1)	(95.2%)	70,1%
Personnel costs (incl. Employee leav.)	(3,7)	(2.9%)	(2,4)	(1.2%)	(35,1%)
Ebitda	8,2	6.5%	7,5	3.7%	(8,5%)

permitting, also thanks to the good results obtained on the purchase of raw materials, the confirmation of the results in the sector despite reduced distribution tariffs.

In relation to the sales price, in part related to the price of the raw materials and in part in relation to the increased competitive pressure, the reduction was almost fully compensated by a similar reduction in the costs of procurement thanks to the intense trading activity and importation performed by the subsidiary Hera Trading in 2004.

Compared to the previous year the Group recorded an increase of 15.1% in the volumes distributed, from 1,661 to 1,912 million cubic metres, and an increase in sales net of trading of 15.4%, from 1,634 to 1,886 million cubic metres, as shown in the table below.

Despite the increased competitive pressure the balance between volumes lost and volumes acquired was a positive result of approximately 5 million cubic metres without considering the volumes sold to third parties in the wholesale sector.

Electricity Area - Distribution and sales activity

Importance of the Electricity business for the Group

Results in the Electricity business

The increase in sales, illustrated in the following table, is connected to the development of the commercial actions on clients on the free market that commenced in the second part of 2003 which resulted in an increase in volumes of 80% net of the sales to sub suppliers.

The revenues in the Electricity area increased by +61.9%, from Euro 126.6 million to Euro 205.0 million.

Receivables from non-eligible clients/distribution (*)	29,6	23,4%	29,1	14,2%	(1,7%)
Receivables from eligible clients	85,0	67,1%	173,5	84,6%	104,1%
Trading activities	12,0	9,5%	2,4	1,2%	(80,0%)
Total revenues	126,6	100,0%	205,0	100,0%	61,9%

(*) Includes all revenues related to the distribution on the networks managed by the Group

The decrease of the revenues from eligible Clients is due to the decrease of the distribution tariffs (-8%), already illustrated in detail in the relevant paragraph, in part compensated by an increase in the volumes distributed (from 509 to 536 GW/h, equal to 5.0%)

The sales to eligible customers more than doubled, increasing from Euro 85 million to Euro 173.5 million,

Electricity	Dec-31-03	%	Dec-31-04	%	Change.%
Number of customers	50,075	100.0%	53,759	100,0%	7.4%
Non-eligible customers	49,049	98.0%	49690	92,4%	1.3%
Eligible customers	1,026	2.0%	4069	7,6%	296.6%
Volumes sold (GW/h)	1,628	100.0%	2,282	100,0%	40.2%
Non-eligible customers	228	14.0%	196	8,6%	(14.1%)
Eligible customers	1,018	62.5%	2.043	89,5%	100.7%
Trading	382	23.5%	43	1,9%	(88.8%)

The tariffs (sales component plus distribution component) to non-eligible electricity customers, regulated by AEEG, in 2004 reduced by 3.3% compared to 2003 from 10.70 to 10.35 €/cent per Kw/h. The volumes reduced by 14.1% in relation to the reduction of the threshold level (from one million to one hundred thousand Kwh) applied from May 1, 2003.

On the liberalised market the decrease of the sales prices, net of transport, due to the price trend of raw materials and to the increased competitive pressure, was 19%: this resulted, in the presence of a purchase price only in part lower than the previous year, in a decrease in the unitary margin that eroded the margin deriving from the increase in volumes especially in the second half of the year as occurred for the majority of the other operators.

(Euro millions)	Dec-31-03	Dec-31-04
Ebitda Water Cycle Area	66,4	77.7
Ebitda Hera Group	242,5	300.2
In percentage terms	27,4%	25.9%

The Group operates in the Integrated Water Cycle area in over 150 municipalities, with approximately 2 million inhabitants connected to the network of almost 21 thousand km covering almost the whole region.

Hera operates in 5 ATO's coinciding with the Provinces of Ravenna, Ferrara, Forlì-Cesena, Rimini and Bologna.

The division of the revenues by type of customer shows the development of the business in the free market:

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 1,018 to 2,043 GW/h.

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

Despite the decrease mentioned in the unitary margin and the reduction in the distribution tariffs, the Ebitda remained substantially in line with the previous year, decreasing from Euro 8.2 million to Euro 7.5 million (-7.8%). The higher level of lower unitary profit clientele impacted the percentage margin that decreased from 6.4% to 3.6%.

Integrated Water Cycle Area

Importance of the Integrated Cycle business for the Group

Below is shown the importance of the business compared to the Group:

With these Agencies, the economic conditions for the performance of the service was finally concluded with the signing of the conventions that guarantees the Group, in addition to the extension of the concessions until 2022, the certainty in the tariff evolution for the next three years and the guarantee of plant remuneration of the capital invested in accordance with the so-called Galli law fully operational from 2008.

Results in the Integrated Water Cycle business

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

(Euro millions)	Dec-31-03	%	Dec-31-04	%	Variaz. %
Revenues	248,0	100,0%	304,9	100,0%	22,9%
Operating costs	(132,6)	(53,5%)	(169,1)	(55,5%)	27,5%
Personnel costs (incl. Employee leav)	(49,0)	(19,8%)	(58,1)	(19,1%)	18,6%
Ebitda	66,4	26,8%	77,7	25,5%	17,0%

The Water cycle sector suffered in 2004 from an authorisation deficiency in relation to the tariff evolution. The system, that provided for the tariff adjustment in relation to the investments made in accordance with the previous CIPE legislation, terminated in June 2004. In addition, the resolution relating to the period July 2003 – June 2004 has not yet been published, and therefore, prudently, a limited increase of 2% in line with inflation was considered, without any recovery for investments.

From the moment that the agreements with the ATO's were reached as of January 1, 2005, in 2004 no increases were expected on the water cycle tariffs. The conclusion of the agreements therefore resulted in the recording in the income statement, without any effect oin the overall result, the income relating to the provisions of the so-called Stralcio Law, whose provisions will be utilised to cover part of the investment plans agreed with the area Agencies.

Aqueduct activities	Dec-31-03	Dec-31-04	Change.%
Number of users	639.563	800.077	25,1%
Volumes of sales (in millions of mc)			
Aqueduct	180	206	14,4%
Sewerage	134	155	15,7%
Purification	155	181	16,8%

The number of clients in the water cycle reached, especially due to the contribution of Ferrara, 800 thousand. Without this contribution the increase would have been 3.6%.

In relation to volumes, the increase was above 14% in all sectors, also in this case principally in relation to the entry into the consolidation area of Ferrara. Without considering these volumes the increase in the aqueduct would have been 2%, that of the purification 2.5% and that of sewerage 5%. The higher increase of this latter indicator should be seen in relation to the acquisition of the sewerage services in 11 new municipalities in order to complete the water cycle and render possible the signing of the conventions with the area Agencies.

The increase in operating costs is principally related - in addition to the already mentioned consolidation of the water sector of Ferrara that contributes for almost 50% (approximately Euro 17 million), to the increase in the municipalities served and for work on behalf of clients. In 2004, there was a considerable increase in the cost of electricity necessary for the operating activities of the water cycle, caused in particular by the change in the

From 2005 this income will be an integral part of the tariff for the operator.

In light of the above, as already illustrated in the relevant section, the average tariff increases in 2004 compared to the previous year was equal to 0.6%, much lower than the inflation rate: this influenced the percentage margin on revenues.

In 2004 **Revenues** were Euro 304.9 million increasing by +22.9% compared to the previous year.

This result was achieved principally due to the revenues in the water cycle sector of Ferrara, equal to 30.6 million and an increase in revenues for work on behalf of third parties of approximately Euro 14 million. The remaining difference is related to the above-mentioned income relating to the Stralcio Plan and to the increase in volumes sold.

tariff parameters that penalised the typical consumption of the Group. It should be noted that the new integrated water cycle tariff, in force since January 1, 2005, will permit the recovery of increases in similar costs.

The **Ebitda** increased compared to 2003 by 17.0% from Euro 66.4 million to Euro 77.7 million with a percentage margin of 25.5%. The percentage margin is particularly influenced by the contribution from the Ferrara area that in 2004 recorded a percentage margin of 20% compared to over 26% in the previous consolidation area. This is also due to the high dispersion of the Ferrara water network (double compared to the networks in the previous area). The reduction of these losses and other efficiencies are already included in the work programme of 2005.

Waste Management Area

Importance of the Waste Management business for the Group

Below is shown the importance of the business compared to the Group:

(Euro millions)	Dec-31-03	Dec-31-04
Gross Operating Margin Waste Management	62,3	89,2
Gross Operating Margin Hera Group	242,5	300,2
In percentage terms	25,7%	29,7%

The Waste Management business represents an important part of the overall Group reaching almost one third of the total Ebitda contribution. 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, further strengthened with the acquisition of the plant at the Ravenna Ecologic Centre and the entry into service of the new waste-to-energy plant at Bologna, both in the final quarter of 2004.

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

The waste management services are currently in strong transformation and, similar to the Integrated Water Cycle Area, the negotiations with the area Agencies have been concluded with the signing of the conventions for the urban waste services in accordance with the Ronchi Decree: the Group that operates in five ATO's, has already agreed with all of the agencies the economic conditions, and has already signed the relative conventions with three ATO's (Bologna, Ferrara and Rimini) while in relation to the other two (Ravenna and Forlì-Cesena) the conclu-

(Euro millions)	Dec-31-03	%	Dec-31-04	%	Variaz.%
Revenues	284,6	100,0%	362,3	100,0%	27,3%
Operating costs	(147,4)	(51,8%)	(184,7)	(51,0%)	25,3%
Per. Costs (incl. Employee leav. Indem)	(74,9)	(26,3%)	(88,4)	(24,4%)	18,0%
Ebitda	62,3	21,9%	89,2	24,6%	43,2%

The revenues in the Waste Management area increased from Euro 284.6 million to Euro 362.3 million (+ Euro 77.7 million) with an increase of 27.3%. This increase is principally due to two factors:

- the consolidation of the companies of Ferrara that resulted in an increase of Euro 34.6 million;
- the increase of volumes and services by approximately Euro 31 million, including the new plants of Bologna and Ravenna.

The remaining part of the increase of the sales is due to the increased application of the tariffs of the waste management service, as already illustrated in the relevant paragraph.

In relation to the operating costs, in addition to the impact relating to the consolidation of the new companies and the acquisition of the Ravenna Ecologic Centre, that in total contributed almost Euro 20 million, there were no increases except in relation to additional services provided.

(thousands of tonnes)	Dec-31-03	%	Dec-31-04	%	Variaz.%
Differentiated waste	295	26,4%	356	28,3%	20,7%
Non-differentiated waste (*)	822	73,6%	904	71,7%	10,0%
Total waste	1.117	100,0%	1.260	100,0%	12,8%

(*) Includes approx. 90k tonnes of street waste in 2004

sion of the bureaucratic process is expected by April. The signing of these agreements permits the company to have certainty of the duration of the conventions (2012) and on the tariff evolution.

The activities performed in the waste management sector are considered strategic for the future development of the Group. In particular, the industrial plan contains important investments for the further strengthening of the waste-to-energy plant capacity, an activity that, in addition to minimising environmental impact on treatment, permits the production of electricity sold at subsidised tariffs (CIP6 and Green Certificates).

Results of the waste management business

As already mentioned in other parts of the present report, the results in the business in 2004 are impacted by the integration of the companies of Ferrara, as well as the commencement of the waste-to-energy plant at Bologna and the acquisition of the Ravenna Ecologic Centre plants.

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

Further improvements of the margins were achieved from the reorganisation of the commercial sector with the creation of the "Special Waste" Business Unit and the "plant and logistical" optimisation project that will result in the reduction of transport costs and the saturation of plant with greater profitability.

Finally, it should be recalled the significant contribution to the results deriving from the commencement of the new waste-to-energy plant at Bologna that, thanks to the possibility of selling the energy produced at CIP6 incentive rates, contributed to an improvement of the margin in 2004 by over Euro 6 million.

Thanks to these factors the **Ebitda** increased from Euro 62.3 million to Euro 89.2 million with an increase of +43.2% and an improvement in operating margin in percentage terms to 24.6% compared to 21.9% in 2003.

The volumes collected increased by almost 13% compared to the previous year, including 96.7 thousand tonnes relating to the Ferrara area: on similar territory the volumes increased by 4.2%.

Net of the quantities from the street cleaning, the differentiated collection in terms of percentage on the total collection was 30%, maintaining the commitment of the Group to increase the recovery from waste and the reduction of the environmental impact.

(thousands of tonnes)	Dec-31-03	%	Dec-31-04	%	Change %
Urban waste	1.179	49,3%	1.316	49,2%	11,6%
Special waste	1.214	50,7%	1.360	50,8%	12,0%
Total volumes treated	2.393	100,0%	2.676	100,0%	11,8%

Also in 2004 the waste treated in landfills decreased in favour of waste-to-energy plants, confirming the

(thousands of tonnes)	Dec-31-03	%	Dec-31-04	%	Change %
Landfill sites	919	38,4%	919	34,3%	0,0%
Waste-to-energy plants	362	15,1%	451	16,9%	24,6%
Selection plants	533	22,3%	579	21,6%	8,6%
Compost plants	41	1,7%	67	2,5%	63,4%
Inert chemical plants	538	22,5%	660	24,7%	22,7%
Total volumes treated	2.393	100,0%	2.676	100,0%	11,8%

Other Services Area

Importance of the Other Services for the Group
Below is shown the importance of the business compared to the Group:

(Euro millions)	Dec-31-03	Dec-31-04
Gross operating margin-other service	6,0	17,0
Gross operating margin Hera Group	242,5	300,2
In percentage terms	2,5%	5,7%

The importance of the Sector that, thanks to the focus on the District Heating and Public Lighting businesses, more than doubled compared to 2003, confirmed the validity of the multi business model of Hera that consents the compensation of any contrasting performances in the single business areas.

Other Services results

In 2004, the rationalisation and reorganisation of the Other Services continued benefiting from the first economies of

(Euro millions)	Dec-31-03	%	Dec-31-04	%	Change %
Revenues	83,7	100,0%	126,8	100,0%	51,5%
Operating costs	(59,4)	(71,0%)	(88,3)	(69,6%)	48,7%
Per. Costs (incl. Employee leav. Indem.)	(18,3)	(21,9%)	(21,5)	(17,0%)	17,5%
Ebitda	6,0	7,2%	17,0	13,4%	183,3%

The increase of Revenues in the sector, from Euro 83.7 million to Euro 126.8 million, is for almost 50% related to the Ferrara area (approximately Euro 18.5 million). The remaining increase principally relates to the contribution from public lighting (+ Euro 4 million) and the increase in district heating revenues and electricity production from cogeneration plants (+ Euro 6 million).

	Dec-31-03	Dec-31-04	Change %
Public lighting			
Light points (in thousands)	202	249	23,3%
Municipalities served	42	51	21,4%
District Heating			
Heat volumes distributed (Gw ht)	280	434	55,0%

The volumes of waste treated in the Group plants, including the contribution of the Ferrara plants, shown in the table below, increased during 2004 by almost 12% despite an optimisation plan of the type of waste and of the special waste treated.

strategies of the Group that has a preference towards lower environmental impact plants.

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 (Hera Luce) and the optimisation project commenced in the district heating services creating, following the integration with the company from Ferrara, a specific Division.

The results are summarised below:

The increase in revenues, the optimisation of the services and the contribution from Ferrara permitted an increase in margins (from Euro 6.0 million to Euro 17.0 million), with a percentage increase of over 6 points.

The table below illustrates the principal quantitative data in the Other Services Area, noting that the contribution from the Ferrara area is equal to 24 thousand light points and 150 Gwh.t.

In relation to the commercial area, the Hera Group, through the Sales and Marketing Division and its subsidiary Hera Comm, set the following objectives for 2004:

- structure the commercial activities in line with the new liberalisation thresholds of the energy markets and the margin objectives
- commence the activities to develop the multi-business offer
- consolidate the direct relationship with the clients in the Emilia Romagna region exploiting the strong territorial positioning of the Group
- structure the Sales and Marketing organisation based on the expected increase in volumes to manage
- coordinate the Group commercial activities giving a coherent image throughout the territory and business sector
- commence the commercialisation of the liberalised products including beyond the native provinces of the company.

During the first months of 2004 the short/medium-term commercial strategy was outlined and implemented, the Sales and Marketing structures were reorganised and communication programmes with the client base were initiated.

From September there was the first real competition on the gas residential market at Bologna, up to now countered with:

- retention activities by the Contact Centre,
- new commercial proposals to Business Clients
- the commencement in October of a loyalty club, the “Club Hera Insieme”
- a billboard and press campaign in the city of Bologna
- the strengthening of the Direct Marketing activities

The loyalty campaign was very effective and the confidence of clients was confirmed in the capacity of Hera to continue in best serving the market. The Club Hera Insieme had redemption above expectations (30,000 subscriptions at December 31) and the year closed with a number of gas clients and volumes sold above the previous year. Hera Insieme is a container for promotional activities and relations with the client that proposes advantages and discounts on themes more related to the well-being in the household and family, such as gyms, gastronomic circuits, thermal centres, alarm services and security for the house. The subscription was proposed with a direct and personal invitation to clients with direct bank and postal payments of their bills and continues to be proposed by telephone with success in retention rates.

In August 2004 the new organisation structure of Hera Comm was implemented, in a manner to better reflect the structure of the market:

- Sales structured in sales channels in line with the different market segments
- Management of the residential market structured by contact channel: Call Centre, Branches and Back Office.
- Operational marketing interfacing with the rest of the Group and support to sales

During 2004, Hera Comm thus consolidated the functions of contact with the clients. Today, there are 5 call centres and all see performance indicators that are decisively in continual improvement, with response times of 30 seconds on 90% of calls. The structure of the call centres was partially reorganised in order to increase the efficiency and the quality of the personnel with important investments in the training of the operators. In the last quarter, a pilot project also commenced in order to improve the branch activities.

At the end of 2004, in view of the start-up of the Electricity Exchange, Hera Comm set up the activity of forecasting electricity consumption, in terms of analysis and structuring of the data as well as the creation of a first support system which began operations on January 1, 2005.

In the Business market, the electricity and gas offer in 2004 was fully reviewed, differentiated by market segment and standardised in order to simplify the sales and management. The principal strong point of the Hera Comm offer was the joint offer of electricity and gas, the Dual Fuel. The sale of electricity is in fact one of the instruments used in acquiring gas business clients in the territory and the joint sales of the two products is the strength of Hera Comm compared to the competitors in the region. From July 2004, all companies can enter the free electricity market and Hera Comm, thanks to the consolidated collaboration relationship with the Associations in the region, obtained market leadership at regional level, more than doubling the clients compared to the previous year and reaching the market share of 14%. The Business sales also resulted in the creation of channels to cover the region and also for expansion outside of the native provinces of the Group on the electricity and gas markets, with particular focus on the creation of indirect channels, such as agents and associations.

During the year, the new Hera internet site was launched, with an area dedicated to clients in the region and differentiated by market segment. In particular, for the Large Clients some services were set up on-line such as the visualisation and analysis of their consumption. In relation to the residential area, the on-line services were widened in view of the commencement of the new invoicing systems and CRM.

2.3 Commercial policy and customer care

2.4 Trading and procurement policy

Pln relation to gas, the scenario for the year 2004 saw a particularly rigid market place under the profile of the offer, due to the lack of capacity available for the "new operators" on the interconnection methane ducts with the sources of overseas procurement. Among other matters, this situation is destined to remain in the short/medium-term period at least until the new Gas Natural Liquid terminals will be operative and/or the strengthening of the Trans Austria Gasline and Trans Tunisian Pipeline Company methane ducts.

In relation to this situation, the Fair Competition Authority (AGCM) and the Authority for Electricity and Gas (AEEG) conducted an investigation into the gas market, a document that was published on June 17, 2004. At the end of January 2005, based on the results of the investigation, the AEEG sent to Parliament and Government a document containing some proposals for the promotion of competition in the gas market. Despite this not particularly favourable situation, the Hera Group was able to create for itself a respectable position in the sector of national wholesale operators signing some important importation contracts (spot and annual and long-term duration).

The event that most characterised the gas sector in 2004 was without doubt the Gas Release Procedure activated by ENI on the basis of the deliberation of AGCM. Following this procedure, the ENI Group placed for sale, at pre-determined conditions and before the emission into the national gas duct network, a volume of gas equal to 2.3 billion cubic metres, for each of the 4 thermal years in the period 2004-2008. The Hera Group participated in the tender process

with other operators in the sector being awarded contracts for approximately 193 million cubic metres annually. The quantity obtained is particularly important in size and has a strong strategic impact as it relates to a four year supply period.

In relation to electricity, 2004 represented a transition year for the sector characterised by the start up of the Electricity Exchange (however only partially on the "offer" side) and by the definition of regulations and instruments to permit the activation of the "demand" side. The full start-up of the Exchange and the substitution of the old trading contracts renders the activity of the operators more complex having to (in regard to the latter) balance from hour to hour and no longer by time-zone/month, as in 2004, or even by time-zone/quarter as in 2003. This has made it indispensable to activate from 2004 the necessary measures to permit the reaching of full operations already by January 2005. A further element to note is the activation, from January 2004, of the long term contract agreed with ATEL Energia S.r.l; a contract that, it should be recalled, is characterised by important innovative elements for the Italian market, such as: flexibility, management by differentiation, presence of limits to gains and losses by the Parties. ■

During 2004, the acquisition policy of the loans continued with a view to assuring the Company a more equilibrated and prudent situation, and availing of the opportunities offered by low interest rates. In particular, loans were agreed for new acquisitions and substitution of others in expiry. For the first case, the loan for the acquisition of the Ravenna Ecologic Centre from Eni Ambiente, of the 39% of the vehicle company Set (for the construction of an electricity plant of 400 Megawatts at Teverola) from Raetia and the loan to the company Calenia Energia, held 15% by Hera and utilised for the construction of an electricity plant of 800 Megawatts at Sparanise, are particularly noted. In relation to the substitution of the old loans, there was the acquisition of specific lines from individual banks with a duration of seven years, indirectly obtaining the effect of a lengthening of the debt period and a rationalisation of the bank loans. The maintaining, as illustrated in other parts of the Director's Report, of an equilibrated financial structure and good liquidity reserves, demonstrates that the high cash flow of the company in the form of depreciation and provisions, has permitted the self-financing of the current investment activities. In addition to this there is an equilibrated distribution of the debt between the different banks, of which there is no medium or long-term loan concentrated for more than 25% of the total. Continuing in relation to financing, it is noted that the Company has extended to the new acquisitions in 2004 the prudent policy of covering interest rate risks, utilizing in particular "cap" structures on the total costs of the individual debt: as illustrated more in detail in

the notes to the financial statements, there are no speculative positions on interest rates. With a view to optimising the management of the working capital, there is currently undergoing an analysis (through appropriate mandates) of the receipts and payments of the principal companies of the Parent Company HERA S.p.A., so as to minimise the utilisation of the cash pooling and to enable the concentration of short-term bank credit lines in HERA S.p.A. In addition, the payment terms to suppliers was normalised in the Group and all the rationalisation possibilities offered by fiscal legislation were utilised (group VAT and Consolidated Tax). In relation to the receipts, incentive was given to the payment of bills through banks and extended to the Group the elimination of the cash desks open to the public at the various offices. Finally the residual treasury current accounts were closed. The mix of banking loans also includes standing credit lines of Euro 100,000,000.00. Similar to that for the covering of the interest rate risks, instruments were utilised for coverage in relation to risks connected to foreign purchases of raw materials (in particular price and exchange risks); however there were no speculative positions existing, as the size and duration of the coverage were based on the underlying supply contracts. As a reward of the financial activities undertaken, HERA S.p.A obtained from Standard & Poor's the rating A+ on the long-term and A-1 on the short-term with stable outlook. This rating level obtained by the Group, in conjunction with the advisor J.P. Morgan, assumes even greater importance in that it includes the important financial commitments planned in the medium-term. ■

2.5 Financial policy and Rating

2.6 Research and Development

The orientation of the Group in relation to research and development is represented by the necessity, on the one hand, to activate the initiatives that increase the returns on plants, reduce physical losses, minimise risks in managing services and contain as much as possible the environmental impact, thus, developing activities that have a direct effect on the business. On the other hand, it is intended to encourage and orientate the research, in the direction of themes of particular interest to Hera, carried out by institutional bodies (Universities, ENEA, CNR etc.), including through partnerships and sponsorships (for example the LARA Laboratory at Ferrara and the ERG Laboratory at Imola).

The Research and Development projects that were undertaken in 2004 can be divided into three areas:

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

Within the first area there were four projects undertaken.

Project **MIG**: consists of the realisation of a management model of the water networks, with the aim of optimising the use of the aqueduct sources, current and future, in terms of:

- *reliability* - placing the primary network in the conditions to guarantee water volumes necessary for the population also in the presence of serious difficulties such as exceptional drought, or accidental pollution of a water resource;
- *costs* - reallocating the volumes between the different sources with the scope of optimising the total

production cost;

- *quality* - best utilising the available resources in order to guarantee pre-fixed qualitative levels;
- *environment* - limiting the levels taken from the natural water resources (water table).

The conclusion of the project is expected by March 2005.

Project **MINIDEP**: this relates to the definite-execution planning of a purification model of urban waste, with particular characteristics of operational simplicity and facilitated transportation, dedicated to emergency and provisional applications. The project was concluded in 2004.

The **MARECCHIA** project: this project consists of the performance of a part of activities relating to an overall study of the Marecchia river. Other parties, such as the Authority of the Marecchia Basin, the Emilia Romagna Region and the Rimini Province have carried out other studies in relation to this theme. For reasons connected to Hera and the necessity of coordination with other participating parties, this project only became operational at the end of 2004.

X-WATER Project: the activity relates to a water meter reading experiment applied to a pilot section of the distribution network. This project on the one hand must supply indications on the application of reading the level of physical losses of the network (through the control of the water balance of the sections of the network under examination); an attempt was also made to evaluate through the analysis of the consumption recorded in a more exacting manner, the behaviour of the resource and any tariff implications related to this behaviour. This activity will continue for all of the year 2005.

The second theme related to two projects.

WASTE-MIMS Project: the activity related to the application of a particular instrument controlling the water treated by a liquid waste plant and the entry of an urban waste purification plant. The project was concluded in 2004.

SOV Project: the project that began in 2002 was characterised by intense operating activity in 2004. This project relates to the research of volatile organic substances produced in the baking of ceramics and was carried out in partnership with two companies in this sector. For Hera, the interest in the project resides especially in the identification of instruments and methods for the automatic and continual control of volatile organic substances produced in various processes in the production cycles of Hera, in particular those relating to the treatment of waste. The project, that benefits from financing from the Productivity Ministry for the Innovative Technological Fund (FIT), will conclude in 2005. The company in 2004 carried out industrial research activities and pre-competitive development for which contributions were received in accordance with law 46/82 (Innovative Technological Fund). In particular these activities related to the project “*Control of the emissions of the Volatile Organic Substances (SOV), new assembly systems in continuation of the SOV of the gas emissions*”.

The costs as per the above mentioned law: Euro 840,055.23.

The third theme related to:

Letto Fluido Project: This project, that commenced a number a years ago for initiatives of the CIS of Forlì, was concluded in 2004. This related, in summary, to the realisation of a process for the lowering of corrosive gas that developed in the combustion of the RSU to permit a more efficient energy conversion. The contribution of the University and Research Ministry, for the entire project amounted to Euro 1,241,000, while the total cost of research amounted to Euro 3,336,000. For the process defined based on this research, a patent was obtained.

Fuel-Cell Project: The project consists of the construction of electricity and heat plants through combustion fuel cells from methane or hydrogen. In particular these latter appear particularly adapted to guarantee the supply of electricity in emergencies. In 2004 three hydrogen Fuel-Cell models were acquired and installed.

Already from 2005 and in accordance with the strategic indications inserted in the 2005-2008 Industrial Plan, that is currently being prepared by the Company, further innovation projects are planned that will relate to several areas, among which:

- The collection and recovery of the RAEE (electric and electronic waste equipment)
- Experimentations in the “gasification” area

Particular attention will then be directed towards innovative projects in the more traditional “network” service areas - for example in relation to the reduction of losses in the water network and in the collection of waste - in order to improve, also from a technical view point, the quality of these services. ■

2.7 Human Resources

At December 31, 2004 the number of employees in the Hera Group were 5,023 with the following division by category: Senior Management (84), Managers (193), White-collar (1,986), Blue-collar (2,760). The following movements occurred in the year: new arrivals 80, acquisition of personnel from increased consolidation area 700, departures 185. It is noted that the new arrivals essentially related to the change in mix with the insertion of qualified personnel; finally it is noted that there was an overall increase in the number of university graduates of 88 (from 373 equal to a percentage of 8.42% of the total of full time employees, to 464 equal to 9.24%).

Organisation

During 2004, the detailed processes and structures were defined and orientated to both external clients (with particular reference to Hera Comm and to the Business Unit Special Waste), and to the optimisation of the internal processes (through the centralisation of invoicing services and personnel administration). In addition, the administration structure of the Group was implemented. Simultaneously, the implementation process of the SAP-ISU information system commenced and the consequent integration of the client, work flow and billing processes.

Industrial relations

Continuing in the process of aggregation and harmonisation of industrial relations of the Group, two important trade union agreements were signed during 2004. The first related to the single Premium Result for all of the personnel based on a system of common objectives. At the same time the amount of the premiums at the different regional levels were brought into line that previously had seen differences between regions. The other important agreement was that which defined a single trade union system through common and agreed upon rules. Finally, a single trade union representative was appointed as single representative of the Group.

Training activity	Man hours
Professional training and specialised courses	29,300
Security and environment	11,500
Managerial training	10,500
Information technology	20,600
Total	71,900

The agreement also permitted to commence the process, currently in course, of harmonising the legislative economic treatment as disciplined by the CCNL Confservizi trade union.

Training

In line with the contents of the Training Plan, in 2004, in addition to the recurring training activities and professional updating of technical and operational personnel, the training activities carried out by the Hera group related to some areas directed at the support and development of distinct expertise already present in HERA.

Particular attention was also given to the training activities for the development of relationships with clients and maintaining a market presence that involved employees at the call centres and key accounts, and a large training programme commenced that involved all employees with the objective of consolidating the identity and values of the HERA Group.

In addition, management and senior managers were involved in programmes aimed at the development of managerial capacity (with particular attention to the planning and control, to communications and to the management of the human factor).

Significant also was the investment made supporting the implementation of new information systems, strengthening the operating expertise relating to the critical activities and to specific themes relating to quality, security and environmental problems.

The total investment made by the HERA Group in 2004 for the training of its employees amounted to approximately Euro 1 million. Approximately 72,000 man hours of training were provided that involved over 3,400 persons (77% of employees) ,for a total of 7,372 participations at training/professional updating events.

The following table quantifies, compared to the hours provided, the training contained in the Training Plan of 2004:

In 2004, the Group continued in the optimisation of the internal processes, in harmony with the organisation structure in place, continuing the principle of departmental centralisation and rationalisation of all common activity in order to obtain uniform treatment and economies of scale. This optimisation continued alongside and in parallel with the implementation of the new company information systems that permitted the progressive "networking" of the processes. In this context, the administration activities were reorganised, of pay-roll, of invoicing, of client management, obtaining a double advantage:

- On the one hand "decentralising the centralisation" or rather creating Group operating centres where it was easier and more convenient to concentrate activities and human resources;
- on the other defining an "architecture for processes" in accordance with the logic of the new information systems which has its strength point in the insertion and management of the "data".

In substance this resulted in the reorganisation and the centralisation of all of the administrative activities of the Group (thanks to the full implementation of the SAP R3 system), the creation of the "salary centre" at the Hera offices at Bologna, the "invoicing centre" at the Hera offices at Ravenna, the creation of a "single document back-office centre" at the Hera offices at Forli and the operational activities and client relations at the Local Operating Companies (with the com-

mencement of the SAP IS/U system). This SAP IS/U system, operating since September 2004 at the Rimini LOC, will be fully implemented during 2005 in accordance with the following calendar:

- Hera Bologna commencement January 2005
- Hera Ravenna commencement January 2005
- Hera Forli/Cesena May 2005
- Hera Imola/Faenza November 2005
- Hera Ferrara November 2005

In order to minimise the discontinuity from the change in the systems and obtain from SAP the maximum benefits, the impact on the organisation and on the human resources were managed through a "change management" process, through analysis and re-engineering of the processes implemented with the direct involvement of the personnel concerned (Power Owners, Key Users, Tutors,...) The "resistance to change" was managed through specific support measures with the persons involved, such as:

- organisation of communication events and information to the personnel concerned on the process changes (directors, department managers, coordination personnel, trade unions, employees);
- development of information expertise and processes, with over 450 training days and the involvement to-date of one thousand employees in 27 "ad hoc" training programmes.

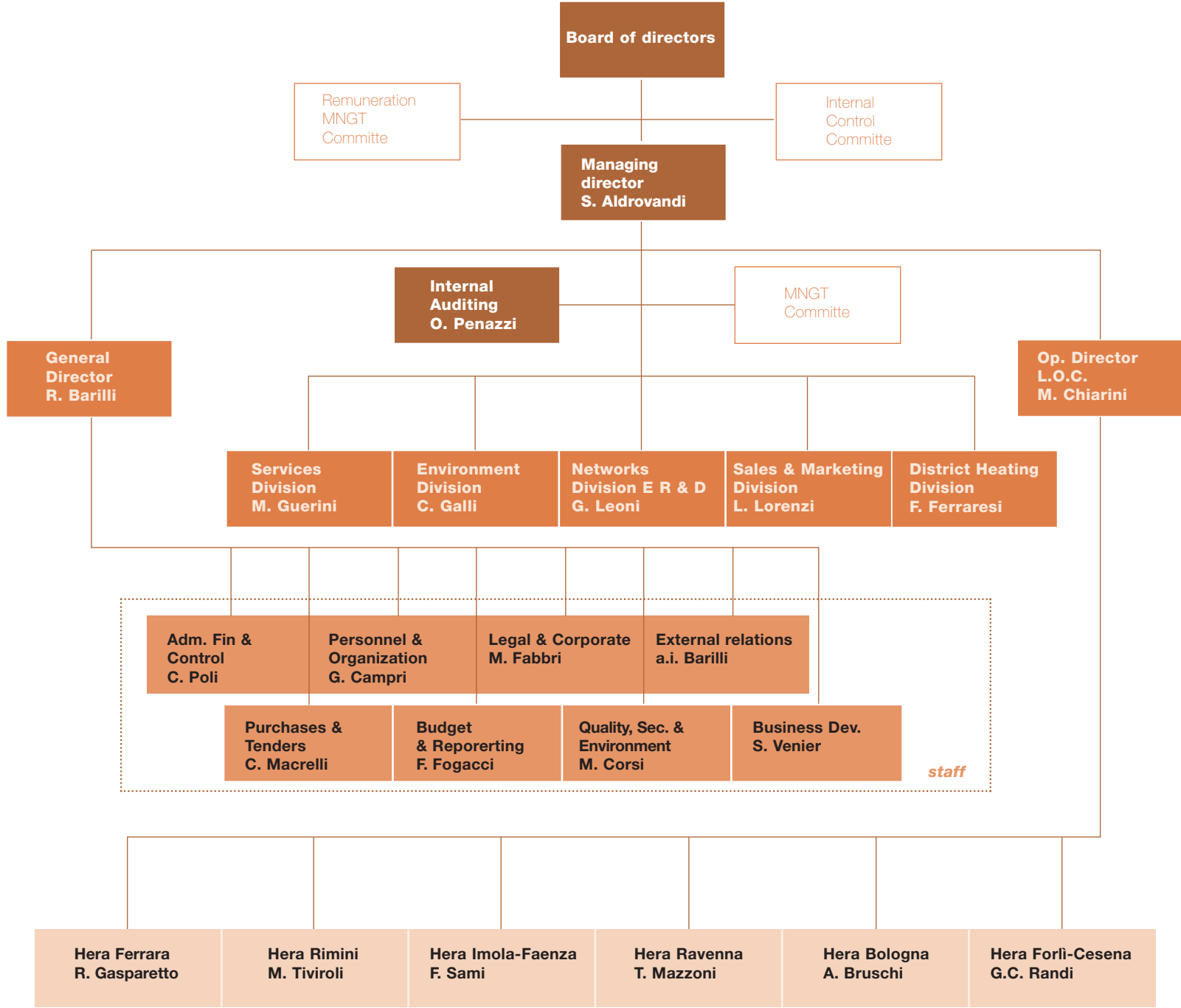
During 2004, the integration process also commenced of the services managed in the Ferrara region and, consequently a Local Operating Company was created, Hera Ferrara, operative from January 1 2005, thus confirming the "open entrepreneurial formula" that sets apart the "Hera Model".

Finally, at the end of 2004 two important organisational changes were implemented through the creation of two new departments:

- The District Heating Division with the objective of coordinating the district heating activities and directing the development of the business in respect of the technical-economic standards of the Group;
- The Local Operating Companies Co-ordination Division with the responsibility, among other matters, to complete the benchmark analysis of the activities of the LOC's in order to implement the best practices, and guarantee the programming and annual and long-term planning of the objectives in the region in which the Group operates.

2.8 Organisation and Information Systems

Holding operativa



The commitment of Hera in the quality, environment and sustainability field has resulted in an original approach called “sustainable quality”, that has seen one of the most significant aspects through the insertion, within the strategic priorities of the 2005-2007 Company Strategic Plan, of the social sustainability and environmental objectives.

In support of these commitments, Hera has implemented during 2004, a Group integrated Quality Security Environment certification programme that, over a period of 3 years, consents the company to have a governance system of the processes capable of guaranteeing, at all times, the management, monitoring and accountability of all of the activities under the three above mentioned profiles.

In 2004, the Hera Group received the Quality certificate UNI EN ISO 9001:2000 for the integrated management of the water resources, the integrated management of the energy resources and the integrated waste management resources; at the same time, the certification programme continued, with UNI EN ISO 14001 of the Hera waste treatment and disposal plants.

The objective for 2005 is the environmental certification for all of the Hera Group, for the same application as the Quality, in accordance with UNI EN ISO 14001.

The company has efficient mechanisms for the planning of the controls on products and processes (Control Plan of the water cycle, energy cycle and waste management cycle) and for the reporting of the qualitative performance of the company to management (KPI quality service report).

The principal mechanism which the company utilises to report its social and environmental commitment is the Sustainability Report.

The Sustainability Report of 2003, published in 2004, represents the first true and real unified report of the Hera Group, (previously the “zero number” of 2002 was published), testimony therefore of the strong wish of the company to continue on the path of commitment of the social responsibility of the company.

Confirming this, the Sustainability Report evidences the increasing compliance with national and international requirements for the preparation of the report, the strong involvement of the stakeholders, internal and external to the company and the definition of the improvement objectives, both in terms of results achieved compared to the previous year and objectives for the following year.

In particular, active involvement commenced with employees of Hera, through focus groups, of the institutions, having the largest interface with the company (workshop with employees of the Municipality and Provincial Administrations and of the ARPA of Emilia Romagna), of the associations and financial institutions. The Sustainability Report for 2004, that will be published in the coming months, will see in relation to the dialogue with the stakeholders, in addition to a consolidation of the relations previously commenced, a further implementation through the direct involvement of the mayors of the municipalities in the territory where Hera provides its services and of the most important environmental associations at a national level.

The sustainability theme, and within this the Sustainability Report of Hera, will be subject, in 2005 to important communication initiatives (simplified information material for large scale publication, public events, etc.), in order to increasingly widen and broaden a new culture of public services and company responsibility that is present “from the top” in the provision of the services.

Finally, a consideration on the Customer Satisfaction research that represents one of the key points in verifying, in an objective manner, the quality and appreciation by the clients of the services provided.

In relation to this Confservizi, the association that promotes the development and the qualification of local public services, published in December 2004, the results of a research made in the Emilia Romagna region, which evidences the high level of satisfaction of the citizens in the province in which the Hera Group operates in relation to water and urban hygiene services.

Hera, in order to further broaden this theme, at the end of 2004 commenced a Customer Satisfaction research for all of the core business services (integrated water service, energy services and hygiene waste management services), the results of which are expected in the spring of 2005.

2.9 Quality and Environment

2.10 Annual Corporate Governance Report

Introduction

Borsa Italiana S.p.A., elaborated a Code of Conduct (hereafter the "Code") containing a series of recommendations relating to the procedures and regulations for the management and control of the company for companies listed on regulated markets.

The Code presents a corporate organisational structure in line with the corporate and administrative practices adopted by the majority of companies which have implemented, in recent years, evolved models of corporate governance.

The adoption of the principles contained in the Code has the final objective of reassuring the investors on the existence, in listed companies, of a clear and well-defined organisational structure, with adequate division of responsibility and a correct balance between management and control.

Although the adoption of the principles contained in the Code are not a legal obligation, Hera S.p.A (hereafter the "Company") considered it appropriate to adhere to the principles of the Code.

The Company adopted the provisions of the Code with a resolution of the Board of Directors, with a unanimous vote, on April 4, 2003.

The present report illustrates the manner and procedures with which the Company has implemented the provisions of the Code.

Rules and composition of the Board of Directors

The Board of Directors is the central administrative body of the Company. In compliance with the recommendation of the Code, in which the Board of Directors must meet on a regular basis, the By-laws of the Company provides that the Board meets periodically, at least on a quarterly basis, and whenever the Chairman considers it necessary or when a request is made by at least one third of its members or by the Board of Statutory Auditors. In addition, in compliance with the recommendations of the Code, the Board must function and operate in a manner to guarantee the effective and efficient performance of its duties, the By-laws of the Company provides that the Board of Directors are invested with the widest powers for the ordinary and extraordinary management of the Company without limitations, with faculty to undertake all actions considered necessary or appropriate for the achievement of the corporate objectives excluding those that, by law or the By-laws, are reserved to the Shareholders' Meeting.

In particular, in accordance with the By-laws the following matters are of the exclusive competence of the Board:

- (i) appointment and/or revoking of the Chairman and Vice Chairman;
- (ii) appointment and/or revoking of the Managing Director and/or of the General Director;
- (iii) constitution and composition of the executive committee, appointment and/or revoking of the members of the Executive Committee;
- (iv) etermination of the delegated powers of the Managing Directors and/or General Director and/or Executive Committee and modifications and amendments thereto;
- (v) approval and changes to long-term and/or business plans;
- (vi) approval and amendment of the group regulations, if adopted;
- (vii) appointment and/or nomination on the proposal of the managing director, of the management responsible for each departmental area.
- (viii) proposal to be presented on the agenda of the extraordinary Shareholders' Meeting for the amendments to article 7 (majority public holding), 8 (limits to shareholding), 14 (constituting quorum and deliberations of the Shareholders' Meeting and rights of veto) and 17 (procedures for the nomination of members of the Board of Directors) of the By-laws;
- (ix) the undertaking and disposal of equity investments above Euro 500,000 ;
- (x) purchase and/or sales of property above Euro 500,000;
- (xi) the provision of sureties, liens and/or on securities guaranteed above Euro 500,000;
- (xii) purchase and/or sale of companies and/or business divisions;
- (xiii) the appointment of directors of subsidiary and/or holdings in other companies;
- (xiv) participation at tenders and/or public procedures that result in contractual obligations exceeding Euro 25,000,000.

The By-laws of the company, amended with the Shareholders' Meeting resolution of October 5, 2004, provide that the Board of Directors is comprised of 14

members. The current Board of Directors will remain in office until the approval of the financial statements relating to 2004.

Name and Surname	Office	Position
Tomaso Tommasi di Vignano	Chairman	Non-executive independent director
Stefano Aldrovandi	Managing Director	Executive director
Aleardo Benuzzi	Vice Chairman	Non-executive independent director
Ermanno Vichi	Deputy Vice Chairman	Non-executive independent director
Enrico Biscaglia (1)	Director	Non-executive independent director
Filippo Brandolini	Director	Non-executive independent director
Gianluigi Magri (2)	Director	Non-executive independent director
Nicodemo Montanari	Director	Non-executive independent director
Roberto Sacchetti	Director	Non-executive independent director
Giovanni Tamburini	Director	Non-executive independent director
Piero Collina (3)	Director	Non-executive independent director
Pier Giuseppe Dolcini (3)	Director	Non-executive independent director
Fabio Alberto Roversi Monaco (3)	Director	Non-executive independent director
Fulvio Vento (4)	Director	Non-executive independent director

- (1) The director Enrico Biscaglia no longer covers the role of General Director of the Municipality of Bologna from July 1, 2004.
- (2) The director Gianluigi Magri resigned from the Board of Directors of HERA S.p.A. with effect from October 15, 2004.
- (3) Members appointed by the Shareholders' Meeting of October 16, 2003 based on lists presented by the minority shareholders in compliance with the provisions of law 474/1994.
- (4) Member nominated directly by the Municipality of Ferrara in accordance with article 2449 of the civil code with effect from January 1, 2005.

Currently there are 11 directors who are non executive independent members, in that:

- (i) do not have an economic relationship, directly, indirectly or on behalf of third parties, or have recently done so, of such significance as to influence the autonomy of opinion of the company, its subsidiaries, the executive directors, shareholders or groups of shareholders which control the company;
 - (ii) are not the holders, directly or indirectly, or on behalf of third parties, of shareholdings that would permit them to exercise control over the company or have a significant influence over the company, or participate in agreements with other shareholders for the control of the company;
 - (iii) they are not close family members of executive directors of the company or of subjects indicated in the preceding letters (i) and (ii).
- The following matters do not provide a reason affecting the requisites for the independence of a director: the appointment of the director by the shareholder or group of shareholders that control the Company, the office of director of a subsidiary of the Company and relative remuneration, a member of a consultative committee.

The Board of Directors, in the meeting of November 4, 2002, deliberated to confer to the Chairman, in addition to the powers by law and in accordance with the By-laws, the following powers:

- to preside and manage the Shareholders' Meetings;
- to establish the agenda of the Board of Directors taking into account the proposals of the Managing Director;
- to supervise on the execution of the deliberations of the corporate boards of the Company, also based on the periodic reports provided by the internal audit department and addressed jointly to the Managing Director;
- (iv) to represent the Company against third parties and in court with the facility to nominate lawyers;
- (v) in the case of urgency together with the Managing Director, to make all decisions of the Board of Directors, communicating to the Board of Directors in the subsequent meeting;

- (vi) together with the Managing Director, to propose to the Board of Directors the designation of representatives on the boards in which the company has a holding;
 - (vii) to represent the company in relations with the public shareholding Bodies;
 - (viii) to propose to the Board the candidates such as members of the Committees that the Board must constitute in compliance with the Stock Exchange regulations.
- Notwithstanding that the Chairman of the Board of Directors was attributed the above-mentioned powers, the chairman is considered a non-executive director, given the non administrative nature of the appointment.
- The Board of Directors, in the same meeting, deliberated to confer to the Managing Director the powers of ordinary and extraordinary administration of the Company, with the exclusion of those reserved by law and by the By-laws to the Shareholders' Meeting and the Board of Directors.

The only executive director is therefore the Managing Director.

In compliance with the recommendations of the Code, the Managing Director reports to the Board of Directors and the Board of Statutory Auditors, at least on a quarterly basis, on the activities performed in the exercise of the powers attributed and on the most important economic and financial operations of the Company and of the subsidiaries, with particular reference to atypical, unusual operations and those with related parties.

The Board of Directors in compliance with the provisions of article 23 of the By-laws and article 150 of the Legislative Decree 58/98, report to the Board of Statutory Auditors, at least on a quarterly basis, normally in the meetings of the Board of Directors or even directly with a written report sent to the Chairman of the

Board of Statutory Auditors, on the activities carried out and on the most important economic and financial operations of the Company and of its subsidiaries, as well as the operations in which the directors have an interest, on their own behalf or on behalf of third parties or were influenced by parties that exercise the activity of direction and coordination. The director, in accordance with article 2391 of the civil code, informs the directors and the board of statutory auditors of every interest that, on his own behalf or on behalf of third parties he has in the operations of the company, indicating the nature, terms, origin and value; if this relates to the managing director he must abstain from undertaking the operation investing this power with the board.

The Board of Directors in 2004 met 22 times, in which all of the directors and the statutory auditors all participated three times and in the other 19 meetings almost all of the directors and the entire board of statutory auditors participated, with the exception of three meetings in which one statutory auditor was absent.

The General Director of the company is invited to participate at the meetings of the Board of Directors and, in particular participated in 22 meetings during 2004.

In relation to the current year, at the date of March 24, 2005, 6 meetings of the Board of Directors have been held in which almost all of the directors and the entire board of statutory directors were present; at the moment another meeting of the Board of Directors has been programmed.

The Chairman ensures that each Director and Statutory Auditor has all of the information and documentation for the matters on the agenda of the Board of Directors meetings at least 3 days before the meeting except in the cases of necessity and urgency. Finally, the Chairman and Managing Director ensure that the Board of Directors is also informed on the principal new legislation and regulations relating to the company and corporate bodies.

Nomination and remuneration of the directors

Article 17 of the By-laws attributes to the local public body shareholders the faculty to nominate, in accordance with article 2449 of the civil code, 11 members of the Board of Directors. In particular: the Municipality of Bologna has the right to nominate 4 directors; the province of Bologna, including on behalf of 47 Municipalities, has the right to nominate 1 director; the Municipality of Cesena, including on behalf of another 25 Municipalities, has the right to nominate 1 director; Con.Ami has the right to nominate 1 director; the Municipality of Forli has right to nominate 1 director, the Municipality of Ravenna, including on behalf of another 11 other Municipalities, has right to nominate 1 director, the Municipality of Rimini, including on behalf of another 26 Municipalities, has right to nominate 1 director, the Municipality of Ferrara, including on behalf of another 9 Municipalities, has right to nominate 1 director. This right will not apply where any of these bodies holds a shareholding less than 1% of the share capital.

The other 3 members of Board of Directors not nominated by local public bodies will be nominated by the

Shareholders' Meeting on the basis of the mechanism of the voting of lists as contained in article 17 of the By-laws which specifies that the list must be presented by the outgoing directors or shareholders that represent at least 1% of shares with voting rights and must be deposited, at the registered office of the company at least 20 days before the Shareholders' Meeting, together with the curriculum vitae of the candidates, the acceptance of the appointment and a certificate verifying the non existence of ineligibility. These lists will be made public through notification in three national newspapers of which two economic newspapers, at least 10 days before the Shareholders' Meeting. The local public bodies who may directly make nominations in accordance with article 2499 of the civil code must abstain from the presentation of lists and voting. Between the local entity shareholders exists a Shareholding Pact and Governance for the Transfer of Shares agreed on November 15, 2004 – March 18, 2005 and published on March 23, 2005 that provides for clauses on the composition of the Board of Directors.

There also exist two consultation pacts that provide for clauses on the composition of the Board of Directors and in particular:

- 1)pact of consultation signed on September 16, 2003 by 38 minority shareholders of HERA S.p.A. and published on September 25, 2003;
- 2) pact of consultation signed on November 6, 2003 by 5 minority shareholders of HERA S.p.A published on November 11, 2003.

The Shareholders' Meeting of November 4, 2002 recognise to the directors an annual fixed remuneration.

The Board of Directors, in the meeting of November 4, 2002, deliberated to recognise to the Chairman and to the Managing Director a remuneration constituting a fixed amount including the indemnity to the directors, as well as a further variable annual remuneration related to the results of the Company or rather the reaching of specific objectives defined by the Remuneration Committee (in the specific case the Remuneration Committee related the variable annual remuneration to the achievement of the company of certain indexes for EBITDA, ROI and the level of the working capital). Only to the directors that cover particular roles, the Board of Directors also recognise a further annual fixed remuneration in relation to the indemnity as directors, for the participation on other Board of Directors of the companies of the group and/or other corporate bodies in relation to the Board of Directors of the Company.

Committees

The Committees constituted are representative of the Board of Directors with an advisory and consultative role.

a) Remuneration committee

The Board of Directors, in the meeting of November 4, 2002, in compliance with the provisions of the Code, constituted the Remuneration Committee with

the role of formulating proposals to the Board of Directors for the remuneration of the Managing Director, the Chairman and the directors with particular roles, as well as on the basis of indications provided by the Managing Director, for the adoption of general criteria for the remuneration of management, with the role of the Managing Director to define the policies and remuneration levels of Management.

This Committee is composed of Alcardo Benuzzi (appointed on November 4, 2002) as Chairman, Gianluigi Magri (appointed on November 4, 2002 and resigned on October 15, 2004) and Piero Collina (appointed on November 3, 2003). The Chairman of the Board of Directors and the Managing Director may participate at the Committee meetings with the express invitation of the Chairman of the Committee. In the year 2004 the Committee held 1 meeting whereby it defined the guidelines of the Remuneration Policy for the Management of the Group for the year 2004. Similar activity is expected for the current month of March in relation to the year 2005.

b) Internal control system and Committee for Internal control

The person responsible for the Internal Auditing function reports directly to the Managing Director.

The person responsible for Internal Auditing, reports on his work, on a quarterly basis or whenever he considers it necessary, to the Managing Director, to the Chairman of the Board of Directors, to the Committee for Internal Control and to the Board of Statutory Auditors.

He is independent of reporting to operational area management. In compliance with the provisions of the Code, the Board of Directors of the Company, in the meeting of November 4, 2002, deliberated on the constitution of an Internal Control Committee with advisory and consultation functions. This committee is comprised of Ermanno Vichi (appointed on November 4, 2002), as Chairman, Enrico Biscaglia (appointed on November 4, 2002) and Fabio Alberto Roversi Monaco (appointed on November 3, 2003). With the work of the Committee the Chairman or another Statutory Auditor designated by the Chairman of the Board, as well as, on the express invitation of the Chairman of the Committee, the Managing Director and the Chairman of the Board of Directors, may participate. The Committee has been attributed the functions indicated at paragraph 10.2 of the Code.

The Internal Control Committee met 4 times in 2004; at 2 meetings all of the members attended while at 2 other meetings the majority of members attended. The Chairman of the Board of Statutory Auditors participated at all of the meetings.

During the above-mentioned meetings the audit plan was evaluated as well as the audit activities undertaken.

c) Committee for the proposal of nominations

The Committee for the proposal to nominate Directors was not constituted as in accordance with the by-laws the nomination of 11 directors is the responsibil-

ity of the local public bodies as per article 2449 of the civil code and the other 3 directors to shareholders other than the former through the system of voting by lists.

Treatment of reserved information

The Board of Directors of the Company, in the meeting of March 10, 2003, deliberated the approval of the code of conduct of the members of the corporate boards and employees of the Company and subsidiary companies – "Internal Dealing" – that was adopted by the Company from the commencement date of trading (June 26, 2003).

The above-mentioned code, prepared based on the Regulations and Instructions of Borsa Italiana S.p.A., governs the information obligations relating to the operations on financial instruments carried out by directors, the General Director and the Statutory Auditors of the Company, as well as any other person that has access by virtue of the office held in the Company and in its main subsidiaries, to information on facts that could determine significant variations in the economic and financial prospects of the Company and of the group and capable if made public, to significantly influence the price of the relative financial instruments (so called "significant persons" or "internal dealers").

The provisions of the code of conduct are binding for the "significant persons". The persons covering this position are:

- (i) the directors, standing auditors and general director;
- (ii) General Management and Divisional Managers;
- (iii) Persons in the Company and its main subsidiaries (the companies whose revenues are above 10% of the total consolidated revenues), identified by the Managing Director, each in relation to his area of competence, may in virtue of the role covered in the Company have access to information on facts such as to determine significant variations in the prospective economic and financial results of the Company and the group and capable, if made public, to significantly influence the price relating to quoted financial instruments issued by the Company.

The communications from the significant persons must be sent to the person responsible for the Legal and Secretariat Department. This person will inform the person responsible for the relations with investors for the publication to the market of the information through the telematic system NIS (Network Information System).

The Code of conduct is published on the website of the Company www.gruppohera.it

Transactions with related parties

In relation to the recommendations contained in articles 5 and 11 of the Code of Conduct and in order to guarantee that the significant operations with related parties are concluded in the respecting of the criteria of substantial and procedural correctness, the Board of Directors on May 27, 2003 adopted the following procedure:

1) The Board identified the related parties as:

- a) parties that control, are controlled by, or are subject to common control with the issuer;
- b) the parties subscribing, including indirectly, to shareholder pacts as per article 122, paragraph 1 of the Finance Act 58/1998, having the purpose of the exercise of the voting right, if these pacts are conferred on a total controlling participation;
- c) the parties related to the issuer and who exercise a significant influence on the issuer;
- d) parties that are attributed powers and responsibilities in order to exercise the functions of administration, direction and control of the issuer;
- e) close family members of physical persons covered in letters a), b), c), and d);
- f) the parties controlled by physical persons covered in letters b), c), d) and e) and on which the physical persons covered in letters a), b), c), d) and e) exercise a significant influence;
- g) the parties that have in common with the issuer the majority of the directors.

2) The Board of Directors approves in advance the transactions with related parties, including inter-group transactions, except normal or usual transactions where they are concluded at standard conditions as per point 3).

3) Typical or usual transactions that, for subject matter or nature, are not unusual to the normal business affairs of the Company and those that do not present critical elements due to their characteristics or risks relating to the nature of the counterpart, or at the time of their fulfilment. Operations at standard conditions are those concluded at conditions applied by the Group to any party.

4) The Board of Directors, through the Managing Director, receives adequate information on the nature of the correlation, on the method of execution of the transaction, on the conditions, including economic, for its realisation, on evaluation procedures followed, on the interests and on the underlying reasons, and on any risks for the Company. Where the correlation is with a Director or with a related party through a Director, the Director in question is limited to provide a clarification and absent himself from the meeting during deliberation.

5) Based on the nature, value and other characteristics of the operation, the Board of Directors, in order to avoid that the transaction is carried out at inappropriate conditions, may be assisted by one or more experts that express an opinion, in accordance with the cases, on the economic conditions and/or on the legitimacy and/or on technical aspects of the transaction.

6) For the operations with related parties, including those of inter-group transactions, that have not been presented to the Board of Directors, in that normal or usual and/or standard conditions, the Managing Director, except in compliance with procedures as per article 150, paragraph 1, of the Finance Act 58/1998, gathers and conserves, including by type or groups of transactions, adequate information on the nature of the correlation, on the execution of the operation, on the conditions, including economic, for its realisation, on the evaluation procedures followed, on the interests, and on the underlying reasons and on any risks for the Company. Also for these operations one or more experts may be nominated, in accordance with the above procedures.

7) In the choice of experts they must be recognised professionals and experts on the subject matter, who will carefully evaluate the independence and the absence of conflicts of interest.

The most important transactions with related parties during 2004 are reported in the Directors report.

Relations with shareholders

In order to favour a more detailed knowledge of the Company by the shareholders, the Company has a dedicated structure to relations with the investors. On March 11, 2003, Mr. Jens Klint Hansen was appointed as responsible for relations with investors (the Investor Relations can be contacted at the telephone number 051 287737 or email address ir@gruppohera.it.

The Shareholders' Meeting of April 29, 2003 approved the shareholder meeting regulations. These regulations indicate the procedures to follow in order to permit the orderly and correct functioning of the shareholder meetings, without impacting on the rights of each shareholder to express their opinion on the matters under discussion.

The shareholder Regulations are published on the internet site of the Company www.gruppohera.it

Board of Statutory Auditors

The Board of Statutory Auditors is composed of three standing members. Two alternative members have also been appointed. The Board of Statutory Auditors will remain in office until the approval of the financial statements for the year ended 2004.

Composition of the Board of Statutory Auditors

Name and Surname	Office
Antonio Venturini	Chairman
Fernando Lolli	Standing auditor
Sergio Santi (*)	Standing auditor
Stefano Ceccacci (*)	Alternate auditor
Roberto Picone	Alternate auditor

(*) appointed by the Shareholders' Meeting of October 16, 2003 on the basis of the only list presented by the minority shareholders in compliance with the provisions of article 148 of the Legislative Decree 58/98 and Law 474/1994.

The By-laws provide that the Statutory Auditors have the requisites of honourability and professionalism established by the combined provisions of article 148 of Legislative Decree 58/98 and by the regulation adopted with the Ministerial Decree 162 of March 30, 2002.

For the purposes of article 1 of the Ministerial Decree 162 of March 30, 2002 in relation to the requisites of professionalism of the members of the Board of Statutory Auditors of quoted companies for subject matter and sectors of activity strictly relating to the activities carried out by the company it is intended the subject matters and sectors connected or relating to the activity exercised by the company and as per article 4 of the By-Laws.

The office of statutory auditor is not compatible with that of councillor in a territorial public entity or that of statutory auditor in more than 3 quoted companies with the exclusion of the subsidiaries of the Company in accordance with article 2359 of the civil code and 93 of the Legislative Decree 58/98. In this latter case, the statutory auditor that subsequently passes this limit is automatically no longer eligible as statutory auditor of the company.

The statutory auditors are nominated by the Shareholders' Meeting based on the mechanism of the voting of lists in accordance with article 26 of the By-laws which specifies that (i) the Municipalities, the Provinces and the Consortiums constituted in accordance with article 31 of the Legislative Decree 267/2000 or the consortiums or the companies controlled by the Municipalities, Provinces and by the Consortiums constituted in accordance with article 31 of the Legislative Decree 267/2000 may present a single list and (ii) the shareholders other than those indicated at sub (i) may present a list where they represent at least 3% of the shares with voting rights. The lists must be deposited at the registered office at least 20 days before the date of the Shareholders' Meeting, together with the declaration of the single candidates certifying the inexistence of causes of ineligibility or incompatibility with the law, as well as existence of requisites of honourability and professionalism as required by law for the members of the Board of Statutory Auditors. These lists will be made public through notification in three national newspapers of which two economic newspapers, at least 10 days before the Shareholders' Meeting.

The Shareholders' Meeting of October 16, 2003 appointed, in substitution of the those resigning, a new standing auditor (Sergio Santi) and a new alternative auditor (Stefano Ceccacci) designated, as indicated in the Information Prospectus, from a minority list in order to comply with the obligations of article 148 of Legislative Decree 58/98 and as per Law 474/1994.

The Board of Statutory Auditors held 19 meetings of which all of the members attended.

Between the local entity shareholders exists a Shareholding Pact and Governance for the Transfer of Shares agreed for the period November 15, 2004 – March 18, 2005 and published on March 23, 2005

that provides for clauses on the composition of the Board of Statutory Auditors.

There also exist two consultation pacts that provide for clauses on the composition of the Board of Statutory Auditors and in particular:

- 1) pact of consultation signed on September 16, 2003 by 38 minority shareholders of HERA S.p.A. and published on September 25, 2003;
- 2) pact of consultation signed on November 6, 2003 by 5 minority shareholders of HERA S.p.A. published on November 11, 2003.

Administration Responsibility of the Company

The Legislative Decree 231/2001 introduced into the Italian legislation the administrative responsibility of legal persons, companies and associations. In particular, the law introduced the penal responsibility of bodies for certain offences committed in the interest or to the advantage of the persons that cover functions of representation, administration or management of entities or one of its structures with independent finance and operations, as well as persons that exercise, even de facto, its management and control and, finally, persons subject to the direction and supervision of one of the above mentioned parties. The important offences are the offences against the Public Administration and corporate offences committed in the interest of the companies.

However, articles 6 and 7 of the Legislative Decree 231/2001 provides for a form of exoneration from the responsibility where (i) the body demonstrates to have adopted and efficiently implemented, before the commencement of the act, organisational, management and control structures appropriate to prevent the realisation of offences in consideration of the decree; and (ii) the duties to supervise the functioning and compliance of the structures, as well as maintaining them updated, is requested of an organisation that will independently control them. For this purpose, on February 16, 2004, the Board of Directors of HERA S.p.A. approved the organisational, management and control structure in accordance with Legislative Decree 231/2001 in order to create structured procedures and preventive control activities with the objective of the prevention of the offences as per the above-mentioned decree, through the identification of activities exposed to the risk of offence and consequential procedures against this.

The Board of Directors therefore created the supervision body composed of the person Responsible for Internal Auditing of HERA S.p.A. as the Chairman, from the Legal Secretariat Office of HERA S.p.A. and an external member to carry out the above-mentioned duties including the periodic reporting to the corporate boards of HERA S.p.A. in relation to the implementation of the structure.

The Supervision Board met 8 times in 2004; all of the participants attended 7 meetings and a majority of members attended 1 meeting. In 2004, the Supervision Board defined the protocols and procedures constituting the operating methods of the Organisational, Management and Control structure.

This structure was approved by the Board of Directors of HERA S.p.A. on December 6, 2004. In addition the Supervision Board defined and applied the information flows that permits the Supervision Board to operate and review the structures.

In order to carry out the verifications and controls, the Supervision Board prepared a work plan to verify the

respecting of the protocols adopted.

The Company also adopted an Ethical Code approved by the Board of Directors on February 16, 2004, a code that was widely notified both to employees and stakeholders.

Structure of Bod and Committes

Board of Directors							Internal Control Committee ■		Remuneration Committee ♦		Nomination Committe ●		Executive Committee		
Office		Members	execu- tives	non execu- tives	independent	****	Number of other offices held**	***	****	***	****	***	****	***	****
Chairman	Tommaso Tommasi di Vignano			x	x	100%									
Managing	Stefano Aldrovandi		x			95%									
Director	Aleardo Benuzzi			x	x	95%				x	100%				
Director	Ermanno Vichi			x	x	100%		x	100%						
Director	Enrico Biscaglia			x	x	72%		x	75%						
Director	Filippo Brandolini			x	x	100%									
Director	Gianluigi Magri (dimissionario dal 15 ottobre 2004)			x	x	41%				x					
Director	Nicodemo Montanari			x	x	95%									
Director	Roberto Sacchetti			x	x	100%									
Director	Giovanni Tamburini			x	x	100%									
Director	Fulvio Vento (nominato dal 1 gennaio 2005)			x	x	-									
Director	Piero Collina *			x	x	86%				x	100%				
Director	Pier Giuseppe Dolcini *			x	x	77%									
Director	Fabio Alberto Robersi Monaco *			x	x	68%		x	75%						
Summary of the reasons for any absence from the Committee or other composition with respect to the recommendations of the Code:															
● Summary of the reasons for any absence from the Committee or other composition with respect to the recommendations of the Code: no Committee was constituted as in accordance with the by -laws the nomination of 11 directors is the responsibility of the local public bodies as per article 2449 of the civil code and the other 3 directors are nominated by the shareholders other than the former through the system of voting of lists.															
Number of meetings held in the year			BoD: 22		Internal Control Committee: 4		Remuneration Committee: 1		Nomination Committee: /			Executive Committee: /			

* The presence of the asterisk indicates whether the director was designated through the list presented by the minority shareholders

** This column indicates the number of offices a director or statutory auditor holds in other companies listed on regulated market, including foreign, and in holding, banking, insurance or large enterprises

*** This column indicates with a n "X" whether the member of the BoD is a member of the Committee

**** This column indicates the percentage of participation of the directors compared to the number of the BoD and the committee meetings

Board of statutory auditors

Office	Members	Percentage of participants at Board	Numbers of other offices held**
Chairman	Venturini Antonio	100%	-
Standing auditor	Fernando Lolli	100%	-
Standing auditor*	Sergio Santi	100%	1
Alternate auditor*	Stefano Ceccacci	-	-
Alternate auditor	Roberto Picone	-	-
Number of meetings held in the year:		19	
Indicate the quorum required for the presentation of lists by minority shareholders for the election of one or more standing members (ex art. 148 TUF): article 26 of the By-laws specifies that (i) the Municipalities, the Provinces and the Consortiums constituted in accordance with article 31 of the Legislative Decree 26/7/2000 or the consortiums or the companies controlled by the Municipalities, Provinces and by the Consortiums constituted in accordance with article 31 of the Legislative Decree 26/7/2000 may present a single list and (ii) the shareholders other than those indicated at sub (i) may present a list where they represent at least 3% of the shares with voting rights.			

* The presence of the asterisk indicates whether the statutory auditor was designated through the list presented by the minority shareholders

** This column indicates the number of offices of director or statutory auditor held in other companies listed on Italian regulated markets.

Other requirements of the code of conduct

	YES	NO	Summary of the reasons for any differences from the recommendations of the Code
System of delegated powers and transactions with related parties			
The BoD has attributed powers defining:			
a) limits	x		
b) functioning	x		
c) and periodically information?	x		
The BoD reviews and approves the transactions of an important economic and financial nature (including transactions with related parties?)	x		
The BoD has defined guidelines and criteria for the identification "of significant" operations		x	The BoD has not defined the guidelines for the identification of "significant" operations, however the M.D reports in advance to the BoD and presents for their approval the most important economic, strategic and financial operations.
The above guidelines and the criteria are described in the report?		x	
The BoD has defined specific procedures for the review and approval of operations with related parties?	x		
The procedures for the approval of the operations with related parties are described in the report?	x		
Procedures for the most recent nomination of directors and statutory auditors			
The deposit of the candidates for the office of director is made at least ten days in advance?	x		
The candidature for the office of director is accompanied by exhaustive information?	x		
The candidature for the office of director is accompanied by indications on the qualification of independence?		x	The bylaws do not provide for this, however following nomination, the directors deposit declarations ascertaining their independence
The deposit of the candidates for the office of statutory auditor is made at least ten days in advance?	x		
The candidature for the office of director is accompanied by exhaustive information?	x		
Shareholders' Meeting			
The company approved Shareholders' Meeting Regulations?	x		
The Regulation is attached to the report (or indicated where it can be obtained?)	x		
Internal Control			
The company approved the persons responsible for internal control?	x		
The persons responsible for internal control are independent of operational area management?	x		
Operational area management?			
Organisational internal control dept. (ex art. 9.3 of the Code)	x		
Investor relations			
The company has nominated a person responsible for Investor Relations?	x		
Organisation dept. (address /telephone/fax/email) of the person responsible for investor relations			Jens Klint Hansen (HERA S.p.A. V.le Carlo Berti Pichat 2/4, 40127 Bologna / telephone 051 287737 / fax 051 287224 / e-mail ir@gruppohera.it

2.11 Performance of Hera S.p.A. in 2004

During 2004, Hera S.p.A. incorporated the company Agea S.p.A. of Ferrara with retrospective accounting effect to January 1, 2004.

In addition, the strategy was completed that resulted in the concentration in Hera S.p.A. of the ownership of the concessions, the main productive assets of the Group, the supply to final clients of the water cycle and waste management services, the distribution of gas and electricity, the portfolio of investments as well as a large part of the bank debt of the Group.

With this in mind, the comparison of the values of an

Euro millions	2003	2004	% change
Value of production	860	1.268,1	+47.5
EBITA	156	178,9	+14.7
EBIT	49,1	48	-2.2
Net profit	48,5	59,4	+22.5

The interpretation of the results must take into consideration the change in the structure of the Group during 2004, characterised by the distribution of the overall results between the Parent Company and the sales, operational and maintenance companies and the specific businesses. For this reason there was a movement in the profitability of Hera S.p.A. towards the dividend component from subsidiaries and from the results of the financial management and equity investment: the results from this management on the pre-tax result more than doubled in 2004 on 2003 in absolute value, an increase in percentage terms from 24% to 43%.

economic nature between the years 2004 and 2003 (first operational year of the Company) although evidencing a significant increase in profitability with an increase of 22.5% in the net profit, must be made taking into consideration the increasing important component of the inter-company service contracts and the general performance of the Group, already commented upon in other parts of the present document.

The results for 2004 compared to 2003 are shown below:

At the same time the implementation of the service contracts between the different components of the Group, resulted in an excessive increase in the Value of Production and the EBITDA of Hera S.p.A. with annual growth rates above those of the Consolidated Financial Statements cancelled however by the concentration of amortisation, depreciation and provisions as a consequence of the centralisation of the networks, plants and concessions in Hera S.p.A.

A summary is presented below of the reclassified balance sheet and financial position as at December 31, 2004 and compared to December 31, 2003:

(Euro millions)	2003	%	2004	%
Fixed assets	1.262	98,70%	1.527	104,70%
Net Working Capital	124,4	9,70%	91,8	6,30%
(Provisions)	-108	-8,40%	-160,5	-100%
Net Invested Capital	1.278,4	100%	1.458,3	100%
Net Equity	880,2	68,90%	965,1	66,20%
L-T Financial Debts	209,6	16,40%	347,1	23,80%
+ s-t financial debts	221,7	17,3%	232,3	15,9%
- cash and equivalents	(33,1)	-2,6%	(86,2)	-5,9%
= Net Financial Position	398,2	31,1%	493,2	33,8%
Coverage	1.278,4	100%	1.458,3	100%

The values reported confirm in Hera S.p.A. the performance already described at Group level and represented by an increase in the Net Financial Position far lower than the needs deriving from investments and acquisitions, thanks to the profit generated and the freeing of resources utilised in the Working Capital.

It is also noted that the increase in the Net Financial Position occurred exclusively through the acquisition of long term loans; this together with other credit line rationalisation operations, resulted in the long term debt as 70% of the total.

Accounting and administration separation

This section relates to the accounting and administration separation introduced with AEEG resolutions 310/01 and 311/01, respectively relating to the electricity and gas sectors.

In relation to the activities of "electricity production" as defined by resolution 310/2001, in fact it is noted the accessory nature of this production compared to the principal activities of the Group; the electricity produced and input into the network comes in fact, almost exclusively from waste incineration plants with energy recovery

technology and from cogeneration plants as per article 4, paragraph 10, of the above-mentioned resolution. The Group procures, for the electricity needs to distribute to clients connected to the distribution network managed, energy from national operators.

In relation to the sales activities, Hera S.p.A. has created wholly owned separated limited companies.

For a better understanding of the accounting separation required by AEEG, it should be noted the principal operating and structural characteristics of the company.

The group operates in the following sectors:

- distribution of electricity and gas
- waste management services (urban waste management, treatment and disposal of urban and special waste, management of disposal plants including incineration with the recovery of energy)
- integrated water service (abstraction, transport and distribution of water, purification and sewerage networks).

Gas sector

The Company manages the methane gas distribution service, consisting in the transport of natural gas through the local gas duct networks for delivery to the users in the provinces of Bologna, Ravenna, Forlì-Cesena and Imola.

The methane gas distribution activity is carried out through the network and the plants managed by Hera as follows:

- withdrawal of the methane gas from the Snam Rete Gas S.p.A. gas ducts through the first level collection points (so-called first level cabins),
- distribution and provision to the users.

Electricity sector

The Company manages the distribution of the electricity in the Imola area.

The distribution system managed by Hera consists of high, medium and low voltage distribution networks, receivers/sub-stations, and finally transformation cabins.

The Company carries out maintenance of the plant and of the network managed in order to maintain adequate levels of security, quality and continuance of service.

These activities are carried out directly by the Local Operating Companies (specifically created and wholly owned subsidiaries of Hera S.p.A.), and regulated by service contracts between Hera and the subsidiaries. The services are recharged by the local operating companies to Hera with the issue of an invoice that includes the amount for the services provided; in support of this invoice is attached for each local operating company a schedule showing a detailed breakdown by various activities and thus Hera S.p.A. has the nature of a cost from third parties.

Common services

In relation to the organisational structure of Hera S.p.A., and of its allocation based on the unbundling regulations, the following classification is provided:

- Services Division: Fleet area: common services - group e) Facility Management area: common services - group h) IT area: common services - group i)

- Sales and marketing division: common services - group c)
- Network and research and development division: common services - group k)
- Internal auditing: common services - group a)
- General Management: common services - group c)
- RSPP: common services - group k)
- Control and Administration: common services - group a)
- Finance: common services - group b)
- Organisation and personnel: common services - group d)
- Legal and Corporate: common services - group c)
- External relations and Relations with Authorities: common services - group c)
- Purchases and Tenders: common services - group e)
- Business Development: common services - group c)
- Local companies in development: common services -group c)
- Quality, Security and Environment: common services - group k)

Shared operating functions

In Hera S.p.A. there are no shared operating functions as the activities considered by the regulations relating to unbundling are performed within the Local Operating Companies.

Reference should be made to the section 4.07 of the Financial Statements of Hera S.p.A. noting that this data has not been subject to an audit. ■

2.12 Adoption of International Accounting Principles

The European Union Regulation 1606/2002 of the European Parliament and Council of July 19, 2002 relating to the application of International accounting principles established that, as from the financial statements as at December 31, 2005, the companies listed on European stock exchanges must prepare consolidated financial statements in accordance with international accounting principles (IAS/IFRS). Considering that the process for the completion of the legislation terminated in December 2004 (with the publication of the international accounting principles in the Official Gazette of the European Union) and taking into consideration that Consob issued a document, dated February 17, 2005, currently in the consultation phase, the Hera Group intends to implement international accounting principles (IAS/IFRS), commencing from the half year June 30, 2005. These financial statements will contain the explicit declaration and without reserve of compliance with all of the principles in force at the balance sheet date and will include the following:

- comparison with similar period of the previous year, prepared with uniform criteria;
- reconciliation between the net equity and result determined on the basis of the previous accounting principles, compared to the values determined in accordance with IAS/IFRS;
- reconciliation between the net equity at the beginning date and ending date of the previous year, (respectively December 31, 2003 and December 31, 2004) as well as the income

statement for the previous year (2004) determined on the basis of the previous accounting principles, compared to values determined in compliance with IAS/IFRS.

For the purposes of the necessary implementations, the Hera Group has identified work groups divided by financial statement areas and specialist expertise (accounting, management control, operating processes and information systems) that operate at both parent company level and of companies within the consolidation area. At the current date the main differences are being identified between the current accounting criteria followed by the Group, in accordance with the current legislative provisions, integrated and interpreted by the Italian accounting principles and the provisions of the IAS/IFRS. There is also in course the identification of the necessary interventions to adjust the company processes and information systems in order that the necessary information for the preparation of the consolidated financial statements in accordance with IAS/IFRS are made available. ■

2.13.1 Management of the services

The Hera Group exclusively performs in almost all of the territory of the shareholder Municipalities, the local public services of gas distribution, management of the integrated water cycle and management of the waste cycle (sweeping, collection, transport, recovery and disposal). In some municipalities the Group carries out "other services" such as urban district heating and heat management, funeral and crematory services, public parks management, electricity distribution (in the Imola area); through specific conventions with the local entities Hera is also requested to carry out treatment and disposal of waste, excluded from the regional law 25/1999 but subject to control by the regional Agency that regulates public services. In relation to only the local services (urban hygiene and water cycle), regulated by article 113 of the Finance Act governed by local entities, the above-mentioned regional law provides for the progressive sub entry of the area Agencies into the regulation and control previously performed by the municipalities. In respect of this regulation the Hera Group signed specific conventions with each ATO that results in the entry into force of the technical and tariff planning.

2.13.2 Energy Sector

In relation to the contracts in the Gas Area the management of the service is, as per normal practice, exclusively awarded to the Hera Group. The duration of the natural gas concessions through local gas ducts, initially fixed for a period between ten

and thirty years by the normal concessions agreed with the Municipalities, was reviewed by the decree 164/2000 (Letta decree, reflecting the contents of the EU directive 30/98) and the subsequent law on the reorder of the energy market, where reference should be made to the chapter "Changes in the regulation framework". Also following the interpretative interventions of the Productivity Ministry, the terms of these concessions is today estimated to 2012. The conventions related to the methane gas distribution or similar relate to heating, domestic uses, artisan, industrial and for other general use. Some of these conventions provide for the production and distribution of thermal energy. The tariffs for gas distribution applied to the users are collected by Hera and are fixed in accordance with the regulations in force and the deliberations of AEEG. The contractual deeds discipline the relationship with the customer, the management of the service, the respective accessory obligations of the parties, the maintenance charges for the functioning of the distribution network and the penalties for the irregular provision of the service that generally varies based on the type and gravity of the infringement committed. In relation to the electricity area, the contracts relate to the distribution of energy including the management of the distribution network, decisions on maintenance work, programming and identification of the development interventions, the functioning of the plants and the carrying out of maintenance and development. The most significant convention for the distribution of electricity was agreed with the Municipality of Imola, that has a duration of thirty years with expiry on December 31, 2030 and renewable based on the provisions of article 2 of the Bersani Decree. The AEEG may suspend or revoke the concession, based on a predetermined procedure against non compliance and violations attributable to the company granted the concession, that harms in a serious manner the provision of the electricity distribution service. The awarding of the concession does not result in the recognition of exclusive rights. The company awarded the concession is obliged to apply to the users fixed tariffs in accordance with regulations in force and deliberations adopted by AEEG.

2.13.3 Water Sector

In the Water Sector Hera manages the aqueduct service, as well as sewerage and purification service. The conventions with the Municipalities (progressively converged into the conventions with the area Agencies) relate to the aqueduct service or the sewerage and purification service or the combination of the aqueduct, sewerage and purification services. The management of the aqueduct service includes the public services of collection, purifying, distribution and sale of drinkable water for civil and industrial use; the sewerage and purification services include the management of the networks and sewage and purification plants. In some cases, the conventions provide for the planning and construction of new networks and plants to use in the management of the service. The management of the service is awarded exclusively to Hera for the municipal territory with the obligation of the Municipality not to grant to third parties

2.13 Transactions with related parties

usage of the subsoil of its property or state aqueducts without the prior consent of Hera.

The original duration of these conventions differs in the Municipalities served and varies to a minimum of ten to a maximum of thirty years. In the signing of the conventions with the area Agencies a duration period of twenty years for the conventions was agreed.

The conventions regulate, in addition, other aspects such as the manner of managing the services as well as reciprocal obligations between the parties relating to, principally, the charges for ordinary and extraordinary maintenance work on the networks and plants necessary for the functioning of the services.

The contracts normally establish that the local entities grant to the operator, even without charge, the right to use the networks and plants for the functioning of the integrated water cycle. In the majority of the cases, the local entities have conferred the ownership of networks and plants to special purpose Asset Companies.

At the end of the concession Hera has the obligation to return the assets utilised for the provision of the service to the asset companies. Any works carried out for the innovation or improvement of the networks must be returned, at the end of the concession against payment of the residual value of those assets.

The relationship of Hera with the users is disciplined and regulated by specific "Service Charts" that describe in detail the services to be provided by the operator and the rights of the users.

The remuneration received by Hera for the management of the integrated water service consists of the payment of the tariffs in force determined, from 2004, on the basis of the normalised criteria introduced by the Galli law and subsequent legislation.

2.13.4 Waste Management Sector

The conventions agreed by Hera with the Municipalities, and subsequently with the area Agencies, relate to the exclusive management of the waste collection, sweeping and road cleaning, and the recovery and disposal of waste services.

The duration of the Conventions agreed or in completion with the area Agencies is fixed by the regional regulations as ten years. The conventions discipline the method for the functioning of the services, the amount payable to Hera for the services performed (equal to the tariff, where implemented, in accordance with DPR 158/1999), the reciprocal obligations of the parties and the cost of the rental concession for the use or occupation by the operator of roads and surrounding area for the performance of the service carried out.

For the use of the waste treatment plants, the Hera Group has agreed specific conventions with the Municipalities where the plants are located.

2.13.5 Management of the networks, plants and equipment

The infrastructures through which the local public services are carried out, or rather the gas networks and the aqueduct and sewerage networks, are in part owned by HERA and in part owned by third parties (Municipalities, Consortium of Municipalities, Asset Companies).

Based on these contracts HERA must carry out, at its

own expense, ordinary and extraordinary maintenance as well as expansion of the networks, as provided for in the investment plans agreed with the Asset Companies.

On the expiry of the contracts HERA will return the business divisions and at the same time pay the difference between the initial value of the assets on the stipulation of the rental contract (value equal to that resulting from the net book values recorded in the Asset Companies at the date of the rental) and the value of the aforesaid assets at the termination of the contract. This latter value will be calculated by deducting from the initial value of the assets that constitute the business divisions, the depreciation incurred by the HERA Group on the rented assets up to the date of the return, adding to these values the net investments (or rather the net book value of the investments made by HERA up to the date of the return).

Integrated water cycle

For the period of the contract after December 31, 2006, the rental will be equal to a sum corresponding to the final value (that indicated in the rental contract of the business division) multiplied by the percentage established in the tariff as a percentage remuneration on the net capital invested, as determined by the application of the normalised method for the determination of the tariffs as per regional law no. 25 of 1999.

Gas distribution

The rental contract of the business divisions relating to energy services do not indicate the amount of the rental for the periods after December 31, 2006.

Assets granted under rental contracts by CON.AMI

There is a rental contract in force with the consortium CONAMI of Imola for the use of the networks and assets necessary for the carrying out of the distribution of gas and electricity, waste management, water and district heating services owned by them. This contract contains similar provisions to those contained in the contracts with the Asset Companies.

State property conceded in use to HERA together with the awarding of the services

The state properties utilised by HERA for the carrying out of the activities are granted in use to HERA together with the awarding of the relative public services.

2.13.6 Transactions between HERA and Romagna Acque

The Municipalities of Ravenna, Forlì, Cesena and Rimini, principal shareholders of HERA, are also the principal shareholders of Romagna Acque with whom AMF, AMIR, AREA, SIS, TEAM and UNICA, participating companies in the Integration, have agreed contracts for the procurement of water prior to the merger in HERA S.p.A. Following the spin-offs and mergers of business units relating to the above mentioned Company, HERA sub-entered into the above-mentioned procurement contracts.

In 2004, the Hera Group acquired from Romagna Acque a total of 56,970,251 million cubic metres of water for a total value of Euro 22,369,009.

During the year, the shareholder Municipalities of Romagna Acque conferred to this company the ownership of the water sources, previously attributed to the relevant asset companies; at the same time Romagna Acque changed its name to "Romagna

Acque - Società delle Fonti". For the areas of Ravenna, Forlì - Cesena and Rimini, thus, Romagna Acque – company of the Sources have exclusive ownership of the procurement assets, while the ownership of the networks remains within the asset companies.

In 2004 there were no atypical and/or unusual operations.

The list of transactions between Hera S.p.A. and subsidiaries and associated companies are listed below. In relation to the balance sheet reference should be made to the notes to the financial statements of Hera S.p.A. at December 31, 2004.

SUBSIDIARIES	
Costs	
Rents, leases and similar costs	6,249,820.65
Personnel costs	110,407.50
Purchases in raw, ancillary and consumable materials and goods	33,077,248.39
Service costs	767,850,781.88
Interest expense and other charges from Group companies	2,090,895.17
Other operating charges	331,418.00
TOTAL COSTS	809,710,571.59
Revenues	
Other income and revenues	7,340.191,52
Income from receivables recorded in non-current assets from Group companies	37,762,23
Income from investments	45.561.816,15
Income other than those mentioned above from Group companies	283.047,52
Income other than those noted above	140.295,44
Revenues from sales and services	537.917.302,64
TOTAL REVENUES	591.280.415,50
Costs	
Rents, leases and similar costs	2.069.109,82
Purchases in raw, ancillary and consumable materials and goods	689.426,32
Service costs	7.716.379,74
Interest expense and other charges from Group companies	848,04
Other operat	4.232,88
TOTALE COSTS	10.479.996,80
Revenues	
Other income and revenues	4.229.744,13
Income from receivables recorded in non-current assets from Group companies	25.578,56
Income from investments	1.755.315,20
Revenues from sales and services	3.413.459,52
TOTAL REVENUES	9.424.097,41

Totals in euro

The balances at the year end between the Hera Group and Related Parties are shown below.

Relates parties	Payables	Receivables	Revenues	Costs
Municipality of Bologna	19.244.205	3.312.569	62.403.555	6.699.411
Con. Ami	3.248.728	2.607.357	2.844.856	9.620.353
Romagna Acque	29.588	5.186.034	79.532	22.436.919
Unica Reti	630.441	2.612.266	125.374	7.755.850
AMF Assets	32.666	35.824	12.720	-
Amir Assets	2.339.207	1.458.593	937.400	2.099.606
Area Assets	39.032	3.157.168	30.492	4.972.609
Team Assets	481.871	7.040.811	26.140	6.915.446

Totals in euro unit

HOLDINGS OF DIRECTORS, STATUTORY AUDITORS AND GENERAL DIRECTOR (ART. 79 CONSOB REGULATIONS)

Name and Surname	Office held in Hera S.p.A	Company	Number of shares held at the end of the previous year	Number of shares acquired	Number of shares sold	Number of shares held at the end of the current year
Tomaso Tommasi di Vignano ⁽¹⁾	Chairman	Hera S.p.A.	-	8.000	-	8.000
Stefano Aldrovandi	Managing Director	Hera S.p.A.	25.000	-	25.000	-
Vichi Ermanno	Honorary Chairman	Hera S.p.A.	-	-	-	-
Aleardo Benuzzi	Vice Chairman	Hera S.p.A.	5.000	-	2.500	2.750 ⁽²⁾
Enrico Biscaglia	Director	Hera S.p.A.	-	-	-	-
Filippo Brandolini	Director	Hera S.p.A.	2.500	-	-	2750 ⁽²⁾
Piero Collina	Director	Hera S.p.A.	-	-	-	-
Pier Giuseppe Dolcini	Director	Hera S.p.A.	2.500	-	-	2750 ⁽²⁾
Gianluigi Magri ⁽¹⁾	Director (resigned as at 15/10/04)	Hera S.p.A.	2.500	-	-	2750 ⁽²⁾
Nicodemo Montanari ⁽¹⁾	Director	Hera S.p.A.	2.500	-	2.500	-
Fabio Alberto Roversi Monaco	Director	Hera S.p.A.	-	-	-	-
Roberto Sacchetti	Director	Hera S.p.A.	-	-	-	-
Giovanni Tamburini	Director	Hera S.p.A.	-	-	-	-
Antonio Venturini	Chairman Board of Statutory Auditors	Hera S.p.A.	-	-	-	-
Fernando Lolli	Member Board of Statutory Auditors	Hera S.p.A.	-	-	-	-
Sergio Santi	Member Board of Statutory Auditors	Hera S.p.A.	11.000	-	11.250 ⁽²⁾	-
Roberto Barilli	General Director	Hera S.p.A.	10.000	5.000	15.000	-

(1) held indirectly through spouse.
(2) including the sahres deriving from bonus share.

Hera enters the Midex index

On March 9, Borsa Italiana officially communicated that the Hera shares will be traded on the Midex from Monday March 21 , 2005.

With this announcement, the Hera Group was included in the basket that consists of the 25 largest medium sized companies by capitalisation and, thus, Hera can be considered among the largest 55 listed companies on the Italian Stock Exchange.

The reason for this inclusion relates to the value of the average daily trading levels in 2004, which almost tripled from Euro 800,000 to Euro 2,285,000 in 2004 and the good performance of the share price, that continues to create interest on international markets.

The Hera share price also enters into the Dow Jones Stoxx TMI and TMI Utilities, in addition to the "ethical indices" of Axia Ethical Index and Kempen Smaller Europe SRI Index.

M&A Operations

In the first month of 2005, M&A operations were carried out, completed or commenced, among which we note:

1. signing of a preliminary agreement for the acquisition of the companies Tecnometano S.r.l. and Gasgas S.r.l., operating respectively in gas distribution and sales in the municipality of Rho Ferrarese (FE): with this acquisition, that relates to approximately 1,500 clients and distribution gas volumes of approximately 10 million cubic metres, the growth strategy in the region served is confirmed and continues. This acquisition, in relation to the distribution activities has a concession until 2010, for a total value of Euro 1.65 million (equal to 6 times the Ebitda in 2003);

2. the signing of a protocol of intent, on February 15, between the local utilities operating in the province of Pesaro-Urbino (Aspes Multiservizi, Aset, Megas and Megas Trade) with the objective of creating a single public services company; the protocol provides for the appointment of an advisor by March 2005 and that Hera will be the industrial partner of the new company maintaining the same role currently with Aspes Multiservizi;

3.The "approval" from the Antitrust authority in relation to the acquisition made by Hera of 20% in SGR Servizi, the largest private company operating in the sale of gas in Italy. This holding, in addition to strengthening the presence of Hera in the Rimini province, permits the Group to considerably increase the volumes of gas traded, adding to the 1,800 million cubic metres in its own market, over 320 million cubic metres sold annually by SGR.

In relation to the advancement of the projects relating to the new waste-to-energy plants (WTE) and electricity generation the following is noted:

- the new WTE plant of Frullo is in production since the end of October 2004 and the Final Acceptance certificate is expected by the end of April 2005;
- the WTE plant of Ferrara (Canal Bianco) is in construction (the site was opened in November

2.14 Significant events subsequent to the year-end

The most important events for the activities of the Group in the first month of 2005 are summarised below.

Rating A+ from Standard & Poor's

On January 25, the Group announced the obtaining of the rating A+ on the long-term and A-1 on the short-term, by Standard & Poor's.

The level of a rating A+, with long term stable prospects, is the highest rating ever achieved by a local utilities company listed on the Stock Exchange.

The rating level obtained by the Hera Group, assisted by the advisor J.P. Morgan, assumes even greater importance in that it reflects the important financial commitments planned in the medium-term period.

Hera-VNG Agreement

On February 21, VNG - Verbundnetz Gas AG – of Lipsia and Hera S.p.A., on the signing of a new national gas supply contract, signed a contract to incorporate a company in joint partnership for the commercialisation of methane gas capable of developing its own trading capacity on the energy market in Europe.

During 2004, VNG supplied Hera Trading, Group company involved in the procurement of gas and electricity, 3.7 billion kwh of methane gas.

In addition, Hera and VNG are jointly experimenting with the application of new technologies with the purpose of providing a concrete response to the problem of pollution in the cities, in particular in relation to the production of electricity, heating and cooling for medium-small sized residences.

- 2004) and the entry into service is expected in March 2007;
- the Forlì WTE, for which authorisations were approved in October, is in the phase of receiving the building licences (article 27);
 - for the WTE plant of Rimini, inserted at the same time in the provincial waste plan at the beginning of 2005, the definitive project was presented on March 16, 2005 and the authorisation is expected by September 2005;
 - for the cogeneration plant of 80 MW at Imola, the plenary meeting is fixed for March 24, 2005 at the Environmental Ministry (after the approval of the project by the Regional Council on February 16, 2005); the commencement of the work is fixed for September 1, 2005;
 - In relation to the plant at Sparanise (combined cycle of 800 MW in which Hera holds a quota of 15%), the work is in progress and the entry into service is expected for March 2007; it should be noted the recent completion of the non recourse project financing contract based on an equity contribution of 20%;
 - In relation to the plant at Teverola (combined cycle of 800 MW in which Hera holds a quota of 39%), the accelerated work programme provides for the delivery of the plant in December 2006.

In order to reinforce the realisation of the above listed projected the Board of Directors of Hera S.p.A. recently deliberated the constitution of a new division – the Engineering and Realisation of Large Plant Division.

Finally there is continuation, after the positive completion of the Agea of Ferrara operation, of the sector consolidation strategy that has distinguished the Hera “model”: in the first Board of Directors meeting of 2005 consideration was given to the theme of the possible integration between Hera and Meta of Modena, in which the Board approved the commencement of the preliminary activities in the initial discussion between the parties. ■

Dear Shareholders,

The Financial Statements of your Company, as at December 31, 2004, closed with a net profit of Euro 59,368,149.53.

If you are in agreement with the criteria utilised in the preparation of the Financial Statements and the accounting principles adopted, we invite you to approve the following deliberations:

The Shareholders' Meeting

- having taken notice of the Director's Report on operations.
- having taken notice of the Report of the Statutory Auditors;
- having taken notice of the Independent Audit Report;
- reviewed the financial statements as at December 31, 2004 that closed with a net profit of Euro 59,368,149.53.

resolves

a) to approve the Financial Statements as at December 31, 2004 of HERA S.p.A and the Director's Report on operations;

b) to allocate the net profit for the year January 1, 2004 – December 31, 2004 equal to Euro 59,368,149.53 as follows:

- Euro 2,968,407.48 to legal reserve
- Euro 6,005,509.19 to extraordinary reserve
- Euro 50,394,232.86 as dividend to the shareholders, corresponding to Euro 0.6 per share proposing the payment beginning from 09/06/2005, ex dividend number 2 on 06/06/2005. ■

2.15 Deliberations on the results



3.1 Balance Sheet

CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR END, December 31, 2004

Amount in euro thousand

BALANCE SHEET-ASSETS		Dec-31-04	Dec-31-03
A) SUBSCRIBED CAPITAL UNPAID:			
-	Called	42	87
-	Uncalled	343	501
Total subscribed capital unpaid		385	588
B) FIXED ASSETS:			
I Intangible assets:			
1)	formation, start-up and similar costs	14,251	12,592
2)	research, development and advertising costs	3,389	1,941
3)	industrial patents and intellectual property licences	10,804	9,345
4)	concessions, licenses, trademarks and other	147,125	208,640
5)	goodwill	117,989	91,767
6)	Intangible assets in progress and advances	42,829	15,210
7)	other	38,491	16,493
8)	differences on consolidation	4,623	4,844
Total		379,501	360,832
II Tangible assets:			
1)	land and buildings	191,200	129,202
2)	plant and machinery	631,653	452,981
3)	industrial and sales equipment	40,612	36,672
4)	other fixed assets	53,150	41,838
5)	construction in progress and advances	250,684	249,139
Total		1,167,299	909,832
III Financial assets:			
1) Investments in:			
a)	unconsolidated subsidiaries	601	1,035
b)	associated companies	52,820	88,204
c)	parent companies	0	0
d)	other	24,962	21,716
2) Receivables: Due within one year			
a)	unconsolidated subsidiaries	31	0
b)	associated companies	92	18,995
c)	parent companies	0	0
d)	other	8,941	193
		9,064	193
3) Other securities:		2	260
4) Treasury Stock		0	0
Total		194,071	156,112
Total fixed assets		1,740,871	1,426,776

BALANCE SHEET-ASSETS (continue)			
C) CURRENT ASSETS		Dec-31-04	Dec-31-03
I Inventory:			
1)	raw materials, supplies and consumable stores	35,241	26,556
2)	work in progress and semi-finished products	2,675	1,372
3)	contract work in progress	18,153	13,280
4)	finished goods	3,509	904
5)	advances to suppliers	88	506
Total		59,666	42,618
II Receivables: Due over one year			
		Dec-31-04	Dec-31-03
1)	trade receivables	2,221	4,713
2)	unconsolidated subsidiarie	0	195
3)	associated companies	159	5
4)	parent companies	0	0
4) bis	tax receivables	780	2,708
4) ter	deferred tax asset	20,006	14,810
5)	others	739	943
Total		23,905	23,179
		659,601	618,917
III Current financial assets:			
1)	investments in unconsolidated subsidiaries	19,100	0
2)	investments in associated companies	0	0
3)	investments in parent companies	0	0
4)	investments in other companies	580	0
5)	Treasury Stock	0	0
6)	Other securities	14,805	9,935
Total		34,485	9,935
IV Cash in banks and on hand:			
1)	bank and post office accounts	172,300	92,152
2)	cheques	0	0
3)	cash-on-hand and cash equivalents	72	566
Total		172,372	92,718
Total current assets		926,124	764,188
D) PREPAYMENTS AND ACCRUED INCOME:			
prepayments and accruals		20,838	18,926
discounts on loans		0	0
Total prepayments and accrued income		20,838	18,926
TOTAL ASSETS		2,688,218	2,210,478

BALANCE SHEET - LIABILITIES					Dec-31-04	Dec-31-2003
A) SHAREHOLDERS' EQUITY:						
I	Share capital				839,903	793,202
II	Share premium reserve				12,253	12,253
III	Revaluation reserve				3,048	3,048
IV	Legal reserve				7,215	4,789
VII	Other reserves:					
-	Extraordinary reserve				7,069	820
-	Capital grants reserve				6,000	6,000
-	Reserve for accelerated depreciation				0	2,194
-	Reserve for share swap deficit				30,244	9,335
-	Un-distributable reserves				-9,888	-10,780
-	Consolidation reserve					
VIII	Retained earnings or losses carried forward				0	1
IX	Net profit for the period				56,724	49,454
Total shareholders' equity for the Group					952,568	870,316
Minority interest:						
X	Share capital and reserves				21,171	20,639
XI	Net profit for the period				5,290	3,553
Total shareholders' equity pertaining to minority interests					26,461	24,192
Total consolidated shareholder's equity					979,029	894,508
B) PROVISIONS FOR RISKS AND CHARGES:						
1)	pension and similar provision				36	36
2)	taxation				4,723	1,901
3)	other				149,572	107,068
4)	consolidation provision: for future contingencies and charges				0	0
Total provision for contingencies and charges					154,331	109,005
C) EMPLOYEE LEAVING INDEMNITY					84,549	68,372
D) PAYABLES:						
Payable over one year						
					Dec-31-04	Dec-31-03
1)	bonds				0	5,165
2)	convertible bonds				0	0
3)	shareholders for loans received				1,176	0
4)	due to banks	463,454	323,766	690,073	515,412	
5)	sums due to other financial institutions	54,277	28,882	98,376	31,323	
6)	advances	1,546	1,527	7,463	4,649	
7)	trade payables	645	957	421,509	374,725	
8)	notes payable			0	0	
9)	due to unconsolidated subsidiaries			103	347	
10)	due to associated companies			7,181	6,184	
11)	due to parent companies			0	0	
12)	Taxes payable	193	123	86,670	67,207	
13)	social security institutions	17	23	12,355	10,307	
14)	other payables	43,837	39,944	85,642	80,640	
Total payables					563,969	395,222
					1,410,548	1,095,959
E) ACCRUED EXPENSES AND DEFERRED INCOME						
accrued expenses and deferred income:					59,761	42,634
discounts on loans					0	0
Total accrued expenses and deferred income					59,761	42,634
TOTAL LIABILITIES					2,688,218	2,210,478

MEMORANDUM ACCOUNT					Dec-31-04	Dec-31-03
A) GUARANTEES GIVEN:						
1)	to third parties:					
a)	guarantees				194,886	106,071
c)	other unsecured guarantees				5,868	7,467
d)	real guarantees				125,895	129,153
Total					326,649	242,691
3)	to associated companies:					
c)	other unsecured guarantees				119,094	2,547
Total					119,094	2,547
Total guarantees given					445,743	245,238
B) OTHER MEMORANDUM ACCOUNTS						
-	Bills in circulation				0	10,854
-	Other memorandum accounts Securities held by thrid parties				1,347,330	1,156,224
-	Other memorandum accounts				208,701	115,656
Total other memorandum accounts					1,556,031	1,282,734
TOTAL MEMORANDUM ACCOUNTS					2,001,774	1,527,972

3.2 Income Statement

INCOME STATEMENT		Dec-31-04	Dec-31-03
A)	(+) VALUE OF PRODUCTION:		
1)	revenues - goods and services	1,491,381	1,221,533
2)	change in inventory	3,538	-309
3)	change in contract work in progress	5,649	23,131
4)	additions to internally produced fixed assets	110,599	67,501
5)	other revenues and income:		
-	other revenues and income	20,020	10,865
-	grants received	7,786	8,578
Total		1,638,973	1,331,299
B)	(-) PRODUCTION COST:		
6)	raw materials, consumables and supplies	-624,923	-527,626
7)	services	-407,778	-301,744
8)	use of third party assets	-66,274	-58,217
9)	personnel expense		
a)	wages and salaries	-152,822	-134,010
b)	social security contributions	-53,363	-47,473
c)	employee leaving indemnity	-10,796	-9,922
d)	pension and similar costs	0	-2
e)	other costs	-3,571	-1,022
10)	ammortisation, depreciation and write-downs:		
a)	amortisation of intangible fixed assets	-39,336	-38,025
b)	depreciation of tangible fixed assets	-66,206	-57,493
c)	other write-downs of fixed assets	-27	-23
d)	write down of receivables among current assets and cash	-5,673	-3,775
11)	change in raw materials, consumables and supplies	5,367	7,043
12)	provision for risks	-1,636	-3,456
13)	other provisions	-42,960	-26,903
14)	other operating costs	-24,643	-15,824
Total		-1,494,641	-1,218,472
(A - B) DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION		144,332	112,827
C)	FINANCIAL INCOME AND CHARGES:		
15)	(+) income from investments:		
a)	subsidiaries not consolidated	399	0
b)	associated companies	1,394	0
c)	other companies	57	0
16)	(+) other financial income:		
a)	from receivables classified under non-current assets:		
-	third parties	28	20
-	subsidiaries not consolidated	0	0
-	associated companies	28	0
-	parent companies	0	0
b)	from securities classified under fixed assets other than equity investments	10	13
c)	from securities classified under current assets other than equity investments	163	126
d)	other than above:		
-	third parties	3,992	3,653
-	unconsolidated subsidiaries	0	4
-	associated companies	0	15
-	parent companies	0	133
17)	(-) interest and other financial charges:		
a)	third parties	-26,499	-19,287
b)	unconsolidated subsidiaries	0	-320
c)	associated companies	-24	-351
d)	parent companies	0	0
17) bis	(+) profit (loss) on exchange rates	-2	0
Total		-20,454	-15,994

INCOME STATEMENT (continued)		Dec-31-04	Dec-31-03
D)	ADJUSTMENT TO FINANCIAL ASSET VALUES		
18)	(+) revaluations:		
a)	equity investments	1,267	630
b)	financial fixed assets other than equity investments	0	0
c)	securities classified under current assets other than equity investments	0	0
19)	(-) write-downs:		
a)	equity investments	-3,643	-5,795
b)	financial fixed assets other than equity investments	-653	-51
c)	securities classified under current assets other than equity investments	0	0
Total adjustments		-3,029	-5,216
E)	EXTRAORDINARY INCOME AND CHARGE		
20)	(+) extraordinary income:		
a)	gains	6,918	5,773
b)	gains on assets disposal	721	46
21)	(-) extraordinary expenses:		
a)	expenses	-9,714	-8,662
b)	loss on assets disposal	-1,710	-62
c)	taxes relating to prior years	0	-117
Total extraordinary items		-3,785	-3,022
Pre-tax profit		117,064	88,595
22)	(-) income taxes:		
a)	current taxation	-56,469	-43,975
b)	deferred tax charge	-839	8,387
c)	deferred tax income	2,258	
23) Net profit for the year		62,014	53,007
Net profit for the year pertaining to minority interests		-5,290	-3,553
Net profit for the year pertaining to the Group		56,724	49,454

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1) CONSOLIDATION CRITERIA

The Consolidated Financial Statements are prepared in accordance with articles 25 and subsequent of Legislative Decree 127/91 and consist of the Balance Sheet, Income Statement and notes thereto, prepared in accordance with article 38 of the aforesaid decree that constitutes an integral part of the Consolidated Financial Statements.

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.

The information contained in the notes to the Balance Sheet and Income Statement are expressed, taking into account their value, in thousands of Euro.

2) CHANGE TO THE STRUCTURE AND CONTENTS OF THE BALANCE SHEET AND INCOME STATEMENT

The structure and contents of the Balance Sheet and Income Statement have changed compared to the previous year in that they are adjusted in accordance with the provisions of Legislative Decree 6 of January 17, 2003 and subsequent amendments (Company Law Reform).

The Balance Sheet and Income Statement relating to the previous years were appropriately reclassified.

The Balance Sheet and Income Statement accounts at December 31, 2004 are not comparable with those at December 31, 2003, principally due to the merger by incorporation of Agea S.p.A. and the water service "division" of Acosea S.p.A. into Hera S.p.A., with retrospective statutory and fiscal effect to January 1, 2004, as well as the relative changes in the consolidation area.

3) CONSOLIDATION AREA

The Consolidated Financial Statements of the Hera S.p.A. Group includes the financial statements of the Parent Company Hera and those of the subsidiary companies in which Hera holds directly or indirectly the majority of the voting rights at an ordinary Shareholders' Meeting. The financial statements are also consolidated of the companies in which the Parent company Hera:

- has a sufficient number of votes to exercise a dominant influence in the ordinary Shareholders' Meeting,
- in which it has a dominant influence in view of a contract or a clause in the by-laws, (or where the applicable law permits this),
- In which it has autonomous control of the majority of the voting rights based on agreements with other shareholders.

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

The investments in associated companies classified under non-current assets whose values are not insignificant are valued under the net equity method. Those companies in which Hera S.p.A. holds directly or indirectly at least one fifth of the voting rights at an ordinary shareholders' meeting are considered associated companies. The inactive companies, in liquidation or of irrelevant size are valued under the net equity method.

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

There are no companies consolidated under the proportional method.

The list of the companies consolidated by the full consolidation method, and valued under the net equity method, as well as the investments in subsidiary and associated companies excluded from the consolidation area are shown at the end of the present notes at section 3.04.01.

4) REFERENCE DATE

The Consolidated Financial Statements are prepared based on the financial statements approved by the Shareholders' Meetings, or based on the draft financial statements approved by the Board of Directors ended December 31, 2004. In the case where the statutory accounts close on a date other than that of the Group specific financial statements are prepared.

5) CONSOLIDATION AREA

The financial statements utilised for the consolidation are the annual statutory financial statements of the individual companies. 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 is eliminated against the corresponding quota of the subsidiary's net equity.

The difference between the carrying value of the participations and the corresponding quota of net equity is recorded in the consolidated net equity. In the case of acquisitions, the above-mentioned difference is attributed to the assets and liabilities; any remaining difference, if negative, is recorded in the account consolidation reserve, or, where it is the result of expected

unfavourable economic results, in the account "consolidation provision for future contingencies and charges"; if it is positive, the difference is recorded as an asset under "consolidation differences". The amount of capital and reserves of subsidiaries relating to minority interests are recorded within shareholders' equity in the account "total shareholders' equity pertaining to minority interests". The portion of the consolidated result relating to minority interests is recorded in the account "Net profit (loss) for the year pertaining to minority interests".

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

6) ACCOUNTING PRINCIPLES

General criteria

The accounting principles have been applied in a uniform manner for all of the companies consolidated. The accounting principles adopted in the Consolidated Financial Statements are those utilised by the Parent Company Hera S.p.A. and are in conformity with the legislative requirements previously mentioned above, integrated and interpreted by the Accounting Principles issued by the Italian Accounting Profession (Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri) and taking into considerations the amendments made by the Italian Accounting Organisation (Organismo Italiano di Contabilità) and, in the absence of accounting principles laid down by the former, those issued by the International Accounting Standard Board (I.A.S.B.).

The accounting principles utilised in the year do not differ from those utilised in the preparation of the Consolidated Financial Statements in the previous year, in particular in the valuation and in the continuity of these accounting principles except in relation to inventory, which is valued under the weighted average cost method instead of LIFO as described further in the relative section on assets.

The financial statement items 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 relation to financial assets these are recorded at the moment of their settlement.

The profits are recorded only if realised within the end of the year, while consideration is made of risks and losses even if known subsequent to the year end. Similar account items classified together in the financial statements are valued separately. The assets that are destined to be used in the long-term period are classified under non-current assets.

Adjustment to values and write-backs

The values of tangible and intangible assets whose useful life is limited are adjusted in value through the

provision of amortisation and depreciation. These assets and the other assets in the balance sheet 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. The method of amortisation and depreciation and write-downs adopted are described in the present notes.

Revaluations

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

Exceptions

In the present and in the previous years no departures from accounting principles took place in the preparation of the parent company and consolidated financial statements as permitted by legislation.

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.

Set-up and expansion costs, and research and development costs that can 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. The advertising expenses are charged 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 20 years, commencing from 01/01/2002. The change of the residual duration of the amortisation period compared to the previous year (in 2003 the residual duration was estimated as 11 years) was made necessary following the specific Conventions agreed between the area Agency for the local public services and Hera S.p.A. for the organisation and the management of the integrated water service. This change in the amortisation period resulted in recording lower amortisation in the income statement equal to Euro 1,705 thousand. The residual value of the intangible assets corresponding to the concessions of the methane gas distribution networks from the companies merged and/or spun off is amortised over 8 years, from January 1, 2002, considering the residual duration of the transitory management period as per the Letta Decree 164/2000.

Goodwill is recorded only if purchased, up to the amount paid and amortised over a period not greater than its utilisation. This account principally consists of the "share swap deficit" deriving from the integration process in 2002 and the merger at December 31, 2004 of Agea S.p.A. and the "operating division" of the water services of Acosea S.p.A., supported by valuation reports as per article 2343 of the Civil Code. This 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 the costs, internal and external, relating to intangible assets that have not commenced their usage and payments made on account.

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

General services	min %	max %
Land	0,00	0,00
Buildings	1,50	3,00
Light constructions	5,00	10,00
General plant	7,50	15,00
Equipment	5,00	10,00
Office furniture and machines	6,00	12,00
EDP	10,00	20,00
Vehicles and internal means of transport	10,00	20,00
Automobiles	12,50	25,00
Measurement and laboratory instruments	5,00	10,00
Remote control	10,00	20,00
Electric cabins	3,50	7,00

Purification service	min %	max %
Land	0	0
Buildings/Civil works	1,50	3,00
Buildings IDAR construction section	1,50	3,00
General and specific plant	7,50	15,00
Specific IDAR plants	5,00	10,00
Specific ITFI plants	5,00	10,00
Specific plants	5,00	10,00
Lifting plant	6,00	12,00
Laboratory equipment	5,00	10,00
Network	2,50	5,00
Electric cabins	3,50	7,00
Equipment	5,00	10,00
Furniture	6,00	12,00

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 difference that emerges on consolidation of the value of the investments, in the presence of the necessary requisites, are recorded in the assets in the account "consolidation difference" and amortised over a maximum period of ten years.

TANGIBLE ASSETS

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 incurred. 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.

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 applied are as follows:

District heating and gas service	min %	max %
Land	0	0
Stage one units – Abstraction		
- Buildings	2,75	5,50
- General plant	7,50	15,00
- Specific plants	5,00	10,00
Stage two units – district – specific plant	5,00	10,00
User reduction units – specific plants	4,00	8,00
Network distribution	4,00	8,00
Outlets	4,00	8,00
Meters	5,00	10,00
Cathodic protection	4,00	8,00
Electric cabins – specific plant	3,50	7,00
Co-generation and district heating		
- Production – buildings	2,75	5,50
- Production – general plants	4,50	9,00
- Production – specific plants	4,50	9,00
- Distribution network	4,00	8,00
- Heat exchange unit	4,50	9,00
- Electric cabins	3,50	7,00
Equipment	5,00	10,00

Water service	min %	max %
Land	0	0
Buildings/Civil works	1,75	3,50
Wells		
– Buildings/Civil works	1,75	3,50
– General and specific plant	1,25	2,50
Abstraction – Buildings/Civil works	1,25	2,50
Lifting and fresh water stations		
- Buildings/Civil works	1,75	3,50
- General plant	7,50	15,00
- Specific plants	6,00	12,00
- Fresh water plants	4,00	8,00
Reservoirs	2,00	4,00
Pipelines and distribution network	2,50	5,00
Intakes and connections	2,50	5,00
Meters	5,00	10,00
Electric cabins – specific plant	3,50	7,00
Autovehicles	10,00	20,00

Waste Management Service	min %	max %
Land	0,00	0,00
Buildings	1,50	3,00
Secondary building units (warehouse)	1,50	3,00
General plant	7,50	15,00
Specific IIR plants	5,00	10,00
Specific BIOGAS plants, storage +IRE	5,00	10,00
Specific waste composting plants	5,00	10,00
Vehicles and internal means of transport	10,00	20,00
Waste containers and equipment	5,00	10,00
General equipment	5,00	10,00
Snow service equipment	5,00	10,00
Hygienic equipment	5,00	10,00
Light constructions	5,00	10,00
Automobiles	12,50	25,00
Controlled landfills		

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

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.

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.

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 International Accounting Principle (I.A.S.) no. 17, that best represents the economic substance of the financial leasing contracts in place.

Financial Assets

EQUITY INVESTMENTS

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

The investments in "non-consolidated subsidiaries" are recorded at the cost of acquisition effectively incurred or subscription. The investments in associated companies are valued under the net equity method.

The investments in associated companies are valued under the net equity method for an amount equal to the corresponding fraction of the net equity resulting from the latest financial statements of the company, after the deduction of dividends and the adjustments required by the accounting principles of the consolidated financial statements. The differences attributable to goodwill are amortised over 10 years.

The other investments are valued at cost.

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.

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 year.

The cost is determined in accordance with the weighted average cost method. This criterion was changed compared to that used in 2003, as indicated in the introduction to the paragraph "Accounting Principles" without significant impact.

The market value is determined based on current costs of inventory held at the year 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 provision.

Long-term contract work in progress is valued at cost, or at the price agreed, if lower.

Receivables

The receivables are recorded at realisable value through the creation of a doubtful debt provision. 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.

The other receivables in current assets include deferred tax assets, the calculation of which is described under income taxes.

Deferred tax assets

This account includes the deferred tax assets recorded in the balance sheet, for which reference should be made to the relative valuation criteria of income taxes for the calculation basis.

Current financial assets

The securities and investments, held for the short-term or which mature within one year, are valued at purchase cost, or realisable value, taken from quoted market values in the case of quoted securities, if lower. This lower value is not maintained where the reasons no longer exist.

Prepays and accruals

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 esti-

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

The reserve for the restoration of third party assets relates to the provisions charged to the income statement necessary to ensure the restoration of the networks, plant and assets under rental at the moment of restitution. This amount is defined in the company rental contracts between the Asset Companies and Hera S.p.A.

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 derivative contracts that result in the forward exchange of capital or other assets or their differential are recorded at the contract price; the commitments for derivative contracts other than above (interest rate swap) are recorded at nominal capital value. 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.

In particulare:

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

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

revenues from the 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 recorded under deferred income and credited to the income statement in line with the depreciation period on the assets to which they refer;

costs are stated in accordance with the accruals principle;

financial income and expenses are recognised in accordance with the accruals principle.

Income tax

Current income taxes are recorded on the basis of the fiscal assessable result; the payable is recorded in the account "Tax payables".

Deferred taxes assets and liabilities are calculated on the temporary timing differences arising and recorded in a provision for deferred taxes, only if the amount is a liability. Where there is a positive component, a deferred tax asset is recorded under receivables within current assets, only if there is reasonable certainty of the deduction in future years, which resulted in the recording of the deferred tax asset, of an assessable result not lower than the amount of the differences that will be reversed. The amount of the deferred tax assets are assessed each year, in order to verify the continuation of the reasonable certainty of future assessable income, to the extent that the entire amount of the deferred tax asset will be recovered.

The deferred taxes are determined on the basis of income tax rates at the moment of the recoding of the temporary difference. Any variations, as a consequence of a change to income taxes and/or rates, are recorded in the year in which the new provisions enter into force and are effectively applicable.

Conversion criteria of foreign currencies

The assets and liabilities in foreign currencies, with the exception of fixed assets, are recorded at the exchange rate at the year end and the relative exchange gains or losses are recorded in the Income Statement; any net gain arising is recorded in a specific non distributable reserve until the gain is realised.

BALANCE SHEET

ASSETS

RECEIVABLES FROM SHAREHOLDERS FOR UNPAID CAPITAL

The receivables from shareholders for unpaid capital due equal to Euro 42 thousand relates to the one tenth of the share capital still to be paid by minority shareholders following the subscription of the share capital increase of ARES S.p.A. from Euro 770 thousand to Euro 1,125 thousand.

In relation to the one tenth of the share capital still to be called due by minority shareholders equal to Euro 343 thousand they relate to the following companies:

AttivaBologna for Euro 146 thousand
Eris for Euro 110 thousand
Romagna Compost for Euro 87 thousand

FIXED ASSETS

INTANGIBLE ASSETS

The intangible assets consist of:

At December 31, 2004 the formation, start-up and similar costs, equal to Euro 14,251 thousand, principally relate to the quotation costs and non-recurring charges relating to the integration process of Hera S.p.A. These costs are amortised over 5 years. The net increase equal to Euro 1,659 thousand compared to the previous year is principally related to the acquisition of new companies in the consolidation areas.

At December 31, 2004 the research, development and advertising costs, equal to Euro 3,389 thousand, principally related to charges incurred in obtaining new services or rights to improve the existing services.

At December 31, 2004 the Industrial patent and intellectual property licences, equal to Euro 10,804 thousand, relate principally to costs incurred for the purchase and implementation of the SAP R/3 software and programmes. These costs are amortised over five years.

At December 31, 20004 the concessions, licenses, trademarks and similar rights amount to Euro 147,125 thousand, a decrease of Euro 61,515 thousand compared to the previous year represented largely by the value of concessions in the Parent Company relating to the gas, water and purification plants. The right to exploit such works is amortised for the lesser period between their economic/technical life and the duration of the concession. The residual value of the intangible assets corresponding to the water concessions conferred by the companies spun-off or merged, however, is amortised for the residual duration of 20 years, from January 1, 2002. The change of the residual duration of the amortisation period compared to the previous year (in 2003 the residual duration was estimated as 11 years) was made necessary following the specific Conventions agreed between the area Agency for the local public services and Hera S.p.A. for the organisation and the management of the integrated water service. This change in the amortisation period resulted in recording lower amortisation in the income statement equal to Euro 1,705 thousand.

The residual value of intangible assets corresponding to the concessions of the methane gas distribution networks from the companies merged and/or spun-off is amortised for the duration of the transitory management period as per the Decree No. 164/2000. The decreases largely relate to the reclassification from concessions to own property relating to gas services and buildings of the municipalities of Bologna, Argelato, Calderara di Reno, Castel Maggiore and Ozzano Emilia in line with the relative concession contracts.

At December 31, 2004 the goodwill, equal to Euro 117,989 thousand, 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 S.p.A.. The change in the year, net of amortisation in the year, is principally due to the goodwill deriving from the merger by incorporation of Agea S.p.A. and of the "operating division" of Acosea S.p.A. This account is amortised over 10 years from the effective legal date of the operation.

At December 31, 2004 the fixed assets under construction, equal to Euro 42,829 thousand, principally relate to costs incurred on IT projects not yet completed.

At December 31, 2004 the other intangible assets, equal to Euro 38,491 thousand, relate to leasehold improvements, expenses incurred for external road access to plants and financial charges in obtaining long-term loans.

The composition of the accounts and the changes in the year are shown in the attachment at section 3.10.01 of the present notes.

TANGIBLE ASSETS

The tangible assets consist of:

	BALANCE 31-12-04	BALANCE 31-12-03	Change
Formation, start-up and similar costs	14,251	12,592	1,659
Research, development and advertising costs	3,389	1,941	1,448
Industrial patents and intellectual property licences	10,804	9,345	1,459
Concessions, licenses, trademarks and other	147,125	208,640	-61,515
Goodwill	117,989	91,767	26,222
Assets under construction and payments on account	42,829	15,210	27,619
Other	38,491	16,493	21,998
Consolidation difference	4,623	4,844	-221
TOTAL	379,501	360,832	18,669

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Land and buildings	191,200	129,202	61,998
Plant and machinery	631,653	452,981	178,672
Industrial and commercial equipment	40,612	36,672	3,940
Other fixed assets	53,150	41,838	11,312
Assets under construction and payments on account	250,684	249,139	1,545
TOTAL	1,167,299	909,832	257,467

The accounts "land and buildings" equal to Euro 191,200 thousand, principally relates to the buildings owned by the company. The increases result from the incorporation of Agea S.p.A. and the reclassification from concessions to own property in the Parent Company Hera S.p.A. relating to gas services and buildings of the Municipality of Bologna, Argelato, Calderaia di Reno, Castel Maggiore and Ozzano Emilia in line with the relative concession contracts.

The account "plant and machinery", equal to Euro 631,653 thousand, principally relates to water and gas distribution networks of the Parent Company Hera S.p.A. The change results for Euro 52,000 thousand from the incorporation of Agea S.p.A. and of the "operating division" of Acosea S.p.a. and for the remaining part new investments in networks and extraordinary maintenance as well as the reclassification of concessions to propriety assets relating to gas services and buildings of the Municipalities of Bologna, Argelato, Calderara di Reno, Castel Maggiore and Ozzano Emilia as contained in the relative concession contracts and also to the change in the consolidation area.

The account "industrial and commercial equipment",

equal to Euro 40,612 thousand, principally relates to container bins for waste disposal. The increase of Euro 3,940 thousand relates in particular to the incorporation of Agea S.p.A.

The account "other fixed assets", equal to Euro 53,150 thousand, principally relates to furniture and EDP equipment and motor vehicles.

The account "assets under construction and payments on account", equal to Euro 250,684 thousand, principally relates to the waste-to-energy plant at Frullo, to the planning phase on the plants at Imola, Forlì and Ravenna, to the construction of the plant at Ferrara, and to the construction and restructuring of company offices and the enlargement of landfills.

For an analysis of the investments made by the Group in 2004 reference should be made to the director's report on operations.

The composition of the accounts and the changes in the year are shown in the attachment at section 3.10.02 of the present notes.

FINANCIAL ASSETS

Equity investments

The equity investments consist of:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Investments in subsidiaries not consolidated	601	1,035	-434
Investments in associated companies	52,820	88,204	-35,384
Investments in other companies	24,962	21,716	3,246
TOTAL	78,383	110,955	-32,572

Investments in subsidiaries not consolidated

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Campania Bio Energie S.r.l.	0	495	-495
Hera Immobiliare S.r.l.	68	100	-32
Sister S.p.A.	0	369	-369
Hera Clion S.r.l.	0	10	-10
Immobiliare Berti Pichat S.r.l.	5	10	-5
Ambiente 3000 S.r.l.	35	51	-16
Inter.imm S.r.l.	37	0	37
Consorzio Energia Servizi	3	0	3
Geat Service in liq.	327	0	327
Sbi	116	0	116
Hera Ferrara S.r.l.	10	0	10
TOTAL	601	1,035	-434

These companies are valued under the net equity method, not consolidated by the line-by-line method as non-operative or in liquidation.

The reduction recorded in the period, equal to Euro 434 thousand, is principally due to the sale during 2004 of the investments in Campania BioEnergie Srl and Sister S.p.A.

Investments in associated companies

The investment in associated companies are comprised of:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Asa S.p.A.	672	526	146
Acantho S.p.A.	5,736	120	5,616
Agea S.p.A.	0	58,039	-58,039
Agea Reti S.r.l.	7,739	0	7,739
Tre-A- WEB	381	0	381
Amav Ambiente S.p.A.	218	218	0
Aspes Multiservizi S.p.A.	13,084	14,109	-1,025
Attivabologna	0	1,113	-1,113
Delta WEB	94	0	94
Energica S.p.A.	0	73	-73
Ferrara Tua	164	0	164
Italgestioni S.p.A.	0	11,191	-11,191
Leucopetra S.p.A.	0	459	-459
Locride Ambiente S.p.A.	393	396	-3
Penisola Verde S.p.A.	79	79	0
Recupera S.r.l.	0	160	-160
SET S.p.A.	23,250	0	23,250
Viviservizi S.r.l.	178	200	-22
Yele S.p.A.	185	189	-4
Investments in other companies	647	1,332	-685
TOTAL	52,820	88,204	-35,384

An analysis of the principal changes in the period is provided below:

- Acantho S.p.A.: during the year the company made a first share capital increase to cover the loss of the previous year, increase subscribed by Hera S.p.A., temporarily holding a controlling interest. In November 2004 Hera S.p.A. sold to Infracom Italia S.p.A. (primary national technological infrastructure and telecommunications service operator) a quota equal to 45% of the shares held at nominal value. Acantho S.p.A. in November 2004 made a further share capital increase, in part subscribed by Hera S.p.A.. At the end of the above-mentioned operations Infracom Italia S.p.A. had acquired a share capital quota of Acantho S.p.A. equal to 48%, while Hera S.p.A. and CON.AMI respectively held 48% and 4%.
- Agea S.p.A.: on December 14, 2004 a public merger deed was signed of Agea S.p.A. into Hera S.p.A. and at the same time spin-off of the water services "operating division" of Acosea S.p.A. in favour of Hera S.p.A.. This deed, effective as on December 31, 2004, had retrospective accounting and fiscal effect to January 1, 2004. Following these extraordinary operations the following investments in associated companies were acquired: Agea Reti S.r.l.; 4Italy Energy & Environment S.p.A.; Tre A Web S.p.A.; Ferrara T.U.A. S.p.A.; SEIA S.p.A. in liq., Consorzio Ferrara e-care; DeltaWeb S.p.A.; Estense Global Service.Scarl.
- Aspes Multiservizi S.p.A.: on September 14, 2004 Hera S.p.A. acquired a further 315,113 shares in Aspes Multiservizi S.p.A. (company that provides energy and waste management

services in the Pesaro region) increasing its holding from 24% to 26.874%. This acquisition is the first exercise of the PUT right in favour of the public shareholders, governed by a sales contract signed on September 19, 2002 between the public shareholders of Aspes Multiservizi S.p.A. and the then named Seabo S.p.A. that was awarded with a public tender a holding equal to 24% of the share capital of the company. The reduction recorded in the year is due to the amortisation quota of the goodwill inherent in the value of the investment.

- Italgestioni Srl: in 2004 Hera S.p.A. sold its holding to Enel
- Leucopetra S.p.A.: Hera S.p.A. sold its investment in 2005 and thus in 2004 reclassified the investment to current assets.
- SET S.p.A.: on December 15, 2004 Hera S.p.A. acquired a shareholding equal to 39% of the share capital of the company SET S.p.A., a subsidiary of the Swiss company Raetia Energie AG that is constructing a new combined cycle plant of 400 MW at Teverola (CE).
- The company Attivabologna Srl at December 31, 2004 was a subsidiary company, previously an associated company, following the acquisition by Hera Comm Srl of the quota from minority shareholders which increased the holding of the Group from 48% to 91,74%.
- Following the merger of Agea S.p.A. into Hera S.p.A., the company Recupera Srl was no longer an associated company but a subsidiary and valued under the full method.

Investments in other companies

The investment in other companies consist of:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Energia Italiana S.p.A.	23,980	19,910	4,070
Galsi	450	450	0
Valdisieve srl	0	70	-70
Ambiente Mare	300	300	0
Altre imprese	232	986	-754
TOTALE	24,962	21,716	3,246

In 2004 the Parent Company subscribed, for its holding, the share capital increase in the company Energia Italiana S.p.A. for a total value of Euro 4,070 thousand.

RECEIVABLES

	Dec-31-04		Dec-31-03	
	Within 1 year	Receivables due Between 1 and 5 years	Within 1 year	Receivables due Between 1 and 5 years
Receivables:				
Subsidiaries not consolidated	31			
Associated companies	92	18,903		
Other receivables	8,941	87,719	193	44,704
TOTAL	9,064	106,622	193	44,704

The receivables from others principally include, for Euro 68,782 thousand, the receivables from the Asset Companies and from Con.Ami and relate to the receivable for the investments made by Hera S.p.A. in the business division rented. These investments, having been directly acquired by the leasee (on the basis of current legislation in force), give rise to a corresponding receivable under non-current assets of the leasee (Hera S.p.A.), against the indemnity at the end of the rental contract.

This account also includes for Euro 12,000 thousand the value of the deposit given on the rental contracts of business divisions from the asset companies of Acosea Reti Srl and Hera S.p.A. This amount entered into the Parent Company following the incorporation of the division from Acosea S.p.A.

Other Securities

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Other securities	2	260	-258
TOTAL	2	260	-258

The securities recorded in fixed assets consist of variable yield securities.

CURRENT ASSETS

INVENTORY

Inventory consists of:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Changes
Raw materials, supplies and consumable goods	35,241	26,556	8,685
Work in progress and semi-finished products	2,675	1,372	1,303
Contract work in progress	18,153	13,280	4,873
Finished products and goods	3,509	904	2,605
Payments on account	88	506	-418
TOTAL	59,666	42,618	17,048

The inventory of raw material, ancillary and consumables principally consists of spare parts and equipment mainly for the maintenance and operations of the plant as well as methane gas storage by the subsidiary Hera Trading Srl increasing compared to the previous year by Euro 15,064 thousand.

Inventory is shown net of the obsolescence provision of Euro 843 thousand.

	BALANCE Dec-31-03	Acquisition AGEA ACOSEA	Provisions	Change
Inventory obsolescence	660	129	54	843
TOTAL	660	129	54	843

The Group changed the criteria for the valuation of inventory during the year from the LIFO method to the Average Cost Method. The impact of this change was insignificant.

RECEIVABLES

Receivables from users and customers

The following table shows the breakdown of trade receivables.

	BALANCE Dec-31-04	BALANCE Dec-31-03	Changes
Customers and related parties	347,238	291,381	55,857
(reference to details in director's report)			
Invoices to issue or consumption not measured	247,635	260,656	-13,021
Contentious receivables	92	2,587	-2,495
Less: provision for doubtful debts	-15,385	-11,044	-4,341
TOTAL	579,580	543,580	36,000

The receivables from users for consumption estimated represents the quota of the bills that will be invoiced after the year-end.

The receivables are shown net of a doubtful debt provision of Euro 15,385 thousand, considered adequate and prudent in relation to the net realisable value of the receivables. The provision is made taking into consideration the historical analysis of the recovery of receivables.

	BALANCE Dec-31-03	Change in consol. area	Acquisition merger Agea Acosea	Provisions	Utilisation	Other changes	BALANCE Dec-31-04
Provision for doubtful debts	11,044	277	810	5,673	-2,738	319	15,385
TOTAL	11,044	277	810	5,673	-2,738	319	15,385

Subsidiaries not consolidated

	BALANCE Dec-31-04	BALANCE Dec-31-03	Changes
Subsidiaries not consolidated	195	0	195
TOTAL	195	0	195

Associated companies

	BALANCE Dec-31-04	BALANCE Dec-31-03	Changes
Associated companies	14,775	9,207	5,568
TOTAL	14,775	9,207	5,568

These receivables principally relate to commercial transactions at normal market conditions. The largest amount relates to a trade receivable from Acantho S.p.A. equal to Euro 12,370 thousand.

The analysis of the receivables by expiry date is as follows:

	Dec-31-04			Dec-31-03		
	Within 1 year	Receivables due Between 1 and 5 years	Beyond 5 years	Within 1 year	Receivables due Between 1 and 5 years	Beyond 5 years
Receivables:						
Subsidiaries not consolidated		195				
Associated companies		14,616	159		9,202	5
Customers		577,359	2,221		538,867	4,713
TOTAL		592,170	2,380		548,069	4,718

Tax receivables

The table below shows the composition:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Due within one year:			
Receivables for VAT and consumption tax	5,361	2,194	3,167
Other tax receivables	2,614	21,776	-19,162
SUBTOTAL	7,975	23,970	-15,995
Due over one year:			
VAT reimbursement	493	2,081	-1,588
Reimbursement of income taxes	287	627	-340
SUBTOTAL	780	2,708	-1,928
TOTAL	8,755	26,678	-17,923

The reduction in the short-term tax receivables equal to Euro 15,995 thousand is principally due to the reclassification of the payment on account for 2004 as a reduction of the relative payables.

Deferred tax asset

The tables below shows the composition:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Due within one year:			
Deferred tax asset	300	55	245
SUBTOTAL	300	55	245
Due after one year:			
Deferred tax asset	20,006	14,810	5,196
SUBTOTAL	20,006	14,810	5,196
TOTAL	20,306	14,865	5,441

lThe deferred tax assets are generated from the temporary differences between the book and fiscal income that will reverse in future years. These receivables are recoverable on the reversal of the temporary differences. For the analysis of the differences that give rise to the deferred tax assets reference should be made to the section in the notes on income taxes.

The table below shows the composition:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Due within one year:			
Employees	131	31	100
Other receivables	14,397	5,301	9,096
Insurance reimbursements	173	3	170
Other	20,550	18,309	2,241
SUBTOTAL	35,251	23,644	11,607
Due after one year:			
Other receivables	739	943	-204
SUBTOTAL	739	943	-204
TOTAL	35,990	24,587	11,403

The account "other receivables" principally consists of payments on accounts to suppliers for Euro 11,913 thousand and receivables for grants of Euro 2,484 thousand.

The account "other receivables within one year" principally consists of receivables from the Asset Companies for Euro 4,506 thousand and for receivables from loans to collect of Euro 2,343 thousand.

CURRENT FINANCIAL ASSETS

The account consists of:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
investments in subsidiaries not consolidated	19.100	0	19.100
Investments in other companies	580	0	580
Other securities:			
- insurance funds	14.805	9.935	4.870
TOTAL	34.485	9.935	24.550

The account investments in subsidiaries not consolidated consists of the 75.5% in the share capital of Acosea Impianti Srl, company incorporated following the spin-off of the “operating division” of Acosea S.p.A.. The agreements underwritten with the shareholder municipalities (remaining 24.5% of the share capital) provides for the acquisition, by the municipalities, in the first months of 2005 with consequent recovery of the book value. The principal component of the “Other securities” is represented by insurance certificates with yields of over 3%.

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 for Euro 72 thousand. Also includes; the deposits at the Bank and Credit Institution generally available for current operations as well as postal current accounts for Euro 172,300 thousand (with an increase compared to the previous year of Euro 80,148 thousand).

Prepayments and accrued income

The account consists of:

	BALANCE Dec-31-04	BALANCE Dec-31-03	CHANGE
Accrued income:			
Interest on securities	10	15	-5
Other accrued income	38	59	-21
Total accrued income	48	74	-26
Prepaid expenses:			
Insurance premiums		103	-103
Rent	108		108
Substitute tax	14.848	16.505	-1.657
Other prepaid expenses	5.834	2.244	3.590
Total prepaid expenses	20.790	18.852	1.938
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	20.838	18.926	1.912

In 2004, the largest amount was substitute tax which was also the largest individual item in 2003 totalling Euro 16,505 thousand. The substitute tax was paid in the year 2002, in order to obtain fiscal relief consequent of the fully deductibility on the amortisation on the share swap deficit. The prepayment is recorded in order to correlate the cost with the amortisation period on the share swap deficit.

SHAREHOLDERS' EQUITY

Schedule of movements in shareholders' equity

Group net equity	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Capital grants reserve	Reserve for accel. Deprec.	Extraordinary reserve	Share swap deficit reserve	Undistributable reserve	Year-end result	Total group net equity
Balances at 31.12.2003	793.202	12.253	3.048	4.789	6.000	2.194	820	9.335	-10.779	49.454	870.316
Allocation of result											
Dividends										-42.040	-42.040
Other allocation				2.426			4.055		933	-7.414	
Merger of Agea & Acosea											
Share capital increase	46.701										46.701
Share swap deficit								20.909			20.909
Other movements of reserves						-2.194	2.194		-42		-42
Result of current financial year										56.724	56.724
Balances at 31.12.2004	839.903	12.253	3.048	7.215	6.000	0	7.069	30.244	-9.888	56.724	952.568

Minority net equity										Minority interest share in result	Total minority net equity
Balances as at 31.12.2003	20.639									3.553	24.192
Allocation of result										-3.553	-3.553
Increases in capital	1.206										1.206
Other movements	-674										-674
Result of current year										5.290	5.290
Balances at 31.12.2004	21.171									5.290	26.461
Total net equity	861,074	12,253	3,048	7,215	6,000	0	7,069	30,244	-9,888	62,014	979,029

Share capital

The share capital of the company consists of 839,903,881 ordinary shares at a nominal value of Euro 1 each.

The change in the Share Capital in the year is due to the issue of new shares for a share swap operation with the incorporated companies AGEA and of the "operating division" of the water service of ACOSEA S.p.A.

Share premium reserve

At December 31, 2004 this amounted to Euro 12,253 thousand, without any change from the previous year.

Legal reserve

At December 31, 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 December 31, 2004 this amounted to Euro 7,069 thousand, the increase compared to the previous year is due to: for Euro 4,055 thousand to the allocation of the profit in the previous year, as deliberated by the Shareholders' Meeting of April 27, 2004 on the approval of the financial statements; for Euro 2,194 thousand to the reclassification of the accelerated depreciation reserve in accordance with article 67 of the Finance Act.

Capital grants reserve

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

Share swap surplus reserve

The reserve, equal to Euro 30,244 thousand, increased following the incorporation of Agea S.p.A. and of the "operating division" of the water service of Acosea S.p.A..

RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

The schedule below provides a reconciliation between the financial statements of the parent company and the consolidated financial statements, relating to the net equity and net profit for the year.

	Current year		Previous year	
	Net profit	Net equity	Net profit	Net equity
BALANCES AS PER FINANCIAL STATEMENTS OF PARENT COMPANY	59.368	965.100	48.523	880.164
Elimination of the effect of operations between consolidated companies net of their fiscal effect:				
- Reversal of write-down in subsidiary companies			3.969	
- Accrued dividends received from consolidated companies	-44.583	-44.583	-36.538	-36.538
- Cash dividends received from subsidiaries and associated companies			-911	-911
Effect of the change and uniform criteria within the group net of their fiscal effect:				
- application of finance method for leased assets	1.318	2.657	547	1.339
- net equity valuation of companies recorded at cost	-2.202	-3.934	1.307	-1.147
Effect of the eliminations of the Companies consolidated fully	43.791	35.077	36.844	28.112
Allocation of difference to assets of consolidated companies and related depreciations:				
- Consolidation goodwill	-806	4.623	-1.101	4.844
- Elimination conferment of business division Amga Energia	239	-4.524	-4.763	-4.763
Effect of other adjustments	510	-937	666	-1.695
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS - Quota del Gruppo	56.724	952.568	49.454	870.316
BALANCES AS PER CONSOLIDATED FINANCIAL STATEMENTS - Quota di Terzi	5.290	26.461	3.553	24.192
CONSOLIDATED FINANCIAL STATEMENTS	62.014	979.029	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 Dec-31-03	Acquisition AGEA ACOSEA	Provisions	Utilisation	Other changes	BALANCE Dec-31-04
Pension and similar provision	36					36
Deferred taxes	1.901	595	839		1.388	4.723
Provision for contingencies and charges:						
Provision for legal cases and litigation with personnel	3.685		742	-1.781	1.002	3.648
Provision for landfill closure and post-closure expenses	47.368	3.614	8.161	-3.557	-1.375	54.211
Provision for restoration of third party assets	48.380	1.450	24.532	-3	278	74.637
Other provisions	7.635	1.256	11.161	-1.785	-1.191	17.076
TOTAL	109.005	6.915	45.435	-7.126	102	154.331

The provision for taxes consists of an amount for deferred taxes equal to Euro 3,834 thousand principally related to excess depreciation and advances made by the Group solely for fiscal purposes in previous years. The net increase in the deferred tax liability, equal to Euro 839 thousand, is principally due to the progressive effects deriving from the so-called "fiscal adjustment" of the financial statements in accordance with the Legislative Decree 17/01/2003 Vietti. The remaining amount of the tax provision relates to receivables requested as reimbursement in previous years and written down for the full amount on a prudent basis.

The landfill closure and post-closure expenses provision relates to the provision made by the Group in order to meet future costs for the management of the landfills currently in use. The provision, equal to Euro 8,161 thousand, is attributable to the increase in the quantities conferred to the landfills managed.

The restoration of third party assets provision, equal to Euro 74,637 thousand at December 31, 2004, 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 normal depreciation rates which are agreed contractually in order to indemnify the lessor for the impairment to the assets utilised in the activities of the company. They are calculated on the value of the assets received in rental and on the value of the new investments recorded in fixed assets.

EMPLOYEE LEAVING INDEMNITY

The movements in the year are detailed below:

	BALANCE Dec-31-03	Acquisition AGEA ACOSEA	Provisions	Utilisation	Other changes	BALANCE Dec-31-04
Employee leaving indemnity provision	68.372	12.069	10.796	-7.305	617	84.549
TOTAL	68.372	12.069	10.796	-7.305	617	84.549

This account relates to the provisions made for employee leaving indemnities in accordance with legislation net of advances paid to employees.

PAYABLES TO SHAREHOLDERS FOR LOANS

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Actelios S.p.A.	1.176		1.176
TOTAL	1.176		1.176

This account relates to the loan granted to the subsidiary Frullo Energia Ambiente Srl by the minority shareholders. The due date of the loans is not contractually defined in that related to the commitments contained in the Project Financing and cash flows of the project.

Bonds

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Bonds due within one year	0	5.165	-5.165
TOTAL	0	5.165	-5.165

During the year the Parent Company repaid the final instalment on the existing bond.

Payables to banks

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Due to banks – short term	226.619	191.646	34.973
Due to banks – medium/long term	463.454	323.766	139.688
TOTAL	690.073	515.412	174.661

For the comments on the increase in this account reference should be made to the director's report.

The account "payables to banks" relates to overdrafts and loans received at interest rates in line with normal market conditions. In addition the Parent Company Hera S.p.A. adopted, for loans amounting to Euro 165,000 thousand, financial strategies aimed at transforming the variable rates to fixed whose value is restricted to a collar limit.

The bank payables include Euro 91,104 thousand loans of the subsidiary Fea Srl. These loans are guaranteed by mortgages and special privileges in favour of the bank pool that subscribed the no recourse project financing, to guarantee the loans. The repayment of this loan, with final due date of December 31, 2017, contractually establishes half yearly repayments at interest rates of "Euribor 6 months + spread 1.15%". For the sole purposes of hedging the non recourse project financing, and as indicated by the Banks, there are interest rate swap contracts existing, for a notional amount of Euro 57,148 thousand, in order to cover the variable rates to fixed, at conditions substantially in line with the market.

Payables to other lenders

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Due to other lenders – short term	44.099	2.441	41.658
Due to other lenders – medium/long term	54.277	28.882	25.395
TOTAL	98.376	31.323	67.053

The other short-term lenders record a payable to MCC S.p.A., equal to Euro 41,093 thousand, contract for the acquisition of the investment in SET S.p.A. and the payable to Cassa Depositi e Prestiti for Euro 2,839 thousand.

The medium/long-term payables to other lenders record a payable due to the Cassa Depositi e Prestiti of which Euro 18,764 thousand due within five years and Euro 6,224 thousand beyond 2011.

This account also includes payables due to the application of IAS17 for finance leases of Euro 62 thousand short-term and Euro 28,668 thousand medium/long-term.

Payments on account

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Payments on account	7.463	4.649	2.814
TOTAL	7.463	4.649	2.814

The account relates principally to the payable for advances received from customers for work still to be performed.

Trade payables

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Trade payables	261.865	222.995	38.870
Invoices to receive	159.644	151.730	7.914
TOTAL	421.509	374.725	46.784

The increase in this account is due to the increase and to different composition of the turnover; for both matters reference should be made to the director's report.

	Dec-31-03	Changes	Dec-31-04	Within one year	Payables due Between 1 and 5 years	Beyond 5 years
Trade payables	222.995	38.870	261.865	261.220	645	
Invoices to receive	151.730	7.914	159.644	159.644		
TOTAL	374.725	46.784	421.509	420.864	645	

Payables to subsidiaries not consolidated

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Trade payables	103	347	-244
TOTAL	103	347	-244

Payables to asociated companies

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Trade payables	7.181	6.184	997
TOTAL	7.181	6.184	997

These payables of a commercial nature are regulated at market conditions.

	BALANCE Dec-31-04
Acantho S.p.A.	3.060
Asa S.p.A.	1.165
Agess S.c.a.r.l.	10
Aspes Multiservizi S.p.A.	30
Service Imola S.r.l.	198
Sinergie Ambientali S.r.l.	33
Sgs S.r.l.	460
Viviservizi S.r.l. consortile	1.753
Agea Reti S.r.l.	220
4Italy Energy & Environment S.p.A.	72
Other minor	180
TOTAL	7.181

Payables to tax authorities

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Income taxes (incl. ecotaxes)	59.045	47.383	11.662
VAT	13.400	6.370	7.030
Employee withholding taxes	3.860	4.068	-208
Others	10.365	9.386	979
TOTAL	86.670	67.207	19.463

The increase in income taxes is principally due to the increased payment for consumption tax related to the increased level of invoicing.

Payables to social security i

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Payables to INPS	1.828	1.798	30
Payables to INPDAP	5.444	5.277	167
Payables - others	5.083	3.232	1.851
TOTAL	12.355	10.307	2.048

They principally consist of contributions due to social security institutions relating to the month of December 2004. These payables are due within one year.

Other payables

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Payables to personnel for vacation days due, premiums and salary	14.391	15.123	-732
Payables to directors for emoluments	45	63	-18
Payables to statutory auditors for emoluments	208	295	-87
Payables to shareholders for dividends	7	7	0
Others	27.154	25.208	1.946
TOTAL WITHIN 12 MONTHS	41.805	40.696	1.109
Guarantee deposits	43.583	39.862	3.721
Others	254	82	172
TOTAL BEYOND 12 MONTHS	43.837	39.944	3.893
TOTAL	85.642	80.640	5.002

The account "others" results also from the classification of payables up to the previous year to municipalities for purification/sewerage tariffs.

ACCRUED EXPENSES AND DEFERRED INCOME

The following table illustrates the movements in the year:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Accrued expenses:			
Interest expense	732	560	172
Others	808	2.028	-1.220
Total	1.540	2.588	-1.048
Deferred income:			
Contributions for connections	17.852	18.582	-740
Contribution for environmental plant and differentiated collection	187	332	-145
Other deferred income	40.182	21.122	19.060
Total	58.221	40.046	18.175
TOTAL	59.761	42.634	17.127

The composition for the year 2004 shows the amount of deferred income relating to the quota of revenues from connections. For 2003 a reclassification was made in order to evidence this account represented principally by connections received from users and recorded for future years proportionally to the quota of depreciation on the relative fixed assets. In relation to this account, from the year 2001 the contribution is recorded in the income statement in the period to which it refers; the amount recorded in deferred income refers to contributions matured in previous years.

At December 31, 2004 the account "deferred income" includes for Euro 10,479 thousand suspension of gas revenues to 2005. The residual part principally relates to capital grants.

MEMORANDUM ACCOUNTS

Guarantees given

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Guarantees given to third parties:			
- sureties	194.886	106.071	88.815
- other unsecured guarantees	5.868	7.467	-1.599
- secured guarantees	125.895	129.153	-3.258
Total	326.649	242.691	83.958
Other unsecured guarantees given in the interest:			
- of associated companies	119.094	2.547	116.547
Total	445.743	245.238	200.505

The guarantee to others include all the guarantees given to third parties.

The most significant amount relates to the surety given by UniCredit Banca d'Impresa S.p.A., for an amount of Euro 27,681 thousand, in favour of the municipality of Pesaro as mandate of the public shareholders of Aspes Multiservizi S.p.A., to guarantee compliance with the obligations of Hera following the signing of the sales contract. In particular, on September 19, 2002 Hera S.p.A. signed a contract in which it acquired a shareholding equal to 24% of the share capital in Aspes Multiservizi S.p.A. In 2004 Hera S.p.A. increased its shareholding to 26.87% being committed to acquire, on request of the public shareholders of Aspes Multiservizi S.p.A., further holdings up to a maximum amount of 65% of the share capital. This obligation will expire on September 18, 2006, the surety has a duration equal to 4 years from the date of the contract that may be unconditionally extended at the request of the municipality of Pesaro for a further 6 months.

The guarantees include Euro 125,895 thousand of mortgages and special privileges on land, plant and machinery recorded by the subsidiary Fea Srl in favour of a pool of banks for project financing.

In the unsecured guarantees given on behalf of the associated companies are included guarantees connected to the acquisition of 39% of the company SET S.p.A. from RAETIA S.p.A. amounting to approximately Euro 100 million of which approximately Euro 51 million provided against a loan obtained from a banking pool by SET S.p.A. and approximately Euro 45 million against the guarantees given to the constructor of the plant. There is also Euro 15 million to Acantho S.p.A. as a non-committal comfort letter against a loan without recourse obtained by Acantho S.p.A. from a banking pool.

Other memorandum accounts			
	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Commitments:			
- company in usufruct	0	10.854	-10.854
- third party assets held by the company	1.347.330	1.156.224	191.106
- others	208.701	115.656	93.045
TOTAL OTHER MEMORANDUM ACCOUNTS	1.556.031	1.282.734	273.297
TOTAL MEMORANDUM ACCOUNTS	2.001.774	1.527.972	473.802

The third party assets held by the company consist of:

- the assets of third parties in concession principally consist of water cycle and gas assets received in concession by the Parent Company Hera S.p.A. from the Territorial Bodies for Euro 660 thousand;
- the assets of third parties under rental principally consist of water cycle and gas assets received by the Parent Company Hera S.p.A. from the Asset Companies for Euro 616 thousand;

The other memorandum accounts mainly consist of:

- The interest rate cover contracts, equal to Euro 167,398 thousand, represent the nominal value of the derivative instruments agreed by the company.
- The commodities swap contracts are made by the subsidiaries Hera Comm Srl and Hera Trading Srl. In relation to the wholesale activities carried out it is necessary to manage risks related to the misalignment between the indexations related to the purchase of Gas and Electricity and indexations relating to the sale of the same commodities. The instruments utilised for the management of the price risk, in relation to the price of the goods and the relative euro/dollar exchange rate, is contained in the commodity – swap contracts, in order to guarantee prefixed margins, whose expiry are fixed to the relative underlined procurement contracts. The total value of the contracts in place at December 31, 2004, amounts to Euro 35,875 thousand, obtained multiplying the quantities covered, for successive delivery to December 31, 2004, for the relative hedge price fixed.

INCOME STATEMENT

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

VALUE OF PRODUCTION

Revenues-goods and services

The revenues from sales and services, equal to Euro 1,491,381 thousand, are divided as follows:

Methane gas for resale	542.641
Water for resale	177.795
Electricity for resale	212.185
Collection and disposal of waste	323.112
District heating services	35.260
Purification and sewerage	77.324
Public lighting	13.985
Cemetery and funeral services	18.267
Various services	85.263
Revenues from associated companies	5.549

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

The company operates only in Italy.

Variation in contract work in progress

This account has a balance equal to Euro 5,649 thousand (Euro 23,131 thousand at December 31, 2003) and principally relates to work in the course of completion, relating to the construction of new plants. The work in progress, valued at cost, given that it relates to long-term activities, includes the value of orders matured at December 31, 2004 and yet not invoiced.

Increases on internal work capitalised under fixed assets

During the year the following costs were capitalised in the account "Intangible and tangible assets":

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Increases on internal work capitalised	110.599	67.501	43.098
TOTAL	110.599	67.501	43.098

This account principally relates to the investments made by the Local Operating Companies for the Parent Company Hera S.p.A..

For the analysis of the investments reference should be made to the comments in the assets of the Balance Sheet on intangible and tangible assets.

Other revenues

This account consists of:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Reimbursements from social security and insurance bodies	2.307	2.688	(381)
Sale of materials and stock to third parties	34	853	(819)
Quota of capital grants	1.408	1.241	167
Other grants	7.786	8.578	(792)
Over-accruals of previous years and similar	71	225	(154)
Rent	1.147	821	326
Others	10.165	4.108	6.057
Other revenues from associated companies	4.888	929	3.959
TOTALE	27.806	19.443	8.363

COSTS OF PRODUCTION

Raw materials, consumables and supplies

The analysis of purchases is as follows:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Methane ready for sale	373.538	336.079	37.459
Fuel for heat generation	1.530	124	1.406
Electricity ready for sale	137.973	84.934	53.039
Water	23.416	22.252	1.164
Lpg	1.690	2.421	(731)
Materials for maintenance	4.035	3.270	765
Electricity	25.938	25.997	(59)
Fuels and lubricants	5.846	6.460	(614)
Consumables	23.862	27.120	(3.258)
Methane for industrial use	4.192	1.114	3.078
Water for industrial use	399	78	321
Chemical products	7.464	6.122	1.342
Others	15.040	11.655	3.385
TOTAL	624.923	527.626	97.297

Services

The analysis and the composition of services is as follows:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Industrial utilities: for water, methane, heat and energy services	5.788	719	5.069
Expenses on works and maintenance	146.601	125.093	21.508
Energy transport	59.715	19.989	39.726
Insurance costs	9.009	8.028	981
IT and CED services	5.599	7.090	(1.491)
Cleaning costs	4.301	2.844	1.457
Waste transportation, disposal and collection services	76.421	58.855	17.566
Advertising, announcements	6.213	4.087	2.126
Transport costs	1.024	3.110	(2.086)
Legal and fiscal consultants	17.275	17.315	(40)
Remuneration of directors and statutory auditors	4.115	3.497	618
Meter reading	1.637	848	789
Postal and telephone	4.645	2.599	2.046
Selection, training and canteen expenses	7.153	5.728	1.425
Environmental hygiene	5.511	5.947	(436)
Others	52.771	35.995	16.776
TOTAL	407.778	301.744	106.034

The increase in cost for energy transport derives from the expansion of the commercial activities outside the original territory in the energy sector.

Personnel costs

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

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Wages and salaries	152.822	134.010	18.812
Social security contributions	53.363	47.473	5.890
Employee leaving indemnity provision	10.796	9.922	874
Other costs	3.571	1.024	2.547
TOTAL	220.552	192.429	28.123

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

Category	2004	2003	Change
Executive	84	71	+13
Managers	186	143	+43
White-collar	1.996	1.661	+335
Blue-collar	2.834	2.630	+204
TOTAL	5.100	4.505	+595

Overall the average pro-capita cost at December 31, 2004 was Euro 43.2 thousand with an increase of 1.2% compared to December 31, 2003 (42.7).
At December 31, 2004 the number of employees amounted to 5,023 taking into account the employees from the incorporated Agea S.p.A. and of the "operating division" of the water service of Acosea S.p.A. and of the changes in the consolidation area.

Other operating costs

The composition of other operating costs are as follows:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Other taxes	4.518	2.754	1.764
Rental for occupation of public areas	1.308	651	657
Association contributions	1.338	1.118	220
Special landfill levy	8.624	4.850	3.774
Ecology tax on transfer of landfills	1.327	797	530
Loss on sale of ordinary assets	1.034	391	643
Other minor charges	6.494	5.263	1.231
TOTAL	24.643	15.824	8.819

The account other taxes includes those for concession levies paid to Public Entities.

The increase in the special landfill tax is due to the fact that, from 2004, the relative values should be recorded not only as asset movements, but also among costs and revenues.

FINANCIAL INCOME AND CHARGES

Financial income is comprised of:

Income from equity investments

	Dividends	Gains on trading	Others	Total
Subsidiary companies not consolidated	70	0	31	101
Associated companies		960		960
Other companies	329	434	26	789
TOTAL	399	1.394	57	1.850

Other financial income

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
From securities recorded under non-current assets not constituting investments			
FROM OTHER SECURITIES			
Gains on trading	10	13	(3)
TOTAL	10	13	(3)
From securities recorded under current assets not constituting investments			
FROM GOVERNMENT SECURITIES			
Gains on trading	19	23	(4)
FROM OTHER SECURITIES			
Gains on trading	144	102	42
Others		1	(1)
TOTAL	163	126	37
Income other than the above, third parties			
Tax credit from dividends	0	717	(717)
Interest on bank deposits	1.677	1.249	428
Interest on tax credit	9		9
Interest on other short-term receivables	310	144	166
Interest on customers	600	654	(54)
Other financial income	1.396	889	507
TOTAL	3.992	3.653	339

Interest and other financial charges

The composition of interest expenses and other financial charges is as follows:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Financial charges:			
Interest on bonds	0	386	(386)
Interest on bank current accounts	5.661	6.982	(1.321)
Interest on medium/long term loans	14.533	7.287	7.246
Interest from other lenders	54	37	17
Others	0	12	(12)
Other financial charges:			
Commissions and bank charges	368	271	97
Others	5.883	4.312	1.571
TOTAL	26.499	19.287	7.212

The Parent Company Hera S.p.A., in the years 2001 and 2002 took out interest hedging cover on approximately 50% of its medium/long term debt and the subsidiary Fea Srl has an IRS contract on the project financing loan, as further described in the section "payables to banks"; due to the decrease in interest rates and despite the periodic maintaining of these positions, the valuation of the fair value of these operations at December 31, 2004 is a negative amount of Euro 8,172 thousand (of which Euro 726 thousand at risk relating to the transfer of the relative variable rate positions to fixed rate positions). It was considered not to include this charge in the income statement taking into account the average residual duration of the operation (5 years) with progressive reduction of the risk related to the amount of the loans, and also the low cost of debt obtained.

The percentage of the account "financial income and charges" (Euro -20.4 million) on the average Net Financial Position of 2004 of Euro 502.8 million is equal to 4,1%.

ADJUSTMENT TO FINANCIAL ASSETS

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

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Revaluations	1.267	630	637
Write-downs	(4.296)	(5.846)	1.550
TOTAL	(3.029)	(5.216)	2.187

In relation to the net negative value, it is noted that the principal write-downs made on the following associated companies and the reasons thereto:

Acantho S.p.A., Euro 1,130 thousand. Pro quota recording of the losses relating to the year.

Aspes Multiservizi S.p.A., Euro 875 thousand. Recording of the goodwill quota over the time period paid, net of the pro quota profit for the year.

Leucopetra, Euro 530 thousand. The write-down was made taking into account the sales value of the investment in January 2005.

The residual amounts principally related to the pro quota recording of the losses in the companies.

EXTRAORDINARY INCOME AND CHARGES

Below is shown the composition of extraordinary charges:

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Extraordinary income:			
Adjustment to prior year accruals and provisions	194	558	(364)
Correction of important errors in prior years	35	123	(88)
Other extraordinary income	6.689	5.092	1.597
TOTAL	6.918	5.773	1.145
Gain on the disposal of fixed assets:			
Gains on group tangible asset disposals	165		165
Gain on tangible assets disposals	26	46	(20)
Gain on the conferment of business units	481		481
Other extraordinary gains	49		49
TOTAL	721	46	675
Extraordinary charges:			
Expenses and losses of an extraordinary nature	0	2	(2)
Correction of important errors in prior years	47	44	3
Adjustment to prior year accruals and provisions			
Sopravvenienze passive e insussistenze attive	8.574	8.184	390
Other extraordinary charges	1.093	432	661
TOTAL	9.714	8.662	1.052
Loss on the disposal of fixed assets:			
Losses on group tangible asset sales	1.096		1.096
Loss on the disposal of tangible assets	374	62	312
Other extraordinary gains	240	117	123
TOTAL	1.710	179	1.531

The reduced extraordinary income and charges is due to the reduced obligations arising from prior years.

INCOME TAXATION IN THE YEAR

	BALANCE Dec-31-04	BALANCE Dec-31-03	Change
Current income tax	56.469	43.975	12.494
Deferred income tax	(1419)	(8.387)	6.968
TOTAL	55.050	35.588	19.462

The total percentage of taxes in the year on the pre-tax result was equal to 47%.

The theoretical rate determined based on the assessable income of the company for Ires/Irap is equal to 37.25% (33% for Ires and 4.25% for Irap); below is shown the reconciliation with the effective rates (in 2003 the rates Ipeg – now Ires – was 34%):

	previous year	current year
Ordinary rate applied	38,25 %	37,25 %
Effect of increases (decreases) to the ordinary rate:		
Profit exempt "Tremonti bis" relief	(9,25%)	0
Not deductible costs	1,00%	1,00%
Not deductible for Irap purposes (personnel, financial charges)	10,00%	8,75%
Effective rate	40%	47%

The different tax rate compared to the previous year substantially derives from the fact that the year 2003 benefited from the reduction in the fiscal charges deriving from so-called "Tremonti bis" fiscal relief, as described in the notes to the financial statements of the statutory accounts.

The deferred taxes at December 31, 2004 related to following temporary differences.

Finally it is noted that in 2004, HERA S.p.A. was subject to a general programmed control by the tax inspectors; from these verifications it emerged the non-assessment of income in 1999 under the so-called "fiscal moratorium", a regime that is under review by the EU Commission's decision of June 5, 2002. The higher tax assessed amounts to Euro 6,114 thousand. HERA S.p.A. has already made an appeal.

It should be noted that in accordance with the agreements signed between the shareholders on the corporate integration that resulted in the formation of Hera S.p.A. and as reported in the Information Prospectus on quotation, "the Local Entities will indemnify Hera S.p.A. for any cost, loss or damage incurred by Hera in relation to obligatory legislation that revokes the tax benefits to which the company and the participating companies in the integration companies have received". Consequently Hera S.p.A. did not provide for an additional provision in the accounts.

	amount of temporary difference	fiscal effect on balance sheet (rate 33/37.25%)	Fiscal effect on Income Statement 2004
Deferred tax asset:			
Write-downs for permanent losses	9.359	3.088	
on financial assets			
Employee MBO incentives	8.106	2.675	
Provision for doubtful debts	4.503	1.486	
Provision for contingencies and charges	12.992	4.839	
Deferred deductible costs	2.948	973	
Amortisation, depreciation and write-downs	12.177	4.536	
Consolidation adjustments		1.341	
Others		1.023	
TOTAL	50.085	19.961	(1.913)
Deferred tax liability:			
Accelerated depreciation	4.473	1.666	
Deferred consolidation adjustments	5.818	2.167	
Others	3	1	
TOTAL	2.199	3.834	839
Deferred taxes net			(1.074)
Deferred tax asset relating to fiscal losses	0	0	0
Deferred tax asset relating to fiscal losses in prior years	1.046	345	(345)
Net		(16.472)	(1.419)

3.4 LIST

3.4.1 List of Consolidated Companies

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

Denominazione:	Headquarters	Share capital	Percentage held		Total	Total stake
			Directly	Indirectly		
Parent company:						
Hera S.p.A.	Bologna	839.903.881	-	-	-	-
Subsidiaries:						
Adriatica Acque S.r.l.	Rimini (Rn)	209.435	52,25%		52,25%	52,25%
Agea One S.r.l.	Cassana (FE)	2.300.000	100,00%		100,00%	100,00%
Akron S.p.A.	Imola (BO)	1.152.940	57,50%		57,50%	57,50%
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%
Attiva bologna S.r.l. consortile	Bologna	2.558.600		91,74%	91,74%	91,74%
Cales S.r.l.	Imola (BO)	11.000	50,09%		50,09%	50,09%
Ecologia Ambiente S.r.L.	Ravenna	20.000.000	100,00%		100,00%	100,00%
Ecosfera S.p.a.	Ferrara	1.000.000	51,00%		51,00%	51,00%
Eris S.c.r.l.	Ravenna	300.000		51,00%	51,00%	51,00%
Famula On-line S.p.A.	Bologna	3.316.427	60,00%		60,00%	60,00%
Frullo Energia Ambiente S.r.l.	Bologna	17.139.100	51,00%		51,00%	51,00%
Gal.A. S.p.A.	Bologna	300.000	60,00%		60,00%	60,00%
Hera Bologna S.r.l.	Bologna	1.250.000	100,00%		100,00%	100,00%
Hera Comm S.r.l.	Imola (BO)	88.591.541	100,00%		100,00%	100,00%
Hera Forlì-Cesena S.r.l.	Cesena (FC)	650.000	100,00%		100,00%	100,00%
Hera Imola-Faenza S.r.l.	Imola (BO)	750.000	100,00%		100,00%	100,00%
Hera Luce S.r.l.	San Mauro Pascoli (FC)	216.600	69,30%		69,30%	69,30%
Hera Ravenna S.r.l.	Ravenna	850.000	100,00%		100,00%	100,00%
Hera Rimini S.r.l.	Rimini	1.050.000	100,00%		100,00%	100,00%
Herasocrem S.p.A.	Bologna	2.218.368	51,00%		51,00%	51,00%
Hera Trading S.r.l.	Imola (BO)	2.600.000	100,00%		100,00%	100,00%
Hera Clion S.r.l.	Napoli	200.000	100,00%		100,00%	100,00%
Ingenia S.r.l.	Imola (BO)	52.000	74,00%		74,00%	74,00%
Medea S.p.A.	Sassari	4.500.000	100,00%		100,00%	100,00%
Nuova Geovis S.p.A.	Sant'Agata Bolognese (BO)	2.205.000	51,00%		51,00%	51,00%
Recupera S.r.l.	Cassana (FE)	413.200	75,50%		75,50%	75,50%
Romagna Compost S.r.l.	Cesena (FC)	310.000	60,00%		60,00%	60,00%
Seas Lavori e Servizi s.c.ar.l.	Bologna	51.000	6,00%	94,00%	100,00%	85,30%
Sinergia S.r.l.	Forlì (FC)	414.000	51,00%		51,00%	51,00%
Sotris S.p.A.	Ravenna	2.340.000	70,00%		70,00%	70,00%
Uniflotte S.r.l.	Bologna	2.254.177	51,00%		51,00%	51,00%

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. were merged by incorporation into Dirama Srl, that was renamed Selecta Srl ; Selecta Srl then merged into Akron S.p.A.
- the company Eos Energia S.p.A. was renamed Hera Trading Srl and Hera S.p.A. acquired all of the investment
- The company Adriatica Acque Srl held at December 31, 2003 for a 41.78% shareholding, following the acquisition by the company Multiservizi S.p.A. increased to 52.25%, with this company changing from being an associa- ted company to a subsidiary company
- following the merger process of Agea S.p.A. into Hera S.p.A. on December 31, 2004, the control- ling interests were acquired in Agea One Srl. and Ecosfera S.p.A., not present at December 31, 2003 and Recupera Srl, present at December 31, 2003 as an associated company
- the percentage holding in Akron S.p.A. changed compared to December 31, 2003 from 51% to 57.50% following the share capital increase as a consequence of the merger by incorporation of Selecta Srl into Akron S.p.A. on December 31, 2004.
- the percentage holding in Ares S.p.A.. consor- tium company, changed compared to December 31, 2003 from 94.99% to 65%, fol- lowing the share capital increase subscribed by minority shareholders

- the company Baricella Ambiente S.p.A., is not present at December 31, 2004, in that it mer- ged by incorporation into the company GAL.A. S.p.A. with effect from January 1, 2004. The percentage holding in Gal.A S.p.A. increased by 10% following the acquisition of the quotas of the municipalities of Baricella and of Galliera
- for the company Attivabologna Srl, the percen- tage holding increased from 48% to 91.74% fol- lowing the acquisition of the quota by Hera Comm Srl from minority shareholders
- for the company Ecologica Ambiente Srl, Hera S.p.A. acquired from Ambiente S.p.A. the busi- ness division called Ravenna Ecologic Centre that was conferred in the new company Ecologia Ambiente S.p.A.
- the company Eris ScrI. (newly incorporated) - a controlling percentage was acquired by the subsidiary Hera Comm Srl.
- the company Hera Clion Srl., valued at cost at December 31, 2003 in that non operative, was valued in the current year under the full consoli- dation method as it began operations
- the percentage holding in Sotris S.p.A., changed compared to December 31, 2003 following the acquisition of the quota from Ambiente S.p.A.

List of companies consolidated by the Net Equity Method

Denominazione:	Headquarters	Share capital	Percentage held		Total	Total stake
			Directly	Indirectly		
Acantho S.p.A.	Imola (BO)	14,662,751	48,00%		48,00%	48,00%
Agea Reti S.r.l.	Ferrara	19,000,000	39,72%		39,72%	39,72%
Agess s.c. a.r.l.	Forlì (FC)	79,750	21,44%		21,44%	21,44%
Amav Ambiente S.p.A.	Sant'Anastasia (NA)	103200	49,00%		49,00%	49,00%
Ambiente 3000 S.r.l	Bologna	100,000	51,00%		51,00%	51,00%
Asa S.p.A.	Castelmaggiore (BO)	1,820,000	20,00%		20,00%	20,00%
Aspes Multiservizi S.p.A.	Pesaro	10,963,627	26,87%		26,87%	26,87%
4Italy Energy & Environment S.p.A.	Modena	50,000	25,00%		25,00%	25,00%
Tre A Web S.p.A.	Cassana (FE)	1,749,000	29,00%		29,00%	29,00%
Ferrara T.U.A. S.p.A.	Ferrara	260,000	20,00%		20,00%	20,00%
SEIA S.p.A. inliq.	Ferrara	175,230	34,78%		34,78%	34,78%
Consorzio Ferrara e-care	Ferrara	60,000	33,33%		33,33%	33,33%
Delta Web S.p.A.	Codigoro(Fe)	191,660	35,56%		35,56%	35,56%
Azimut S.r.l.	Rimini	50,000	29,00%		29,00%	29,00%
CGS Ideametropoli S.r.l. in liq.	Bologna	21,045	76,98%		76,98%	76,98%
Energica S.p.A.	Faenza (RA)	200,000	50,00%		50,00%	50,00%
Geat Service S.r.l. in liq.	Riccione (RN)	163,000	100,00%		100,00%	100,00%
Interimm.S.r.l.	Carpegna(PU)	10,200	100,00%		100,00%	100,00%
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 Ferrara S.r.l.	Ferrara	10,000	100,00%		100,00%	100,00%
Estense Global Service	Ferrara	10,000	23,00%		23,00%	23,00%
SET S.p.A.	Milano	120,000	39,00%		39,00%	39,00%
Hera Immobiliare S.r.l.	Bologna	100,000	100,00%		100,00%	100,00%
Immobiliare Berti Pichat S.r.l.	Bologna	10,000	100,00%		100,00%	100,00%
Rio d'Orzo S.r.l.	Castello di Serravalle (BO)	59,000	21,00%		21,00%	21,00%
Locride Ambiente S.p.A.	Sidereo Superiore (RC)	1,522,745	25,00%		25,00%	25,00%
Oikothén s.c.a.r.l.	Siracusa	1,101,730		46,10%	46,10%	29,97%
Penisola Verde S.p.A.	Sorrento (NA)	103,200	48,00%		48,00%	48,00%
Service Imola S.r.l.	Borgo Tossignano (BO)	10,000	40,00%		40,00%	40,00%
SBI S.r.l.	Bologna	100,000	51,00%			51,00%
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 dellaLucania (SA)	103,400	35,00%		35,00%	35,00%

The company Linpha Srl. is not in the consolidation of Hera S.p.A. in 2004 as the company has ceased activities.

3.4.2 List of significant investments as per article 120, paragraph 4 of Legislative Decree 58/98 and article 26 of CONSOB resolution

Hera S.p.A.

Investments directly held at 31/12/2004

ACANTHO S.p.A. Share Capital € 14,662,751 fully paid-in Held by Hera S.p.A. from 2000		
Registered Office: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	7,038,200	48%

ACOSEA IMPIANTI S.r.l. Share Capital € 25,298,000 fully paid-in Held by Hera S.p.A. from 31/12/2004		
Registered Office: Via Marconi n. 39 - 44100 FERRARA		
Shareholder	Holding in €	Holding
Hera S.p.A.	19,099,990	75,50%

ADRIATICA ACQUE S.r.l. Share Capital € 209,435 fully paid-in Held by Hera S.p.A. from 31/12/2002		
Registered Office: Via Dario Campana n. 65 - 47900 RIMINI		
Shareholder	Holding in €	Holding
Hera S.p.A.	109,435	52,25%

AGEA ONE S.r.l. Share Capital €2,300,000 fully paid-in Held by Hera S.p.A. from 31/012/2004		
Registered Office: Via Cesare Diana n. 40 - 44044 CASSANA (FE)		
Shareholder	Holding in €	Holding
Hera S.p.A.	2,300,000	100%

AGEA RETI S.r.l. Share Capital € 19,000,000 fully paid-in Held by Hera S.p.A. from 31/12/2004		
Registered Office: Piazza Municipale n. 2 - 44100 FERRARA		
Shareholder	Holding in €	Holding
Hera S.p.A.	7,546,800	39,72%

AGESS S.C.A.R.L. Share Capital deliberated € 99,000 subscribed and paid-in € 79,750 Held by Hera S.p.A. from 01/11/2002		
Registered Office: P.zza Falcone e Borsellino n. 23 - 47100 FORLÌ'		
Shareholder	Holding in €	Holding
Hera S.p.A.	17.100	21,44%

AKRON S.p.A. Share Capital € 1.152.940 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	662.940	57,50%

AMAV AMBIENTE S.p.A. Share Capital € 103.200 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Via Pomigliano n. 2 - 80048 SANT'ANASTASIA (NA)		
Shareholder	Holding in €	Holding
Hera S.p.A.	50.568	49%

AMBIENTE 3000 S.r.l. Share Capital € 100,000 fully paid-in Held by Hera S.p.A. from 01/06/2003		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	51,000	51%

AMBIENTE MARE S.p.A. Share Capital € 2,000,000 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Via del Marchesato n. 35 - 48023 MARINA DI RAVENNA (RA)		
Shareholder	Holding in €	Holding
Hera S.p.A.	300,000	15%

AMGA ENERGIA S.r.l. Share Capital € 1,331,783,45 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Via Due Martiri n. 2 - 47030 S. MAURO PASCOLI (FC)		
Shareholder	Holding in €	Holding
Hera S.p.A.	1,065,426,76	80%

ARES S.p.A. Consortium Share Capital € 1,125,240 fully subscribed, paid-in for € 1,083,043,50 fully paid-in Held by Hera S.p.A. from 1998		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	731,406	65%

A.S.A. S.p.A. Share Capital € 1,820,000 fully paid-in Held by Hera S.p.A. from 1994		
Registered Office: Via Saliceto n. 43/A - 40013 CASTEL MAGGIORE (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	364,000	20%

ASPES MULTISERVIZI S.p.A. Share Capital € 10,963,627 fully paid-in Held by Hera S.p.A from 2002		
Registered Office: Via dei Canonici n. 144 - 61100 PESARO		
Shareholder	Holding in €	Holding
Hera S.p.A.	2,946,382	26,87%

AZIMUT S.r.l. Share Capital € 50,000 fully paid-in Held by Hera S.p.A from 01/11/2002		
Registered Office: Via Dario Campana n. 65 - 47900 RIMINI		
Shareholder	Holding in €	Holding
Hera S.p.A.	14,500	29%

CALENIA ENERGIA S.p.A. Share Capital € 100,000 fully paid-in Held by Hera S.p.A. from 23/09/2004		
Registered Office: Via Cozzolino n. 39 - Ercolano (NA) in corso di trasferimento nel Comune di Sparanise (CE)		
Shareholder	Holding in €	Holding
Hera S.p.A.	15,000	15%

CALES S.r.l. Share Capital € 11,000 fully paid-in Held by Hera S.p.A from 01/11/2002		
Registered Office: Viale della Costituzione - CEN - 80100 NAPOLI		
Shareholder	Holding in €	Holding
Hera S.p.A.	5,510	50,09%

DELTA. WEB S.p.A Share Capital € 191,660 fully paid-in Held by Hera S.p.A from 31/12/2004		
Registered Office: Via Alfieri n. 3 - 44021 Codigoro (FE)		
Shareholder	Holding in €	Holding
Hera S.p.A.	68,160	35,56%

ECOLOGIA AMBIENTE S.r.l Share Capital € 20,00,000 fully paid-in Held by Hera S.p.A from 10/2004		
Registered Office: Via Alfieri n. 3 - 44021 Codigoro (FE)		
Shareholder	Holding in €	Holding
Hera S.p.A.	20,000,000	100%

ECOSFERA S.p.A Share Capital € 1,000,000 fully paid-in Held by Hera S.p.A from 31/12/2004		
Registered Office: Via Stefano Trenti n. 32 - 44100 FERRARA		
Shareholder	Holding in €	Holding
Hera S.p.A.	510,000	51%

ENERGIA ITALIANA S.p.A Share Capital € 25,400,000 fully paid-in Held by Hera S.p.A from 2001		
Registered Office: Via Giovanni Battista Pirelli n. 32 - 20124 MILANO		
Shareholder	Holding in €	Holding
HERA S.p.A.	2,794,000	11%

ENERGICA S.p.A Share Capital € 200,000 fully paid-in Held by Hera S.p.A from 24/04/2003		
Registered Office: Via Convertite n. 12 - 48018 Faenza (RA)		
Shareholder	Holding in €	Holding
Hera S.p.A.	100,000	50%

ESTENSE GLOBAL SERVICE S.c.ar.l Share Capital € 10,000 fully paid-in Held by Hera S.p.A from 31/12/2004		
Registered Office: Via M.N. Plattis n. 5/c - 44100 Ferrara		
Shareholder	Holding in €	Holding
Hera S.p.A.	2,300	23%

FAMULA ON-LINE S.p.A. Share Capital € 3,316,427 fully paid-in Held by Hera S.p.A from 2001		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	1,989,856	60%

FERRARA T.U.A. - Traffico Urbano Autoparking S.p.A. Share Capital € 260,000 fully paid-in Held by Hera S.p.A from 31/12/2004		
Registered Office: Viale Manini n. 15 - 44100 FERRARA		
Shareholder	Holding in €	Holding
Hera S.p.A.	52,000	20%

4 ITALY Energy & Environment S.r.l. Share Capital deliberated for € 100,000, subscribed and paid-in for € 50,000 held by Hera S.p.A. from 31/12/2004		
Registered Office: Via Razzaboni n. 80 - 41100 MODENA		
Shareholder	Holding in €	Holding
Hera S.p.A.	12,500	25%

Frullo Energia Ambiente S.r.l. Share Capital € 17,139,100 fully paid-in Held by Hera S.p.A. from 2000		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	8,740,941	51%

GAL. A S.p.A. Share Capital € 300,000 fully paid-in Held by Hera S.p.A. from 1997		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	180,000	60%

Hera IMOLA-FAENZA S.r.l. Share Capital € 750.000 fully paid-in Held by Hera S.p.A. from 21/10/2002		
Registered Office: Via Casalegno 1 - 40026 IMOLA		
Shareholder	Holding in €	Holding
Hera S.p.A.	750.000	100%

Hera BOLOGNA S.r.l. Share Capital € 1,250,000 fully paid-in Held by Hera S.p.A. from 21/10/2002		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	1,250,000	100%

Hera clion S.r.l. Share Capital € 200,000 fully paid-in Held by Hera S.p.A. from 30/09/2003		
Registered Office: Via del Rione Sirignano n. 7 - 80121 Napoli		
Shareholder	Holding in €	Holding
Hera S.p.A.	200,000	100%

Hera COMM S.r.l. Share Capital € 88,591,541 fully paid-in Held by Hera S.p.A. from 2001		
Registered Office: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	88,591,541	100%

Hera FERRARA S.r.l. Share Capital € 10,000 fully paid-in Held by Hera S.p.A. from 23/11/2004		
Registered Office: Via Diana n. 40 - 44044 Cassana (FE)		
Shareholder	Holding in €	Holding
Hera S.p.A.	10,000	100%

Hera FORLI'-CESENA S.r.l. Share Capital € 650,000 fully paid-in Held by Hera S.p.A. from 21/10/2002		
Registered Office: Via Spinelli 60 - 47023 CESENA (FC)		
Shareholder	Holding in €	Holding
Hera S.p.A.	650,000	100%

Hera IMMOBILIARE S.r.l. Share Capital € 100,000 fully paid-in Held by Hera S.p.A. from 26/06/2003		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
HERA S.p.A.	100,000	100%

Hera Luce S.r.l. Share Capital € 216,600 fully paid-in Held by Hera S.p.A. from 2000		
Registered Office: Via Due Martiri n. 2 - 47030 S. MAURO PASCOLI (FC)		
Shareholder	Holding in €	Holding
Hera S.p.A.	150,103,8	69,3%

Hera RAVENNA S.r.l. Share Capital € 850,000 fully paid-in Held by Hera S.p.A. from 21/10/2002		
Registered Office: Via Romea Nord 180/182 - 48100 RAVENNA		
Shareholder	Holding in €	Holding
Hera S.p.A.	850,000	100%

Hera RIMINI S.r.l. Share Capital € 1,050,000 fully paid-in Held by Hera S.p.A. from 21/10/2002		
Registered Office: Strada Consolare per San Marino 80 - 47900 RIMINI		
Shareholder	Holding in €	Holding
Hera S.p.A.	1,050,000	100%

Hera Trading S.r.l. Share Capital € 2,600,000 fully paid-in Held by Hera S.p.A. from 2001		
Registered Office: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	2,600,000	100%

HERASOCREM S.p.A. Share Capital deliberato € 2,218,368 fully paid-in Held by Hera S.p.A. from 10/07/2003		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	1,131,368	51%

IMMOBILIARE BERTI PICHAT S.r.l. Share Capital € 10,000 fully paid-in Held by Hera S.p.A. from 13/11/2003		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	10,000	100%

INGENIA S.r.l. Share Capital € 52,000 i.v. Partecipata da Hera S.p.A. from 01/11/2002		
Registered Office: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	38,480	74%

LEUCOPETRA S.p.A. Share Capital € 350,880 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Via Benedetto Cozzolino n. 39 - 80056 ERCOLANO (NA)		
Shareholder	Holding in €	Holding
Hera S.p.A.	168,422,40	48%

LOCRIDE AMBIENTE S.p.A. Share Capital € 1,522,745 fully paid-in Held Hera S.p.A. from 01/07/2003		
Registered Office: Via Santa Caterina n. 81 - 89040 SIDERNO SUPERIORE (RC)		
Shareholder	Holding in €	Holding
Hera S.p.A.	380,685	25%

MEDEA S.p.A. Share Capital € 4,500,000 fully paid-in Held by Hera S.p.A. from 01/07/2003		
Registered Office: Via Torres n. 4 - 07100 SASSARI		
Shareholder	Holding in €	Holding
Hera S.p.A.	4,500,000	100%

NORD EST SERVIZI S.c.a r.l. Share Capital € 92,900 fully paid-in Held by Hera S.p.A. from 31/12/2004		
Registered Office: Via Porto di Cavernago n. 99 e 101 - 30100 MESTRE (VE)		
Shareholder	Holding in €	Holding
Hera S.p.A.	14,864	16%

Nuova Geovis S.p.A. Capitale sociale € 2,205,000 fully paid-in Held by Hera S.p.A. from 2001		
Registered Office: Via Romita n. 1 - 40019 Sant'Agata Bolognese (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	1,124,550	51%

PENISOLAVERDE S.p.A. Share Capital € 103,200 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Corso Italia n. 236 - 80067 SORRENTO (NA)		
Shareholder	Holding in €	Holding
Hera S.p.A.	49,536	48%

RECUPERA S.r.l. Share Capital € 413,200 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Via Cesare Diana n. 40 - 44044 CASSANA (FE)		
Shareholder	Holding in €	Holding
Hera S.p.A.	311,966	75,5%

RIO D'ORZO S.r.l. Share Capital € 59,000 fully paid-in Held by Hera S.p.A. from 1999		
Registered Office: Via S. Apollinare n. 1346 - 40050 Castello di Serravalle (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	12,390	21%

ROMAGNA COMPOST S.r.l. Share Capital € 310,000, paid in € 93,000 Held by Hera S.p.A. from 01/11/2002		
Registered Office: Via Cesare Spinelli n. 60 - 47023 CESENA (FC)		
Shareholder	Holding in €	Holding
Hera S.p.A.	186,004	60%

SBI S.r.l. Share Capital € 100,000 fully paid-in Held by Hera S.p.A. from 2002		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	51,000	51%

SEAS Lavori e Servizi Soc. Cons. a r.l. Share Capital € 51,000 fully paid-in Held by Hera, by ARES S.p.A. Cons. and by MEDEA S.p.A. from 1998		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	3,060	6%
MEDEA S.p.A.	26,520	52%
ARES S.p.A. Consortile	21,420	42%

SERVICE IMOLA S.r.l. Share Capital € 10,000 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Via Allende n. 25 - 40026 BORGO TOSSIGNANO (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	4,000	40%

SET S.p.A. Share Capital € 120,000 fully paid-in Held by Hera S.p.A. from 15/12/2004		
Registered Office: Viale Certosa n. 247 - 20151 MILANO		
Shareholder	Holding in €	Holding
Hera S.p.A.	46,800	39%

SGS S.r.l. Share Capital € 52,000 fully paid-in Held by Hera S.p.A. from 31/12/2002		
Registered Office: Piazza Roma n. 22 - 61015 NOVAFELTRIA (PU)		
Shareholder	Holding in €	Holding
Hera S.p.A.	21,320	41%

SINERGIA S.r.l. Share Capital € 414,000 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Via Righi n. 1 - 47100 FORLI' (FC)		
Shareholder	Holding in €	Holding
Hera S.p.A.	211,140	51%

SINERGIE AMBIENTALI S.r.l. Share Capital € 100,000 fully paid-in Held by Hera S.p.A. from 01/07/2003		
Registered Office: Viale Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Holding in €	Holding
Hera S.p.A.	50,000	50%

SOTRIS S.p.A. Share Capital € 2,340,000 i.v. Partecipata da Hera S.p.A. from 01/11/2002		
Registered Office: Viale Berti Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Holding in €	Holding
Hera S.p.A.	1,638,000	70%
Ambiente Mare S.p.A.	70,200	3%

Tre.A WEB S.p.A. Share Capital € 1,749,000 fully paid-in Held by Hera S.p.A. from 31/12/2004		
Registered Office: Via Cesare Diana n. 40 - 44044 Cassana (FE)		
Shareholder	Holding in €	Holding
Hera S.p.A.	507,210	29%

Uniflotte S.r.l. Capitale sociale € 2,254,177 fully paid-in Held by Hera S.p.A. from 2001		
Registered Office: Viale Masini n. 42 - 40127 BOLOGNA		
Shareholder	Holding in €	Holding
Hera S.p.A.	1,149,630	51%

VIVISERVIZI S.r.l. Consortium Share Capital € 451,500 paid in € 142,725 Held by Hera S.p.A. from 2002		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera S.p.A.	216,720	48%

YELE S.p.A. Share Capital € 103,400 fully paid-in Held by Hera S.p.A. from 01/11/2002		
Registered Office: Largo Calcinali n. 1 - 84078 VALLO DELLA LUCANIA (SA)		
Shareholder	Holding in €	Holding
Hera S.p.A.	36,190	35%

INDIRECTLY HELD AT 31/12/2004

Shareholdings of Hera COMM S.r.l.:

ATTIVABOLOGNA S.r.l. Consortium Share Capital € 2,558,600 paid in € 808,725 Held by Hera COMM from 29/9/2003		
Registered Office: Viale Carlo Berti Pichat n. 2/4 - 40127 Bologna (BO)		
Shareholder	Holding in €	Holding
Hera COMM S.r.l.	2,347,244	91,74%%

ERIS Soc. with limited liability Share Capital € 300,000 - paid in € 75,000 - Partecipata Held by Hera COMM S.r.l. from 28/09/2004		
Registered Office: Via Romea Nord 180/182 - 48100 Ravenna		
Shareholder	Holding in €	Holding
Hera COMM S.r.l.	153,000	51%

Shareholdings of ARES S.p.A. Consortium:

OIKOTHEN S.c.a r.l. Share Capital € 1,101,730 fully paid-in Held by ARES S.p.A. Consortium from 2001		
Registered Office: Via Augusta n. 17 - 96100 SIRACUSA		
Shareholder	Holding in €	Holding
ARES S.p.A. Consortile	507,892	46,10%

Shareholdings of ACOSEA IMPIANTI S.r.l.:

ACOSEA RETI S.r.l. Share Capital € 43,000.000 Held by ACOSEA S.p.A. from 12/09/2003		
Registered Office: Via Marconi n. 39 - 44100 FERRARA		
Shareholder	Holding in €	Holding
ACOSEA IMPIANTI S.r.l.	43,000,000	100%

DIRECT AND INDIRECT SHAREHOLDINGS IN LIQUIDATION AT 31-12-2004

GEAT SERVICE S.r.l. Share Capital € 163,000 fully paid-in Held by Hera S.p.A. from July 1, 2003		
Registered Office: Via Mantova n. 6 - 47838 RICCIONE (RN)		
In liquidation from 26/11/2004		
Shareholder	Holding in €	Holding
Hera S.p.A.	163,000	100%

IDEAMETROPOLI Centro Global Service S.r.l. - Share Capital € 21,045 fully pain-in- Held by Hera S.p.A. from 1988		
Registered Office: Viale Carlo Berti Pichat n. 2/5 - 40127 Bologna (BO)		
In liquidation from 1/05/2003		
Shareholder	Holding in €	Holding
HERA S.p.A.	16,200	76,98%

INTER.IMM S.r.l. Share Capital € 10,200 fully paid-in Held by Hera S.p.A. from 31/12/2002		
Registered Office: Via Salvadori n. 15 - 61021 CARPEGNA (PU)		
In liquidation from 27/01/2004		
Shareholder	Holding in €	Holding
Hera S.p.A.	10,200	100%

S.E.I.A. S.p.A. Share Capital € 175,230 fully paid-in Held by Hera S.p.A. from 31/12/2004		
Registered Office: Corso Giovecca n. 81 - 44100 FERRARA		
In liquidation from 20/04/2000		
Shareholder	Holding in €	Holding
Hera S.p.A.	60,941,10	34,78%

Shareholdings of AKRON S.p.A.:

LINPHA S.r.l. Share Capital € 90,000 fully paid-in Held by AKRON S.p.A. from 2002		
Registered Office: Via Garigliano n. 1 - 50053 EMPOLI		
In liquidation from 04/11/2004		
Shareholder	Holding in €	Holding
AKRON S.p.A.	45,000	50%

3.5 Principal balance sheet data of Subsidiaries and associated Companies

SUMMARY OF THE PRINCIPAL DATA OF THE FINANCIAL STATEMENTS APPROVED OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES (ARTICLE 2429 OF THE CIVIL CODE)									
	Unpaid	fixed	Current	Prepaid	Share	Reserves	Profits &	Prov.	Employed
	capital	assets	assets & accrued	income	capital	losses			Indemnity
									Prov.
SUBSIDIARIES									
ADRIATICA ACQUE S.R.L.		94	531	1	209	-92	-28		16
AGEA ONE S.R.L.		2.015	27.663	27	2.300	1.248	1.432		24.725
AKRON S.P.A.		6.095	13.211	192	1.153	2.735	1.212		358
AMBIENTE 3000 S.R.L.		45	618	1	100	-17	-14		67
AMGA ENERGIA S.R.L.		2.098	3.245	20	1.332	378	273	200	53
ARES S.P.A.	42	524	1.180		1.125	-131	-65		817
ATTIVABOLOGNA S.R.L. CONSORTILE	1.750	79	3.896	2	2.559	-241	-168		61
CALES S.R.L.		3	267		11	37	-27		249
CGS TRASFIDEA METROPOLI IN LIQUID.		10	1.022		21	-1	-158		1.170
CONSORZIO ENERGIA SERVIZI BOLOGNA		1	836	1	5				833
CONSORZIO FRULLO		1	2		2	-1	-14		16
ECOLOGIA AMBIENTE S.P.A.		49.008	6.266	45	20.000	28.900	678		634
ECOSFERA S.P.A.		1.205	1.064	37	1.000	122	162		32
ERIS S.C.R.L.	225	4	75		300		-3		7
FAMULA ON LINE S.P.A.		12.260	20.484	101	3.316	6.265	284		788
FRULLO ENERGIA AMBIENTE S.R.L.		109.965	23.797	15	17.139	627	6.382	750	1.004
GAL. A. S.P.A.		12.139	2.727	27	300	60	107	626	
GEAT SERVICE S.R.L. IN LIQUIDAZIONE		116	772		163	-30	2		148
HERA IMOLA-FAENZA S.R.L.		889	50.223		750	713	4.838	38	6.127
HERA BOLOGNA S.R.L.		1.899	151.901		1.250	615	19.418	416	22.389
HERA CLION S.R.L.		2	346		200	-7	1		9
HERA COMM S.R.L.		4.108	521.619	278	88.592	129	1.606		1.163
HERA FORLI'-CESENA S.R.L.		3.332	78.930	5	650	170	176	200	6.864
HERA IMMOBILIARE S.R.L.		3	72		100	-20	-8		3
HERA LUCE S.R.L.		4.106	11.645	14	216	305	1.286	27	136
HERA RAVENNA S.R.L.		1.346	65.512		850	396	7.961	266	8.950
HERA RIMINI S.R.L.		1.544	100.302	6	1.050	141	1.352	505	9.269
HERASOCREM S.P.A.		576	2.053	3	2.218	8	73		80
HERA TRADING S.R.L.		685	57.702	1.622	2.600	428	1.384		99
IMMOBILIARE BERTI PICHAT S.R.L.		2	5		10	-2	-2		1
INGENIA S.R.L.		58	639	3	52	49	18		4
INTER.IMM. S.R.L.		508	74		10	41	3		
MEDEA S.P.A.		10.658	7.806	44	4.500		-1.045	1.153	55
NUOVA GEOVIS S.P.A.		16.411	7.516	97	2.205	181	991	5.019	290
RECUPERA S.R.L.		4.602	2.344	35	413	242	7	51	22
ROMAGNA COMPOST S.R.L.	217	72	443	3	310	141	38		
SBI S.R.L.		12	518		100	-24	13		
SEAS S.C.R.L.		2	6.978		51	3	-1		
SINERGIA S.R.L.		1.459	2.409	17	414	1.088	558		15
SOTRIS S.P.A.		4.021	8.374	222	2.340	652	1.606	5.842	29
UNIFLOTTE S.R.L.		4.092	16.465	83	2.254	1.515	-1.490	60	2.398
ASSOCIATED COMPANIES									
* 4ITALY ENERGY&ENVIRONMENT S.P.A.		4.403	1.053	8	500	-134	-436		
ACANTHO SP.P.A.		21.847	26.023	984	14.663	3	-3.587	149	262
AGEA RETI S.R.L.		28.131	383		19.000	497	-13		
AGESS S.C.R.L.		21	313	4	80	-15	1		9
AMAV AMBIENTE S.P.A.		503	3.191	15	103	341	2	60	349
ASA S.P.A.		10.529	2.767	89	1.820	479	1.118	6.555	125
* ASPES MULTISERVIZI S.P.A.		20.853	33.878	98	10.964	568	1.566	2.778	6.422
AZIMUT S.R.L.		2	121		50	-3	-22		
CONSORZIO FERRARA E-CARE		17	114		60		-9		
CONSORZIO RIZZOLI ENERGIA		120	218	4	10				
DELTA WEB S.P.A.		310	2.640	103	192	43	30		
ENERGICA S.P.A.		1.236	94		200	-34	-678		
FERRARA TUA S.P.A.		2.645	702	12	260	566	241	62	77
LOCRIDE AMBIENTE S.P.A.		875	2.663	70	1.523	101	1	7	170
OIKOTHEN S.C.R.L.		1.226	727		1.102	-13	-30		
PENISOLA VERDE S.P.A.		354	626	12	103	61	1	26	197
RIO D' ORZO S.R.L.		164	406		59		-16		
S.G.S. S.R.L.		80	659	4	52	-11	-43		68
SEIA S.P.A. IN LIQUIDAZIONE			60	1	175	-123	-2		
SERVICE IMOLA S.R.L.		15	336	1	10	5	44		3
SET S.P.A.		88.358	29.211	23	120	40.283	-394	175	2
SINERGIE AMBIENTALI S.R.L.		2	76		100	-19	-8		
TRE.A WEB S.P.A.		541	1.088	94	1.749	10	-450		
VIVISERVIZI S.R.L.	309	11	2.016	1	452	-36	-46		
YELE S.P.A.		258	3.249	26	103	437	4		84

SUMMARY OF THE PRINCIPAL DATA OF THE FINANCIAL STATEMENTS APPROVED OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES (ARTICLE 2429 OF THE CIVIL CODE)									
	Acc. liabilities	Value of	Costs of	Financial	Adjust to	Extraordinary	Income	Net	
	& deferred income	production	production	income &	financial	income &	taxes	profit	
				charges	assets	charges			
SUBSIDIARIES									
ADRIATICA ACQUE S.R.L.	5	417	-434	-38		31	-4	-28.	
AGEA ONE S.R.L.		59.502	-57.362	195			-903	1.432	
AKRON S.P.A.	184	23.845	-21.848	46	-17	1	-815	1.212	
AMBIENTE 3000 S.R.L.	528	91	-113	8				-14	
AMGA ENERGIA S.R.L.	14	4.857	-4.363	29		-5	-245	273	
ARES S.P.A.		134	-160	-4	-20	-15		-65	
ATTIVABOLOGNA S.R.L. CONSORTILE	41	1.648	-1.812	12		-9	-7	-168	
CALES S.R.L.		158	-182	-2		-1		-2738.457	
CGS TRASFIDEA METROPOLI IN LIQUID.		662	-816	4		-7		-158	
CONSORZIO ENERGIA SERVIZI BOLOGNA		24	-34	2		8			
CONSORZIO FRULLO			-14					-14	
ECOLOGIA AMBIENTE S.P.A.	275	4.807	-3.677				-452	678	
ECOSFERA S.P.A.	7	2.965	-2.755	-20			-28	162	
ERIS S.C.R.L.			-3					-3	
FAMULA ON LINE S.P.A.	13	27.773	-27.704	-5		-34	254	284	
FRULLO ENERGIA AMBIENTE S.R.L.	11	25.390	-10.422	-4.343		-27	-4.216	6.382	
GAL. A. S.P.A.	62	2.648	-2.146	-366		-5	-24	107	
GEAT SERVICE S.R.L. IN LIQUIDAZIONE		1.559	-1.522				-35	2	
HERA IMOLA-FAENZA S.R.L.		99.025	-90.281	56		60	-4.022	4.838	
HERA BOLOGNA S.R.L		297.034	262.872	236		694	-15.674	19.418	
HERA CLION S.R.L.		319	-301				-17	1	
HERA COMM S.R.L.	10.603	708.631	-706.145	942		-148	-1.674	1.606	
HERA FORLI'-CESENA S.R.L.	3	125.337	-123.316	-288		25	-1.582	176	
HERA IMMOBILIARE S.R.L.			-13	1		1	3	-8	
HERA LUCE S.R.L.	61	23.892	-21.643	-18		-29	-916	1.286	
HERA RAVENNA S.R.L.		136.434	-122.020	140		-275	-6.318	7.961	
HERA RIMINI S.R.L.	1	127.271	-123.715	109		265	-2.578	1.352	
HERASOCREM S.P.A.		608	-505	32			-62	73	
HERA TRADING S.R.L.		55.458	-52.712	-456		-22	-884	1.384	
IMMOBILIARE BERTI PICHAT S.R.L.			-4			1	1	-2	
INGENIA S.R.L.		1.062	-1.017			-6	-21	18	
INTER.IMM. S.R.L.		146	-127	-14			-2	3	
MEDEA S.P.A.		1.085	-2.212	-232		-114	428	-1.045	
NUOVA GEOVIS S.P.A.	110	9.058	-8.494	-178		1.152	-547	991	
RECUPERA S.R.L.	618	6.938	-6.866	-41			-24	7	
ROMAGNA COMPOST S.R.L.		465	-403	1			-25	38	
SBI S.R.L.		632	-627	12		9	-13	13	
SEAS S.C.R.L.		3.610	-3.603				8	-1	
SINERGIA S.R.L.	15	4.993	-4.108	-20			-307	558	
SOTRIS S.P.A.	9	6.817	-5.277	111		614	-659	1.606	
UNIFLOTTE S.R.L.	12	36.128	-38.135	105		-126	538	-1.490	
ASSOCIATED COMPANIES									
4ITALY ENERGY&ENVIRONMENT S.P.A.	24	420	-471	-104		-281		-436	
ACANTHO SP.P.A.	11	16.523	-19.241	-766		-78	-25	-3.587	
AGEA RETI S.R.L.		1.959	-1.461	-512			1	-13	
AGESS S.C.R.L.		414	-403	-3		-1	-6	1	
AMAV AMBIENTE S.P.A.	112	4.207	-4.058	24		1	-172	2	
ASA S.P.A.	43	4.987	-3.140	-24		30	-735	1.118	
ASPES MULTISERVIZI S.P.A.	512	54.380	-49.689	223	-711	-37	-2.600	1.566	
AZIMUT S.R.L.		116	-138					-22	
CONSORZIO FERRARA E-CARE		50	-59					-9	
CONSORZIO RIZZOLI ENERGIA		417	-339	-74		2	-4		
DELTA WEB S.P.A.				44		1	-15	30	
ENERGICA S.P.A.			-648	-30				-678	
FERRARA TUA S.P.A.	62	2.194	-1.767	1		-1	-186	241	
LOCRIDE AMBIENTE S.P.A.		3.857	-3.703	4		-82	-75	1	
OIKOTHEN S.C.R.L.			-65			13	22	-30	
PENISOLA VERDE S.P.A.	70	3.606	-3.482	-12		26	-137	1	
RIO D' ORZO S.R.L.			-17	1				-16	
S.G.S. S.R.L.	16	1.151	-1.116	-28		-12	-38	-43	
SEIA S.P.A. IN LIQUIDAZIONE			-6	1		3		-2	
SERVICE IMOLA S.R.L.	1	482	-390	-4		-2	-42	44	
SET S.P.A.		1.248	-808	-953		-20	139	-394	
SINERGIE AMBIENTALI S.R.L.			-10	2				-8	
TRE.A WEB S.P.A.	68	925	-1.380	4		1		-450	
VIVISERVIZI S.R.L.		3.021	-3.071	5		-1		-46	
YELE S.P.A.		4.338	4.287	-1		-3	43	4	

The companies Hera Ferrara S.r.l and Estense Global service, respectively subsidiary and associated companies of Hera S.p.A., will end their first year as at December 31, 2005

* The companies indicated with an asterisk, report the data from the latest financial statements approved (31.12.2003)

CASH FLOW FROM ORDINARY ACTIVITIES:	Dec 31, 04	Dec 31, 03
Result for the year	56.724	49.454
<i>Adjustment of accounts not affecting liquidity:</i>		
Amortisation and depreciation	105.542	95.518
Employee leaving indemnity matured in the year	10.796	9.922
Employee leaving indemnity paid in the year	-7.305	-15.759
Provision (utilisation) fund for contingencies and charges	45.326	25.883
Changes in the consolidation area	12.686	167.045
		115.564
<i>Changes in current assets and liabilities:</i>		
Trade receivables	-36.000	-75.342
Receivables from holding, subsidiary and associated companies	-5.763	-4.490
Other receivables and financial assets	-23.471	53.302
Inventory	-17.048	-9.164
Prepaid expenses and accrued income	-1.912	589
Trade payables	46.784	71.093
Payments on account	2.814	2.724
Payables from holding, subsidiary and associated companies	753	3.457
Other payables	7.050	-15.173
Accrued expenses and deferred income	17.127	-1.349
Tax payables	19.463	9.797
		-2.440
Cash flow generated from ordinary operations	233.566	162.578
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Net book value of assets disposed of	15.710	1.371
Acquisitions of tangible assets	-209.794	-194.266
Acquisitions of intangible assets	-26.192	-15.515
(Increase) decrease in equity investments	32.572	-85.294
Changes in the consolidation area	-161.403	-349.107
		-293.704
CASH FLOW FROM FINANCIAL ACTIVITIES:		
Net change in loans – medium/long term	202.752	148.074
Net equity movements	69.837	7.296
Net Increase (decrease) in financial activity	-70.328	-27.983
Dividends Distributed	-42.040	-27.528
	160.221	99.859
INCREASE (DECR.) IN CASH AND BANKS	44.680	-31.267
CASH AND BANKS AT BEGINNING OF YEAR	-98.927	-67.660
CASH AND BANKS AT THE END OF THE YEAR	-54.247	-98.927

Report of the Board of Statutory Auditors on the Consolidated Financial Statements of Hera S.P.A.		
Dear Shareholders,		
the Financial Statements together with the Director's Report presented to us, were prepared in accordance with articles 25 and thereafter and Legislative Decree 127 of April 9, 1991.		
A summary of the results for the year ended December 31, 2004 is provided below (in Euro thousands).		
BALANCE SHEET		
Assets		
Receivables from shareholders for unpaid capital	386	
Fixed assets	1.140.871	
Current assets	825.124	
Prepayments and accrued income	22.828	
Total assets	2.866.218	
Liabilities		
Group net equity	852.908	
Minority interest net equity	25.401	
Provision for risks and charges	154.331	
Employee leaving indemnity	84.549	
Payables	1.410.548	
Accrued expenses and deferred income	50.791	
Total liabilities	2.866.218	
Total guarantees given	448.943	
Total other memorandum accounts	1.482.293	
Total memorandum accounts	1.929.206	
INCOME STATEMENT		
Value of production	1.838.973	
Cost of production	-1.454.641	
Financial income and charges	-20.454	
Adjustment of value to financial assets	-3.028	
Extraordinary income and charges	-3.785	
Income taxes for the year	55.090	
Profit for the year	62.014	
(of which relating to minority share)	-5.290	
Group profit	56.724	
The Board of Directors in the Director's Report on the Parent Company, on the Consolidated Report and in the notes to the accounts illustrated the consolidated operations and provided a summary of the overall results.		
The structure and contents of the Balance Sheet, and Income Statement have changed compared to the previous year in that they are adjusted in accordance with the provisions of Legislative Decree 6 of January 17, 2003 and subsequent amendments.		

3.7 Report of the Board of Statutory Auditors

<p>The Balance Sheet and Income Statement accounts at December 31, 2004 are not comparable with those at December 31, 2003, in that in the present year the prevalent operation was determined by the merger by incorporation of Agea SpA and Acesea SpA into Hera SpA, with effect from January 1, 2004.</p> <p>In relation to our responsibility we can confirm:</p> <ul style="list-style-type: none">• The consolidated financial statements of the HERA S.p.A. Group include the financial statements of the Parent Company and its subsidiaries, in which Hera S.p.A. controls directly or indirectly the majority of votes exercisable at the Shareholders' Meeting as per Legislative Decree 127/01.• The investments in subsidiaries whose size is insignificant, where the voting rights are subject to serious and long term restrictions and the subsidiary companies held for the exclusive purpose of their successive disposal are excluded from the full consolidation method.• There are no companies included in the consolidation under the proportional method.• The criteria adopted in relation to the consolidation area is in compliance with the provisions of Legislative Decree 127/01 and consists of the line-by-line consolidation of the companies, directly and indirectly controlled and the net equity method for associated companies (companies in which Hera S.p.A. controls directly or indirectly at least one fifth of the voting rights in an ordinary shareholders' meeting).• The investments in non-consolidated subsidiaries and associated companies classified under non-current assets whose value are insignificant or non-operative are valued under the cost method.• For the companies consolidated under the line-by-line method, the assets and liabilities are recorded against their respective net equity values.• 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.• The payables and receivables, revenues and charges between companies in the consolidation are eliminated.• The differences between the cost of the participations and the net equity of the subsidiaries are recorded as consolidation differences. If negative, the difference is recorded in a consolidation reserve or when relating to unfavourable economic forecasts under liabilities in the account "consolidation provision for risks and future charges"; if positive the difference is recorded under assets in the account "consolidation difference".• All of the information contained in the Consolidated Financial Statements and the accompanying documents relates to the calendar year 2004.• The accounting principles applied are in compliance with the statutory requirements and fully illustrated in the notes to the financial statements.• The Consolidated Financial Statements also reports the amounts of guarantees, commitments and risks.• The Consolidated Financial Statements ended the year with a net profit of Euro 56,724,000 and a net equity of Euro 979,000,000. <p>The accounting principles and valuation criteria have been applied in a uniform manner in all of the consolidated companies. The accounting principles adopted in the Consolidated Financial Statements are those utilized by the Parent Company Hera SpA and are in conformity with the legislative requirements previously mentioned above, integrated and interpreted by the Accounting Principles issued by the Italian Accounting profession (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri) and, in the absence of accounting principles laid down by the former, those issued by the International Accounting Standard Board (IASB).</p> <p>The accounting principles utilized in the year do not differ from those utilized in the preparation of the Consolidated Financial Statements in the previous year, in particular in the valuation and in the continuity of these accounting principles except in relation to inventory which is valued under the weighted average cost method instead of LIFO.</p>	
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<p>is the present and in the previous years no departures from accounting principles took place in the preparation of the parent company and consolidated financial statements as permitted by legislation.</p> <p>In our opinion the present Financial Statements gives a true and fair view of the financial position and result of the group for the year ended December 31, 2004 in compliance with the statutory requirements for the preparation of Consolidated Financial Statements.</p> <p>Bologna, April 14, 2005</p> <p>Signed by</p> <p>Antonio Venturini Fernando Lodi Sergio Sans</p> <p>This report has been translated into the English language solely for the convenience of international readers.</p>	
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<p>Deloitte</p> <p>Deloitte & Touche S.p.A. Piazza Matteotti, 4/2 40139 Bologna, I. 40133 Bologna Italy</p> <p>Tel. + 39 051 55811 Fax + 39 051 55815 www.deloitte.it</p>	<p>AUDITORS' REPORT PURSUANT TO ART. 106 OF LEGISLATIVE DECREE No. 88 OF FEBRUARY 24, 1998</p> <p>To the Shareholders of HERA S.p.A.</p> <p>We have audited the consolidated financial statements of HERA S.p.A. and subsidiaries (the HERA Group) as of December 31, 2004. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.</p> <p>We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The responsibility of the audit work on the financial statements of some subsidiaries, that represent respectively 6% of the consolidated assets and 2% of the consolidated revenues, is of other auditors.</p> <p>For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditors' report issued by us on April 12, 2005.</p> <p>In our opinion, the consolidated financial statements present fairly the financial position of HERA Group as of December 31, 2004, and the results of its operations for the year then ended in accordance with the Italian law governing financial statements.</p>
<p>Deloitte & Touche Deloitte Deloitte Deloitte Deloitte Deloitte Deloitte Deloitte Deloitte Deloitte Deloitte Pavia, Varese, Varese</p> <p>Deloitte & Touche S.p.A. - 20144 Milano Capitale Sociale - Capitale Riserva (I. & F. 200.000) - Patrimonio Netto (I. & F. 200.000) - Patrimonio Netto (I. & F. 200.000) Ripartizione: 100.000.000 (I. & F. 200.000) - 100.000.000 (I. & F. 200.000)</p>	<p>Member of Deloitte Touche Tohmatsu</p>

<p>As indicated in the Directors Report and in the notes to the financial statements, during the year 2004 it was completed the merger of Agea S.p.A. into HERA S.p.A. and simultaneously the spin-off of the waste service business unit of Acesea S.p.A. in favour of HERA S.p.A.. These extraordinary operations have an effect on the comparison of the financial statements as at December 31, 2004 with the ones of the prior year.</p> <p>DELOITTE & TOUCHE S.p.A.</p> <p>Signed by Antonio Cosso Partner</p> <p>Bologna, Italy April 12, 2005</p> <p>This report has been translated into the English language solely for the convenience of international readers.</p>	
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3.8 Independent Auditors' Report

3.9 Attachments

3.9.1 Movements in intangible assets (in thousands of Euro)

	Values at 31/12/2003			Acquisitions of Agea/Acosea			Change in the year							Values at Dec-31-04		
	Historical cost	Depreciation	Book value	Historical cost	Depreciation	Book value	Acquisitions	Other changes	Change in cons.area	Deprec. in year	Other changes	Change in cons.area	Total changes	Historical cost	Depreciation	Book value
Form., sart-up & expansion costs	17.307	-4.715	12.592	1.236	-551	685	4.860	1.134	1.339	-4.884	-1.084	-391	974	25.876	-11.625	14.251
Research, dev. & advert. costs	16.446	-14.505	1.941	255	-201	54	1.472	1.327	78	-1.494	42	-31	1.394	19.578	-16.189	3.389
Industrial patents and intellectual property rights	17.044	-7.699	9.345			0	2.832	1.324	5	-3.820	1.118	0	1.459	21.205	-10.401	10.804
Concessions, licen. & trademarks	304.599	-95.959	208.640	1.861	-1.555	306	2.592	-63.980	13	-12.155	11.710	-1	-61.821	245.085	-97.960	147.125
Goodwill	105.108	-13.341	91.767	3.388	-565	2.823	22.930	-675	11.420	-10.978	1.034	-332	23.399	142.171	-24.182	117.989
Assets under construction	15.210	0	15.210	3.442		3.442	28.614	-4.437					24.177	42.829	0	42.829
Other intangible assets	29.540	-13.047	16.493	14.366	-2.649	11.717	14.407	-1.024	850	-5.199	1.410	-163	10.281	58.139	-19.648	38.491
Consolidation difference	6.693	-1.849	4.844			0		650		-806	-65		-221	7.343	-2.720	4.623
Total intangible assets	511.947	-151.115	360.832	24.548	-5.521	19.027	77.707	-65.681	13.705	-39.336	14.165	-918	-358	562.226	-182.725	379.501

3.9.2 Movements in tangible assets (values in thousand of euro)

	Values at 31/12/2003			Acquisitions Agea/Acosea			Changes in the year							Values at 31/12/2004				
	Historical cost	Deprec. provision	Book value	Historical cost	Deprec. provision	Book value	Acquisitions	Other changes	Change in cons. area	Disposal of assets	Deprec. in year	Other changes	Change in cons. area	Disposal of assets	Total changes	Historical cost	Deprec. cost	Book value
Land and buildings	149.439	--20.236	129.203	33.723	-3.941	29.782	7.921	24.149	9.019	-1.051	-6.275	-1.677	-25	154	32.215	223.200	-32.000	191.200
Plant & Machinery	672.384	-219.403	452.981	57.455	-5.857	51.598	87.731	74.164	32.407	-5.489	-42.675	-17.455	-2.732	1.123	127.074	918.652	-286.999	631.653
Industrial and commercial equipment	67.178	-30.506	36.672	6.319	-4.129	2.190	9.190	-289	786	-2.623	-5.988	-1.008	-135	1.817	1.750	80.561	-39.949	40.612
Other assets	104.075	-62.238	41.837	14.658	-10.697	3.961	16.125	5.610	238	-16.284	-11.268	1.089	-88	11.930	7.352	124.422	-71.272	53.150
Assets under construction & payments on account	249.139		249.139	2.519		2.519	141.337	-137.093	69	-5.287					-974	250.684	0	250.684
Totale immobilizzazioni materiali	1.242.215	-332.383	909.832	114.674	-24.624	19.027	262.304	-33.459	42.519	-30.734	-66.206	-19.051	-2.980	15.024	167.417	1.597.519	-430.220	1.167.299

