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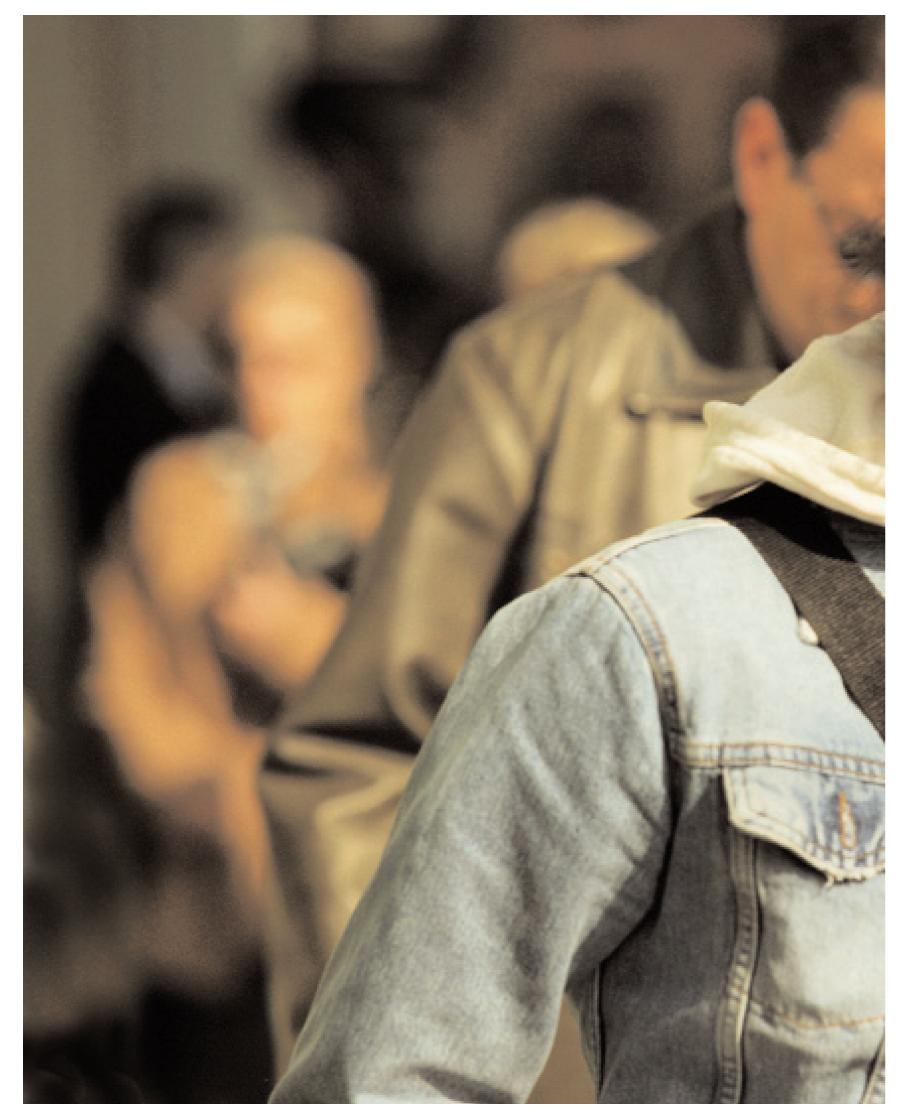
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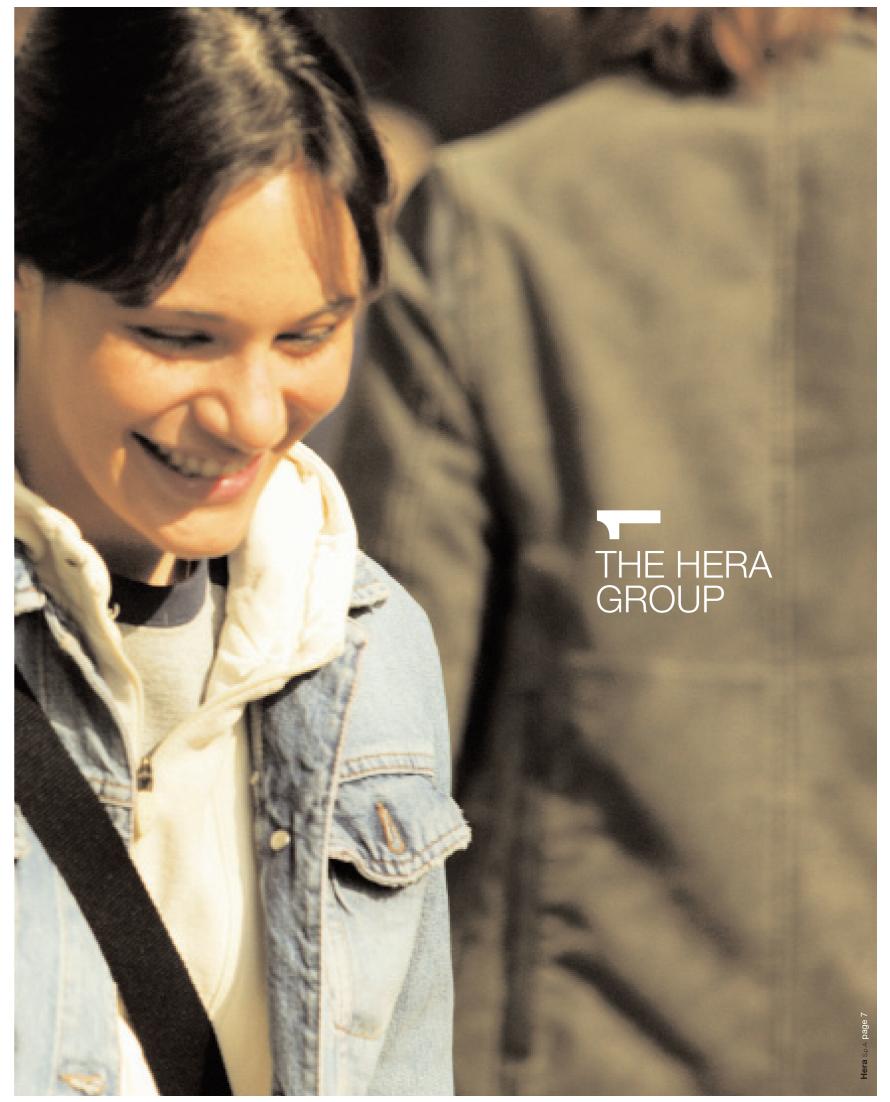
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WARNING
This document is the translation into English of an extract of the Italian original version of the Annual Report as at 31 December 2003. This document include only the Director's report, the Group consolidated Financial Statements and the Notes to the consolidated financial statements.

The statutory auditors report and the independent auditors opinion have been delivered for the Italian original version of the Annual Report, and not for this translation into the English language.

The auditors opinion of the Italian original version is available on demand





Letter to the shareholders

the past year has certainly been a very important one for your Company: a year confirming the expectations and a measure of the results.

That which we present to you today is in fact the first full year of the Group operations and the results achieved are clearly above expectations: this confirms the validity of the choices made on the setting up of the Company.

Hera, one year after its start-up, continues to be at the centre of attention of the operators in the sector that seek inspiration from our model in order to conclude new agreements capable of adding value to their single enterprises and achieve economies of scale.

The quality of the decisions taken were rewarded by the success of the public share offering, that was followed, thanks to the clarity of the transparency towards the market, by a period of strong appreciation in the share price that is still in progress.

The group organisation was progressively implemented of the corporate governing bodies and of the rationalisation of the companies within the Group as well as the organisation of the production departments. The organisation and managerial commitment, resulting in good performances in all of the business sectors and the full achievement of the programmed objectives, did not impede the achievement of ambitious investment levels relating to the enlargement of the business activities (for its importance only the recent acquisition of 42% in AGEA of Ferrara is mentioned) and the activation of an operating investment plan of over Euro 200 million.

Overall, despite the important changes, also in terms of service and customer relations, the new organisation did not negatively impact on the overall quality of the services provided.

With regard to this a programme to monitor the quality of the service commenced, still in the definition phase, that will be valuable in guaranteeing a progressive and effective uniformity in the levels of services in the region served.

In relation to the tariffs, while the average value of the overall prices of the services offered saw an increase lower than inflation, this was determined, as indeed it will be for the future, by a more marked increase in the water and waste management services against a more contained increase in the energy services impacted by the liberalisation process in course.

Important and of note was the undertakings in relation to human resources that saw an improvement in the mix of available resources also through a high level of training. To all of the personnel of the Group goes a sincere appreciation for the contribution given in establishing such an important company in the region. To maintain the continued growth in the value of your company requires not only the commitment towards efficiency already demonstrated but also the maintaining of the investment programmes and, when possible, regional development of the business that has already been illustrated to the market.

This is a strategy that can not be renounced in order to ensure the maintaining of high and complete levels of services in the region and to achieve satisfactory results in a market that offers many and diversified options.

The new Industrial Plan will reflect these choices that will be aimed at favouring, where possible, the practical development options within our region.

We trust that we can count, again in the present year, on your support confident that the results of the service, like the economic and market results, allow the maintaining of a high level of consent on the activities of your Company.



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 price /quality structure and ensuring further margins integration; increasing the value of the Group and its of growth and development. competitive capacity, to take advantage of the opportunities presented with the liberalisation of the markets.

To fulfill the "Hera system", creating synergies, optimising the available resources to achieve a better 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.served, which present the possibilities for the attainment of economies of scale and synergies in the short-medium term.

Results

Value of Production



Gross Operating Margin



Net Profit



Economic results	Dec. 31, 02	%	Dec. 31, 03	%	Var. %	
(Euro Millions)						
Value of production	1.133,3	100,0%	1.331,3	100,0%	17,5%	
Operating costs	(752,0)	(66,4)%	(896,4)	(67,3)%	19,2%	
Personnel costs	(189,4)	(16,7)%	(192,4)	(14,5)%	1,6%	
Gross Operating Margin	191,9	16,9%	242,5	18,2%	26,4%	
Amort., depreciation & provisions	(114,3)	(10,1)%	(129,7)	(9,7)%	13,5%	
Operating result	77,6	6,8%	112,8	8,5%	45,4%	
Pre-tax profit	75,3	6,6%	88,6	6,7%	17,7%	
Income taxes	(38,7)	(3,4)%	(35,6)	(2,7)%	(8,0)%	
Net profit	36,6	3,2%	53,0	4,0%	44,8%	
Profit pertaining to minority interests	(3,4)	(0,3)%	(3,5)	(0,3)%	2,9%	
Profit pertaining to Group	33.2	2 0%	19.5	2 7%	10.1%	

Financial results	Dec. 31, 02	Dec. 31, 03	Var. %
(Euro Millions)			
Investments	177,0	210,6	19,0%
Operating Cash Flow	147,5	179,2	21,5%

Operating data	Dec. 31, 02	Dec. 31, 03	Var. %
Volumes			
Gas Sold (millions of mc)	1.444	1.634	13,2%
Water sold (millions of mc)	176	180	2,3%
Electricity sold (GWh)	948	1.628	71,7%
Waste collected (thousands of tonnes)	1.171	1.108	(5,4)%
Waste treated (thousands of tonnes)	2.490	2.393	(3,9)%
Clients served			
Gas (units)	667.930	699.885	4,8%
Electricity	48.934	50.075	2,3%
Water (units)	616.860	639.563	3,7%

2003, the number of members on the Board of ce of the stock exchange quotation. Director's of Hera increased to include new represen-

Following the Shareholders' Meeting of October 16, tatives of the minority shareholders as a consequen-

1.2 Corporate Boards

Board of Directors

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

Board of Statutory Auditors

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

Internal control committee

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

Office	Name and Surname
President	Aleardo Benuzzi
Member	Piero Collina
Member	Gianluigi Magri

Remuneration committee

1.3 Strategy

The progressive liberalisation of the demand and the increase in competitive pressures in the public sector services is the driving force behind companies in the sector to achieve adequate levels of business activities in order to compete in an increasingly competitive market place and to take advantage of the new opportunities for growth offered by the deregulation of the traditional monopolies.

The Hera Group was created at the end of 2002 following the most important integration operation in the local utilities sector in Italy and nationally is currently positioned among the top three companies in the management of local public services, with a Value of Production of Euro 1,331.3 million in the provision of multi-service utilities (energy, water and waste management).

The strategy of the Group is centred on the creation of value through:

- exploitation of the significant synergies deriving from the recent integration through the optimisation of costs and management processes;
- increase in sales offering to its customers a vast range of services and optimising the opportunities deriving from the multi-utility business. The "Dual Fuel" policy (integrated offer of electricity to gas customers) which commenced in the year represents a first significant step;
- expansion of the production capacity in all of the core business areas with an investment plan for the period 2003-2007 of one billion Euro.

In particular, the focus of the Group is on the expansion of the existing waste-to-energy treatment capacity (together with the production of incentivised electricity, CIP 6 and green certificates) and in the increase of electricity production capacity (through the construction of two combined cycle plants for a total installed capacity of 310 MW and financial investments in "Generation Companies", such as Tirreno Power).

Thanks to its "open" business model, enabling integration with other multi-utility companies, the strategy of the Hera Group also includes growth objectives by "external" lines. These opportunities of expansion are directed at Companies operating in adjacent regions and, preferably in accordance with the multi-utility model, that favours a complete integration with the Group and whose economicfinancial positions are in line with those of Hera together with a significant potential for synergies.

The success of the integration of the twelve companies that gave rise to Hera and the implementation of the strategy described constitute the guiding principles identified by the Group to create a true and real "industry for the management of public services" capable of guaranteeing the necessary competitiveness to expand its markets and defend its leadership position.

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

- Energy, that includes the sectors of gas (distribution and sale of methane gas and LPG) and electricity (distribution and sale);
- Integrated Water Cycle, that includes abstraction, adduction, distribution, sewerage and purification services;
- Waste Management, that relates to territorial operating services (collection and transport of refuse, sweeping, urban hygiene) and treatment activity (recovery and disposal);
- Other Services, including district heating, public lighting, cemetery and other complementary services.

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

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

1.4 Activities

The attribution of the main responsibilities in the Holding, in the Divisions and in the Local Operating Companies was made through a process of management assessment which identified the best professional attributes existing in the companies converged into Hera; all the key figures have extensive experience in the sector and possess the know-how of the best practices of the Group.

The structure of the Hera Group

At the beginning of 2003 all of the activities relating to the operational management of the water, gas distribution and waste management (collection of waste and urban hygiene) services were reorganised and attributed to the five Local Operating Companies (LOC), in which Hera holds 100% of the share capital:

- Hera Bologna S.r.I.
- Hera Imola- Faenza S.r.I.
- Hera Ravenna S.r.l.
- Hera Forlì Cesena S.r.l.
- Hera Rimini S.r.I.

The sale of gas and electricity activity was concentrated - also in compliance with the regulations in the sector that discipline the corporate separation between distribution and selling - in a special purpose company, Hera Comm S.r.l., into which all the gas and electricity contracts were transferred.

The present Group configuration, resulting from the completion of the integration process, involved an intensive reorganisation of activities during 2003 also in relation to the participations held through unifications and mergers and, to a lesser extent, through the disposal of participations no longer considered strategic.

At the end of the year ended December 31, 2003, the Hera Group had rationalised investments not considered strategic through the disposal of 19 holdings, the liquidation of 7 companies and the merger of 2 companies into other holdings. The rationalisation process is still in course with further disposals.

1.5 Company organisation and **Group structure**

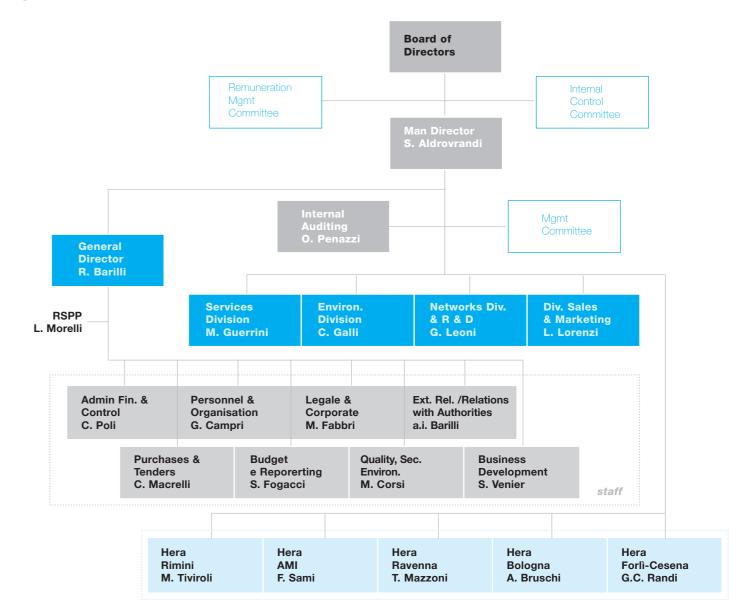
The organisational macrostructure

During the year 2003 Hera completed the internal reorganisational process activating all of the structures within the Group: the loyalty and the roots of the public enterprise to its territory have become a characteristic of the business model that, within its centre - in the Holding and in the Divisions - contain the strategies and all the activities from which it is possible to achieve economies of scale while on the other hand maintaining and reorganising locally - in the Local Operating Companies (LOC) - the operating activities that require constant contact with the customers and their need for efficient services.

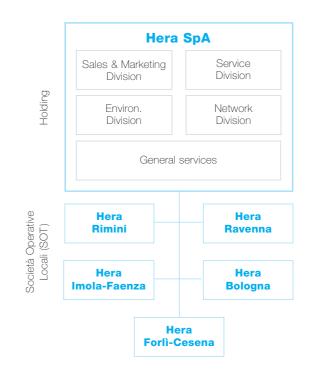
The principal staff departments - administration, finance, control, organisation and management of personnel, purchases and contracts, legal and corporate affairs, business development, external relations have been reorganised under the General Direction with light structures and a strong focus on the objectives of improvement of profitability and business

The model adopted by Hera can be considered as an "open entrepreneurial formula" as it can be further repeated, allowing new companies entering the Group to acquire a role and functions in the governance of the Group and also maintain locally a corporate operating structure capable of fully interpreting the territorial needs, and above all ensuring high quality standards, taking from the best practices of the Group and benefit from the synergies.

Organisational structure



Structure



AR

1.6 Human Resources

At December 31, 2003 the number of employees in the Hera Group were 4,428 (consolidated companies), with the following division by category: Senior Management (67), Managers (149), White-collar (1,663), Blue-collar (2,549). At parity of consolidation area the number of personnel shows a net difference of - 214 units, of which 277 departing and 63 new entrants, compared to the end of 2002.

Industrial relations

The dialogue currently underway with the Union Organisations sees the parties involved in the search of a development model for industrial relations with the aim of addressing fundamental themes central to company life. The intention is to unite and harmonise the conduct of working relations, which currently differs between individual companies in the same territory and among employees holding the same CCNL (National Collective Agreement). The approach that has been defined and adopted by the parties is designed to reinforce the unification of 13 companies, in terms of human resources to establish a profile both consistent with the dimensions and unity of the Group.

Organisation

During 2003, the specific procedures were defined for the individual organisational units and the interoperational processes of the Group were defined also via service contracts between Holding and Subsidiary Companies.

In 2003, in line with the objectives set out in the educational programme, an intensive training programme was initiated with the central aim of providing technical knowledge, developing essential managerial skills to speed up the current process of change and the implementation of the new company information system. The technical/specialist education and training of personnel absorbed a significant amount of resources due to the number of operative personnel involved in revision courses on the use of machinery, equipment and new technology and the variety of the technical know-how required in the multi-utility sector.

The educational training in the development of managerial skills has been geared to the use of management models in line with the new organisational set-up and the impact of the company's quotation on the Stock Exchange.

Some important initiatives were dedicated to communications and client management and these matters will be further developed during 2004.

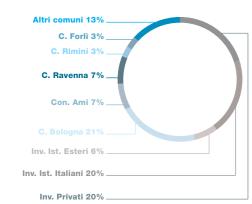
The staff training provided on the new Company Information System has entailed a significant investment in resources throughout all companies within the Group, to guarantee the required support of the change management for the commencement of the new information procedures.

Finally, there has been a commitment to quality, safety and environmental training so as to sustain continual development of staff awareness on these matters and to guarantee appropriate protection standards in regards to safety, health and the environment.

The table below quantifies (in man hours) the training activity in the year 2003.

Training activity	man hours
Professional training and specialised courses	24.665
Quality	7.962
Security and environment	8.532
Managerial training	4.051
Information technology	14.330
Total	59.540

the IPO date



The quotation on the Stock Exchange

On June 26, 2003, following the public offer to sell 305 million ordinary shares representing 38.7% of the share capital, Hera shares were admitted to trading on the Italian stock exchange in the Blue Chip segment.

The IPO operation, following a request of 2.4 times the offer, from both institutional investors (approximately 150 from the principal European financial markets: Italy, United Kingdom, Germany, Switzerland and France) and private investors (approximately 90 thousand), resulted in the full exercise of the green shoe of 45 million additional shares representing a further 5.7% of the share capital.

Evolution of the share capital structure

The shareholder structure at the date of quotation, illustrated in the following graph, is characterised by the lack of a single controlling shareholder, typical of the shareholding structure of all of the other Italian multi-utility companies and a significant presence of institutional investors (at December 31, 2003 Nextra Asset Management SGR and Kairos Investment Ltd had holdings above 2%): During the year 2003 a reserved share capital increase was made of approximately Euro 6.7 million for the integration of the busi-

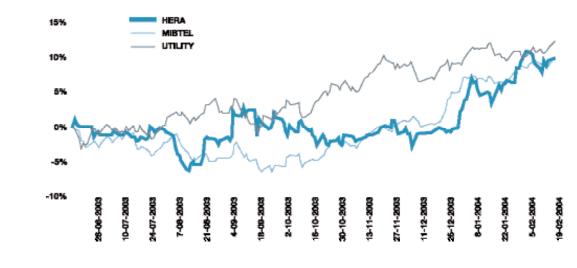
nesses of Geat SpA, (relating to Waste Management and Public Lighting sectors in the Rimini area) in addition to other activities previously managed by some municipalities within the region in which the Group operates. Currently, therefore, the share capital amounts to 793,202,121 ordinary shares of which 350 million relating to free float (44.1%).

The share price in 2003

The IPO operation described, that fixed the placement price at Euro 1.25 per share, performed positively in trading on the Stock Exchange which substantially reaffirming the IPO price in the first 6 months after quotation.

The performance of the share price was better than the utilities index (reference benchmark) for long periods in the year that coincided with the communication of positive infra-annual results and the extraordinary activities realised in the year by the Group.

Performance of the Hera share price



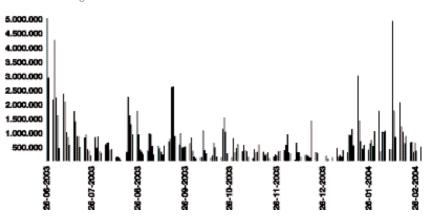
The reconfirmation of the Hera IPO share price at the end of the year is a success appreciated even more in consideration of the lack of interest in utility shares shown in the second part of the year from the financial markets (as can be seen from the graph indicating the performance of the MIBTEL and Utilities indices). The recovery in the financial markets, registered in the year 2003, in fact favoured the performance of "less conservative" shares compared to utilities.

At the beginning of 2004, partly due to a return of investors to a more cautious investment policy, the Hera share price recorded a strong increase (of over

+10% in the first two months) performing better than the Utilities index.

The average volumes of Hera shares traded in 2003, excluding the first day which is of little significance (with over 49 million shares traded), have maintained levels at around 570 thousand shares per day (with an average counter-value of Euro 700,000 being amongst the highest registered of all the companies in the sector).

The significant trading mentioned benefited from the high number of institutional investors active in the share and the high level of free float.



Relations with the investors

In March 2002, the Hera Group created the role of Investor Relations for the maintaining of relations with the financial market in accordance with the requirements of Consob and Borsa Italiana.

The relations with the financial market have seen management involved in over one hundred meetings with investors in 4 road shows including overseas (Canada, USA, Untied Kingdom, Denmark, France, Germany, Switzerland) with the objective of spreading the image of the Group and to diversify the shareholder base. This activity permitted better trading volumes on the stock exchange.

In addition, an Investor Relations section has been created, easily consultable by investors on the official site of the Group (www.gruppohera.it), containing updated information in real time and which includes other instruments for a better visibility and transparency of the financial communications (newsletter, presentation of results transmitted in real time on the

site, conference call etc.). The financial communications in the year obtained the "Leone d'oro" awardfrom Milano Finanza (awarded to Hera on March 8, 2004).

The relations with financial analysts and the value of the share

The Hera Group have been the subject of studies by an increasing number of financial analysts; at March 2004 the number of financial analysts following the Group with up-dated studies is 13 (Abn Amro ,Actinvest, Caboto, Chevreux Indosuez, ING, Cofiri, Euromobiliare, Jefferies, IMI, Intermonte Securities, Mediobanca, Rasbank and UBM).

The consensus of the analysts (the medium of the valuations expressed by the analysts on the value of the Hera share price) have constantly increased from the quotation on the Stock Exchange increasing from Euro 1.44 to Euro 1.48 in only 4 months as have the recommendations of the analysts, that are presently all positive with 8 "Buy" recommendations.

1.8 Sustainability Report

In 2003 the group published its first Sustainability Report with the aim of advancing the established awareness on environmental and social issues within all companies now merged into Hera.

It deals with the first application of what is envisaged as a communication and management control tool, more appropriate and developed, allowing for the full integration of the three sustainable elements: namely economic, social and environment.

With the sustainability report, prepared in accordance with the methodology accredited at international level (AA1000 Institute of Social and Ethical Accountability, 1999 and Sustainability Reporting Guidelines, Global Reporting Initiative, 2002) and at national level (The principles in the preparation of the Social Report, Study Group for the Social Report, 1998 and from the Social Report and Sustainability Report of the Eni Enrico Mattei Foundation, 2001).

In 2003 a three-year project commenced with the objective of making sustainability and in particular the Report, firstly a management instrument and then one of communication.

With this project, included within the development strategy, the Group is committed to the setting up of clear and coherent communication with the public through the publication of relative information on the socialenvironmental interactions in which it operates and carries out its activities.

This commitment has brought the feature of sustainability to the forefront of the company's organisation and communication: Sustainability Report 2003, scheduled for publication in the next few months, will act as a report of the dialogue among representatives of the principal groups of the stakeholder.

1.9 Ethical Code

The Group has drawn up its own Code of Ethics which sets out the management of internal and external relations based on criteria of loyalty, professionalcorrectness and economic efficiency. The goal is to the D.Lgs 231/2001 law. The aim is to devise a strucprovide conduct and policy which satisfy stake holders' needs and strengthen Hera's reputation in a positive and transparent manner.

The Board of Directors approved the Code of Ethics on February 16, 2004, together with a business, management and control model in accordance with tured and organic operational system which carries out precautionary inspections of conduct that may infringe upon state law.

A control body has been set up entrusted with the fore-mentioned tasks including reporting back to the corporate boards of Hera S.P.A at regular intervals according to the implementation of the model. Reference should be made to the report on Corporate Governance for further information.

1.10 Corporate Governance annual report

The Group has developed codified procedures in a series of codes of conduct, on the basis of the Self-Discipline Code issued by Borsa Italiana S.p.A., in order to promote further improvement in the management transparency and control in favour of the stake holders.

The Board of Directors of Hera approved, on November 4, 2002, the constitution of the Committee for Internal Control and subsequently, on April 4. 2003, with a unanimous vote, the adoption of the Self-Discipline Code prepared by Borsa Italiana for quoted companies.

The Code presents a corporate organisational model 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.

On November 3, 2003, two of the new members to the Board of Director, who were previously elected at the shareholders' meeting of October 16, 2003, were included in the internal committees.

The description of the mechanism of the group's governance along with the functioning and the roles carried out by the internal committees is published in the report on Corporate Governance to which reference should be made.

del Frullo 5, Granarolo dell'Emilia (BO), on April 27, and resolve the following:

The shareholders are called to an ordinary and 2004 at 11.00 on first call and on April 29, 2004, at extraordinary shareholders' meeting at la Sala Alpi, Via the same time and place on second call, to discuss

1.11 Notice of convocation of the shareholders' meeting of Hera S.p.A

Agenda

Extraordinary Part

- 1. Modification of the following articles of the Company Statutes: Art. 2, Art. 7, Art. 8, Art. 9, Art. 10, Art. 12, Art. 13, Art. 15, Art. 16, Art. 17, Art. 19, Art. 23, Art. 25, Art. 26, Art. 28;
- 2. Introduction of new article 27 to the Company Statutes;
- 3. Re-numbering articles 27, 28, 29, 30 and 31 of the Company Statutes following the change at point 2 above.

Ordinary Part

1. Financial statements at December 31, 2003 and Annual Report: resolutions thereon:

The report of the matters for discussion and proposal on the Agenda, including the parent company and consolidated financial statements at December 31, 2003 together with the Directors' Report have been deposited at the registered offices of the company and at Borsa Italiana S.p.A., in accordance with law and available to those who may

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

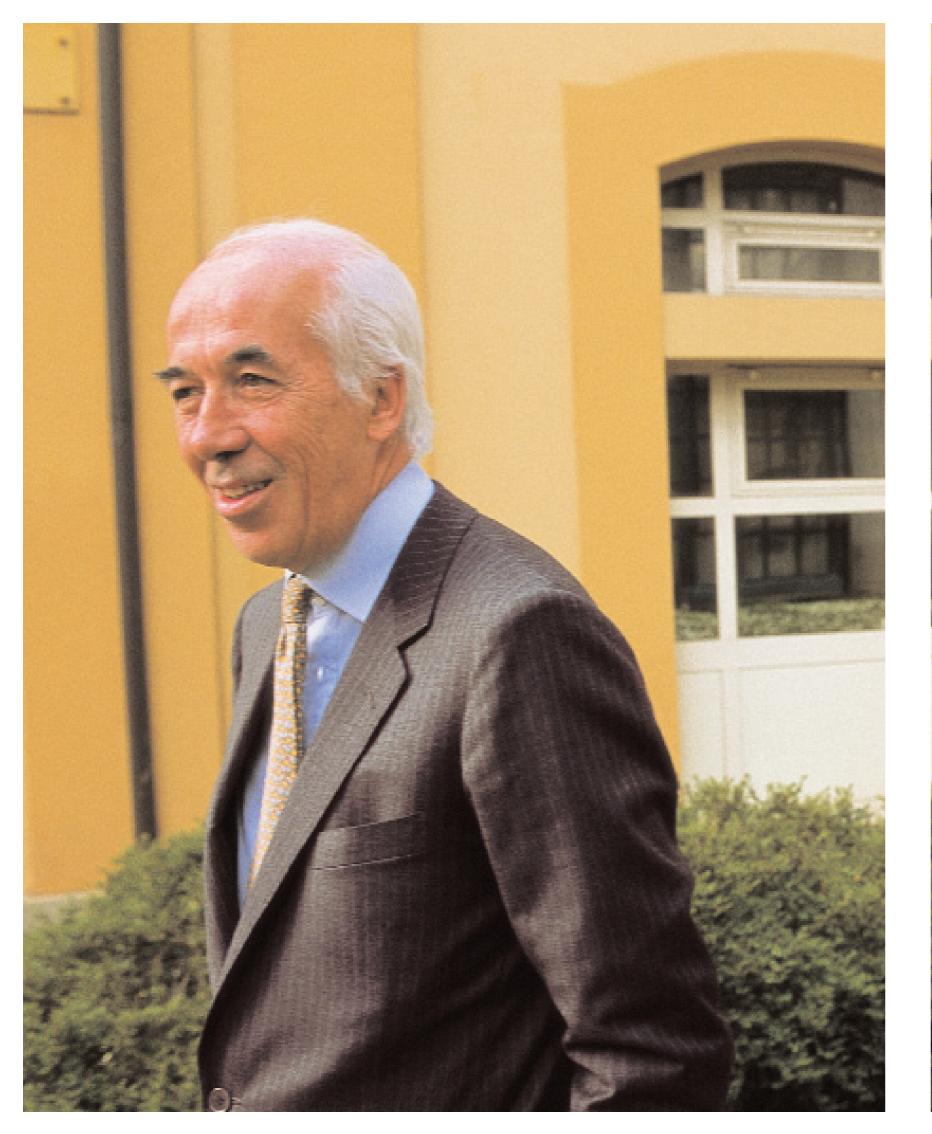
The shareholders or their proxy attending the shareholders' meeting may send by post or fax (number 051-287.244), to the legal affairs secretary of HERA S.p.A., a copy of the documentation certifying their right to intervene at the Shareholders' Meeting, at least two days before the shareholders' meeting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

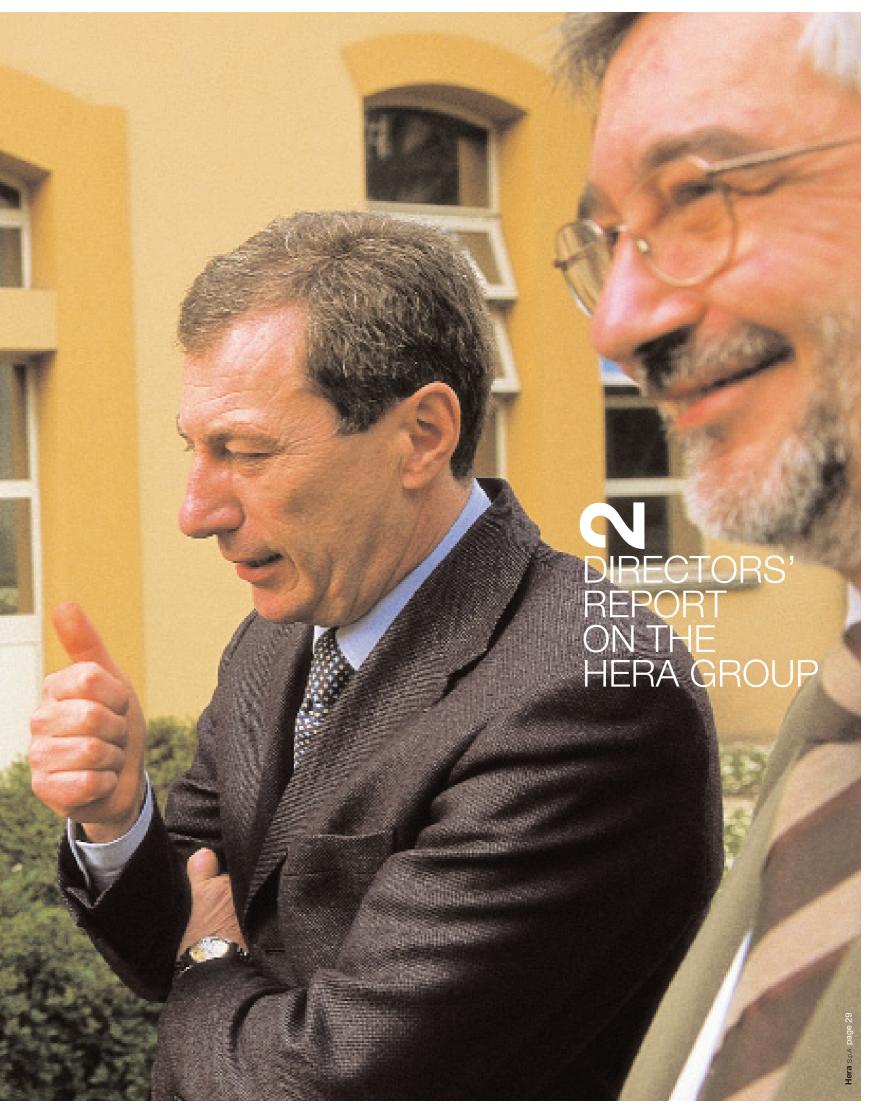
The persons who are not shareholders and wish to attend the shareholders' meeting must do so in the same manner as for the shareholders.

Bologna, March 17, 2004

The President of the Board of Directors

(Tomaso Tommasi di Vignano)





At the end of 2002 the most important consolidation operation between 11 of the princ ipal multi-utilities within the Emilia Romagna region was completed with success. This operation gave rise to the HERA Group which presently constitutes one of the largest Italian groups in the sector.

In 2003, the corporate aggregation as described was transformed into a "single Group" implementing an important reorganisation process which continued for the whole of the year just ended.

The reorganisation process concerned the transfer of operating activity from the Holding - holder of the concessions for the services, to the five wholly owned Local Operating Companies, (Hera Bologna Srl, Hera Rimini Srl, Hera Forlì-Cesena Srl, Hera Ravenna Srl and Hera Imola-Faenza Srl) which was finalised with a service contract and the transfer of the necessary operating assets. The above process brought about the creation of an efficient business model which permits on the one hand, the optimisation of the management of the local operating activities and the maintenance of a strong presence in the region necessary to ensure close contact with the clientele served and on the other, the maximisation of the benefits of potential Group synergies and economies of scale.

The rationalisation of the minor participations no longer considered strategic, through mergers and disposals continued in 2003 significantly simplifying the Group corporate structure (See group structure in following page).

Finally, in completing the new structure of the complex reality of the Hera Group, the reorganisation of the operative processes and the greater efficiency in the organisation of the work have laid the foundations for the application of the best practices in all of the companies of the Group.

Together with the important reorganisation described, the expansion strategy of the Group also began in accordance with the lines of the industrial plan.

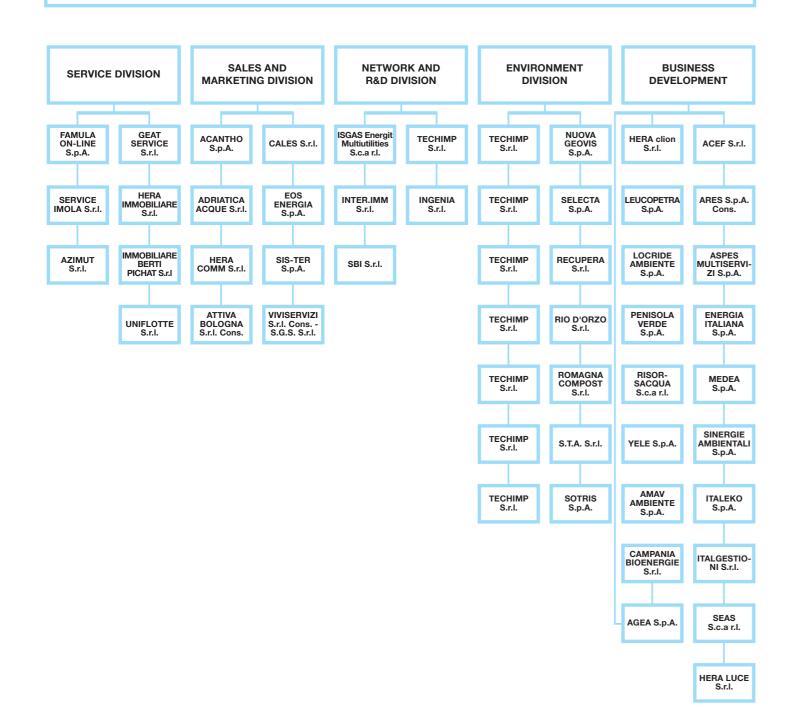
The Duel Fuel commercial strategy commenced at the end of the first half of the year and, taking advantage of the opportunities deriving from the recent liberalisation, resulted in a further important increase in the electricity customers served.

The important investment activities of the Group, approximately Euro 210.6 million in 2003, were made in all the sectors of activity, in the reorganisation of information systems and in particular in new incineration plants (WTE) that saw an acceleration in the authorisation processes and construction and result in the near completion of the majority of those planned (WTE plant at Bologna of 22 MW installed) that will be ready to enter into service in the second half of the current year.

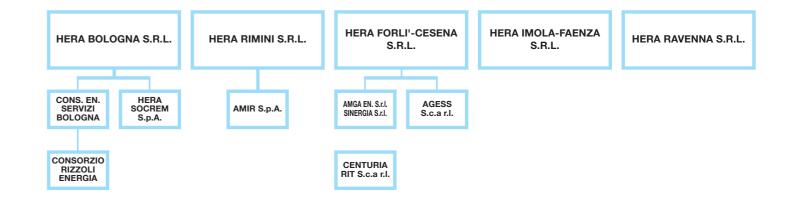
Also the expansion by external lines through the application of the unique business model of Hera continued to be important with further aggregations of some local operators (in adjacent municipalities, of minor multi-utility companies operating in the region) and the expansion into an adjacent province with the acquisition of the first 42% of the company Agea of Ferrara with whom the complete integration is expected in the current year.

The combination of the reorganisation and expansion activities described have modified at December 31, 2003, the distribution of the consolidated results between the individual companies of the Group without influencing the comparison of the consolidated financial and economic results of 2003 with those for the previous year.





HERA S.p.A.



- Note: (1) investment dismissed in the first part of year 2004
- (2) companies closed down in the first part of year 2004
 (3) the merger of SELECTA Spa (resulted from the merger of CIR SECCO, SELECTA and DIRAMA) in ANKRON Spa will be finalised in year 2004
 (4) the merger of BARICELLA AMBIENTE Spa and GAL.A. Spa will be finalised in year 2004
 (5) the merger of GEAT SERVICE Srl into UNIFLOTTE Spa will be finalised in year 2004
 (6) the merger of AMGA ENERGIA Srl and SINERGIA Srl will be finalised in year 2004

The increase in the **Value of Production** by +17.5%, from Euro 1,133.3 million in the previous year to Euro 1,331.3 million, was achieved with an increase in turnover in all of the business areas (Energy, Integrated Water Cycle, Waste Management and Others) and in particular in the energy activities of the Group. The increase was achieved principally due to:

Expansion into new municipalities and new ser-

During the year the company Geat was incorporated operating in waste management and public lighting in the Municipality of Riccione. In addition gas/water services were acquired in the municipalities of Castel San Pietro, Molinella and Cotignola.

Increase in customers

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

"Duel Fuel" Commercial Policy

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 consolidating existing gas sales.

Increase in pro-capita consumption

The climatic conditions in the year just ended, with the winter season colder than the previous year and a particularly dry summer, favoured the sale of gas and water respectively.

Increase in tariffs

The increase in the tariffs was in line with the regulations of the relevant authorities.

In relation to the distribution and sale of gas the application of the average tariff variation established by the Authority AEEG resulted in an overall average increase in revenues, expressed in Euro cent/mc, of + 1%, increasing from 29.9 in 2002 to 30.2 in 2003.

This variation corresponds to the increase in the average sales price, from Euro 23.0 to 24.0 cent/mc; the tariff quota for distribution remained unchanged in that the reductions required by AEEG of approximately Euro 1.5 cent/mc come into force as of January 1, 2004.

2.2 Consolidated results The degree of efficiency achieved from the reorganiof the Hera Group

sation process described has permitted the Hera Group to take advantage of the opportunities of expansion in all sectors and to end the first full 12 months with all economic indicators increasing strongly, benefiting from the important potential synergies deriving from the integration.

In addition, the results achieved in the year were above the expectations made at the beginning of the year, due to the implementation of all the activities programmed and some favourable external factors.

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

In relation to the sale of electricity, the unitary sales price on the non-eligible market increased from Euro 5.86 to 6.13 cent/KWh connected to the cost of energy; conversely the average unitary sales price on the open

market decreased from Euro 7.53 to 6.22 cent/KWh as a consequence of the increased competitive pressures in this customer segment.

In relation to the regulations and tariffs in the water and waste management sectors reference should be made to the analysis in these business areas.

The value of production, in the account "Increase of internal constructions and work in progress", and the operating costs increased, by approximately Euro 55 million, due to the different accounting treatment to the quota of work performed by third parties of the operating investments on the distribution network (maintenance capex).

The majority of the operating investments relating to the distribution network since the beginning of the year have been made by the Local Operating Companies with invoicing to the Holding for the entire amount of the work including the part performed by third parties.

This change has an effect on the costs and value of production for the same amount but no effect on the overall margins of the Group.

The Group consolidated Gross Operating Margin increased by +26.4% from Euro 191.9 million to Euro 242.5 million in 2003 with an improved margin of +1.3% percentage points.

These results were obtained, in addition to the increase in turnover as described above, from the achievement of synergies following the integration and thereorganisation processes of the Group. More specifically:

- in particular, savings in the procurement of Gas which compared to the previous year, produced a positive impact of approximately Euro 12 million on the Gross Operating Margin.
- cost reductions were achieved in the year, equal to approximately Euro 6 million, through rationali-

sation in the purchase of materials and services.

 an increase in profitability was achieved through the reorganisation of the operating structures which permitted an increase in turnover as previously mentioned without an increase in personnel: this resulted in a reduction in personnel costs of 2.2 percentage points, corresponding to a reduction of approximately Euro 5 million.

The year 2003 closed with an **Operating Result** of Euro 112.8 million, an increase of +45.4% compared to the previous year.

Amortisation, depreciation and provisions increased from Euro 114.3 million to Euro 129.7 million (+13.5%) which as a percentage on the value of production decreased from 10.1% to 9.7%. The absolute increase in this account includes, in addition to the increase as a consequent of the considerable investments made, the integral application of the regional law no. 36/2003 (post-mortem reclamation) equal to approximately Euro 2 million and the integration of the company Geat SpA and new municipalities for a further Euro 2 million.

The financial charges increased from Euro 12.9 million to Euro 16.0 million as a consequence of the increase

The extraordinary charges and the result from equity investments not consolidated show a negative balance of Euro 8.2 million. A comparison with the previous year is of little significance as that period benefited from an extraordinary gain on the conferment of assets from an associated company. For further information reference should be made to the notes to the financial statements.

The year closed with a Pre-Tax Profit of Euro 88.6 million and a consolidated Net Profit which increases from Euro 36.6 million to Euro 53.0 million in 2003 with an increase of +44.8% partly due to the recovery of taxes from the previous year.

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

Below is shown a reclassification of the balance sheet of the Hera Group illustrating the net capital employed and the source of financing:

Euro millions	Dec. 31, 02	% D	ec. 31, 03	%	Var. %
Revenues	1.067,0		1.221,5		14,5%
Other income	32,3		19,5		(39,6)%
Intrenal constr. & work in progress	34,0		90,3		165,6%
Value of production	1.133,3	100,0%	1.331,3	100%	17,5%
Operating costs	(752)	(66,4)%	(896,4)	(67,3)%	19,2%
Personnel costs	(189,4)	(16,7)%	(192,4)	(14,5)%	1,6%
Gross Operating Margin	191,9	16,9%	242,5	18,2%	26,4%
Amort., depreciation & provisions	(114,3)	(10,1)%	(129,7)	(9,7)%	13,5%
Operating result	77,6	6,8%	112,8	8,5%	45,4%
Pre-tax profit	75,3	6,6%	88,6	6,7%	17,7%
Net profit	36,6	3,2%	53,0	4,0%	44,8%
Profit pertaining to minority interests	(3,4)	(0,3)%	(3,5)	(0,3)%	2,9%
Protift pertaining to Group	33,2	2,9%	49,5	3,7%	49,1%

Euro millions	Dec. 31, 02	%	Dec. 31, 03	%
Intangible assets	383,3	34,3%	360,8	26,9%
Tangible assets	774,4	69,2%	909,8	68,0%
Financial assets	44,9	4,0%	156,7	11,7%
Total fixed assets	1202,6	107,5%	1427,3	106,6%
Net w orking capital	73,8	6,6%	88,9	6,6%
(Provisions)	(157,3)	(14,1)%	(177,4)	(13,2)%
Net Capital Employed	1.119,1	100,00%	1.338,8	100,00%
Shareholders' equity	865,3	77,3%	894,5	66,8%
Long-term debt	185,3	16,6%	352,1	26,3%
Net short-term position	68,5	6,1%	92,2	6,9%
Net financial position	253,8	22,7%	444,3	33,2%
Total source of financing	1.119,1	100,00%	1.338,8	100,00%

The net capital employed increased by Euro 219.7 million from Euro 1,119.1 million to Euro 1,338.8 million principally attributable to the important investment plan carried out in the year.

The intangible assets largely consisting of concession rights relating to the Gas and Water services, decreased due to the effect of amortisation, equal to Euro 38.0 million, which was higher than increases of Euro 15.5 million, prevalently relating to the capitalisation of quotation costs in June 2003 and the investments relating to software for the new company information technology.

The tangible assets increased by Euro 135.4 million from Euro 774.4 million to Euro 909.8 million following investments of Euro 192.9 million in part financed by depreciation in the year equal to Euro 57.5 million. In relation to non-current financial assets the major contribution to the increase from Euro 44.9 million to Euro 156.4 million was the acquisition of 42% of the share capital of Agea Spa and the subsequent share capital increase for a total of Euro 58.0 million.

During the year 2003 equity investments were acquired amounting to Euro 29.0 million of which the most important part related to Tirreno Power, company originally denominated Interpower (third Genco sold by Enel), in which the Group holds an indirect investment of 5.5%

Included in financial assets at the end of the year are receivables of Euro 38.9 million relating to increases in the value of assets rented from the companies spun-off, owners of the networks and plant utilised by the Group (asset companies). These receivables correspond to the amount due to the Group at the end of the concessions against the investments made.

The net working capital increased from Euro 73.8 million to Euro 88.9 million in relation to increased volumes of business.

The provisions increased principally relating to:

- the provision of the quota of post mortem expenses on the landfill sites further increased this year due to the application of the Regional
- the provision for the restoration of the networks and plant used by the Group and owned by the companies spun-off (asset companies); this provision corresponds to the impairment on the assets to be repaid on the termination of the concessions.

During the year 2003 the share capital increased from Euro 786.5 million to Euro 793.2 million prevalently following the incorporation of the company Geat spa.

The net equity benefited from the result for the year of Euro 53.0 million which more than compensated the distribution of dividends in 2002 of Euro 27.5 million. The net equity thus increased from Euro 865.3 million to Furo 894.5 million.

The long-term debt increased by Euro 166.8 million due to the financing of investments in fixed assets; of note is the increase in the non recourse project finance activated for the construction of the new waste-toenergy plant for a total of Euro 48 million, as well as a loan from a pool of institutional banks of Euro 65 million for the acquisition on the investment in Agea Ferrara. The remaining part was obtained from banking institutions in order to finance the further acquisitions in investments (such as Tirreno Power).

The net short-term financial position increased by Euro 23.7 million prevalently due to the increase in the net working capital.

The total net financial position of the Group thus increased by Euro 190.5 million in an equilibrated manner in relation to short and long debt maintaining the solid asset backing of the Group characterised by debt on total source of funds of 33.2%.

Euro thousand	Dec. 31, 03
Investments and other financial credits	260
Receivables from public entities	292
Debts due to banks/long term	352.648
Long and medium term financial debts	352.096
Short term bonds	5.165
Other financial credits	4.350
Debts due to banks/short term	194.087
Cash and equivalents	92.718
Current financial assets	9.935
Short term financial debts	92.249
Net financial position	444.345

Investments of the Hera Group

The net fixed assets at December 31, 2003 amounted to Euro 1.427.3 million, an increase of Euro 224.7 million compared to December 31, 2002.

The investments of the Group, net of the increase in

equity investments of Euro 87.0 million, of the changes in the consolidation area and the increase of assets in leasing (treated applying the criteria of IAS), amounted to Euro 210.6 million compared to Euro 177.0 million in the previous year.

In particular, the investments in the period are shown below by sector of activity:

Euro millions	Dec. 31, 02	Dec. 31, 03
- Gas area	27,7	21,4
- Electricity area	2,3	2,7
 Integrated water cycle area 	42,9	54,8
 Waste management area 	61,9	77,4
- Other services	12,8	23,5
- Central structures	29,4	30,8
Total	177,0	210,6

The activities relating to District Heating and Public Lighting were reclassified to Other Services during the year, while in 2002 they were included within the Gas business: the investments in 2002 relating to this sector amounted to Euro 11.6 million.

The Gas sector in 2003 includes Euro 1.9 million relating to the installation of the methane distribution network in Sassari by the subsidiary Medea (in 2002 approximately Euro 0.7 million).

The important increase in the investments in the Integrated water cycle is principally attributable to the up-grading of the purification plants to the new regulations in force.

Worthy of mention are the importance investments connected to the completion of the waste-to-energy plant at Bologna (FEA) which increased from Euro 27.0 million to Euro 55.5 million advancing the relative quota of the investments programmed for 2004. Finally, also of note are the important investments connected to the so-called Regional Telematic Plan. At

the beginning of the second half of 2003 the Board of Directors of Hera approved a convention between Hera SpA and the Emilia-Romagna Region for the realisation of an infrastructure in fibre optics and the provision of services for the management of the "Emilia-Romagna Public Administration network". These investments, made with important regional contributions, will provide for the creation of a "network" for the whole Regional Public Administration area and in particular, in the territory covered by the Group. The management of this project has been entrusted to the associated company Acantho SpA.

For the description of the investments by single business area reference should be made to the sections which follow, while the table below shows the investments for the central structure.

In line with the planning of the structural interventions necessary for a complete managerial, the Group was strongly involved in 2003 in the completion of the unification of its administration/management information technology systems.

Euro millions	Dec. 31, 02	Dec. 31, 03
- Buildings	3,0	2,8
- Information technology	17,6	16,8
- Other investments	8,8	11,2
Total	29,4	30,8

All of the operating companies at the end of 2003 had implemented with success the new SAP/R3 system.

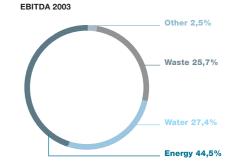
In the year just ended, the project for the new customer service commenced where, in addition to being integrated with SAP/R3, will permit further organisational and commercial efficiencies (SAP/ISU and CRM of Siebel).

area includes the increases of the internal constructions/work in progress without any impact on the gross operating margin.

In addition, in the following sections the principal technical/quantitative indicators were selected in order to illustrate the results.



Value of production 2003



Water 22%

Energy 50%

AR

Analysis by Business Area

In order to provide further detailed information on the results achieved in the year, the following sections show the results by business area of the Hera Group that has a multi-utility business as represented in the following graphs.

The income statements by business area include the general structure costs and do not take into consideration the inter-divisional eliminations (totalling approximately Euro 16 million) valued at current market prices.

It should also be noted that, in order to provide a clear representation of the addition, in the following sections the principal technical/quantitative indicators operational performance, the analysis by business

2.3 Distribution and sale

of gas business

Importance of the Gas business for the Group

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

Euro millions	Dec. 31, 02	Dec. 31, 03
Gross Operating Margin Gas business	70,5	99,7
Gross Operating Margin Hera Group	191,9	242,5
In percentage terms	36,7%	41,1%

The gas business (with approximately 700,000 customers) constitutes the most important business of the Hera Group and represents one of the most important operators in the sector in Italy.

Results in the Gas business

The results are summarised below:

Euro millions	Dec. 31, 02	%	Dec. 31, 03	%	Var. %	
Methane Gas, LPG	432,6	89,2%	514,1	97,1%	18,8%	
District Heating	25,9	5,3%				
Public Lighting	14,6	3,0%				
Revenues	473,1	97,5%	514,1	97,1%	8,7%	
Incr. internal constructions	12,2	2,5%	15,5	2,9%	27,0%	
Value of Production	485,3	100,0%	529,6	100,0%	9,1%	
Operating costs	(382,6)	(78,8)%	(400,0)	(75,5)%	4,5%	
Personnel costs	(32,2)	(6,6)%	(29,9)	(5,6)%	(7,1)%	
EBITDA	70,5	14,5%	99,7	18,8%	41,4%	

(*) Following the reorganisation process which concerned the Group for the entire year of 2003, the District Heating and Public Lighting businesses were excluded from the Gas sector during the year (from the half yearly financial statements as at June 30, 2003) and reclassified to "Other Activities"

The Revenues in the Gas area increased by 18.8% from Euro 432.6 million (sales in 2002 net of District Heating and Public Lighting) to Euro 514.1 million.

The increase was achieved due to:

- significant increase in pro-capita consumption following the return, in the winter months of 2003, to more rigid average temperatures compared to the particularly mild climate in 2002;
- the increase in the number of customers (principally connected to the expansion in the provision of gas in the Municipalities of Castel San Pietro, Molinella and Cotignola and to normal expansion in the areas already served);
- the average tariff variations implemented by AEEG (equivalent to a net average effect of +1%

increasing from average revenues of Euro 0.299 to 0.302 per cubic metre).

The Gross Operating Margin increased from Euro 70.5 million to Euro 99.7 million (+41.4%) with an improved margin of +4.3 percentage points.

The increase in absolute terms in the margin, equal to Euro 29.2 million (gross of the marginal effect of the reclassification of the District Heating and Public Lighting activities), related to the increase in the guantities sold for approximately 60% compared to the previous year and for approximately 40% to the important synergies on the procurement of raw materials.

The evolution of the principal factors in determining the performance in the distribution and sale are set out below:

Gas Area (millions of mc)	Dec. 31, 02	Dec. 31, 03	Var. %
Number of customers (units)	667.930	699.885	4,8%
Small medium customers	667.695	699.516	4,8%
Large customers (*)	235	369	57,0%
Volumes sold (millions of mc)	1.444	1.634,	13,2%
Small medium customers	1.148	1.309	14,0%
Large customers (*)	296	325	9,8%

(*) The category "Large customers" corresponds to customers shown in the financial statements for 2002 in the category eligible users.

At December 31, 2003 the number of customers served was approximately 700,000 (compared to 668,000 at December 31, 2002) and 1.634 billion cubic metres sold compared to 1.444 billion in 2002. The average revenues per cubic metre increased from Euro 0.299 mc in 2002 to Euro 0.302 mc in 2003.

It should be noted, among the other initiatives of the Group, the important contract signed in the year with VNG, leading German company in Europe in the Gas sector, for the supply of 170 million cubic metres of methane gas for the period October 03 - September 04. In order to activate this supply and storage, national and international agreements were signed, resulting in the Group acquiring the role of shipper.

Investments

The distribution network increased from 7,880 to 8.261 km, in particular following the acquisition of the service in new municipalities. The investments made in the year, equal to Euro 21.4 million, principally related to extraordinary maintenance, redevelopment and extension (including new connections) of the distribution network.

The interventions in this area include the continuation of the work on the preparation of the gas distribution network in the Municipality of Sassari for Euro 1.9 million.

Concessions and Tariffs in the Gas sector

During the year the Authority (AEEG) requested from the natural gas distribution companies the information necessary for the definition of the tariff options for the new thermal year. The implementation of the options will result, for the distribution companies, similar as to the electricity sector, optimisation of the cash flows through an improved management of the customers related to the profile of effective consumption.

On October 16, 2003, the Authority fixed the "tariff base" whereby those trading in the supply of natural gas using local networks (the supply of gas by means other than distribution networks are still regulated by the 237/2000 ruling) are required to supply connected clients who consume up to 200,000 cm per year and clients with higher consumption who have not applied for eligibility. Despite the complete opening of the market as of January 1, 2003, there are still stringent controls over the final prices 1 pending wider opening of the market in terms of supply. To boost competition, the authorities have imposed new instructive bligations upon traders and have created a "gas exchange" based on the model already established for the electricity sector.

The new regulation applicable from 2004 imposes a reduction in the average gas tariff by Euro 0.77 cents per cubic metre, equivalent to 2.3 % - 2.4%. Further significant variations are not envisaged for the 2nd quarter of 2004. Noteworthy changes have not been introduced to the assessment and remuneration of invested capital (there are still options for traders to assess capital in a parametric manner or at the revalued historical cost, where the audit certificate on the financial statements is available).

To partially compensate for the economic effect of the average tariff reduction, the authority have granted traders the right to apply predefined maximum increases to the QVD component (corresponding to retail) imposed on clients with consumption up to 20 GJ/year for the period 2002/2003.

Effect on HERA of the tariffs in 2004

Although it is not as clearly defined as in the case of the electricity sector, a decrease on final prices is also to be anticipated in the gas sector.

The tariff variations will not have a negative effect on margins either as a result of the inclusion of the raw material cost in the tariff (with no consequent effect on sales margins) or on the economies of scales and the policies of the Group in relation to procurement.

The substantial non revision of the retail component (reviewed marginally with an adjustment mechanism using tariff options currently under approval) renders the final customer market as non "contested"; aggressive commercial policies are only sustainable in the face of a significant leverage on procurement (discount on prices prevalently at wholesale level).

> (1) The decree of the President of the Cabinet of Ministers of October 31, 2002 established that "the Authority for electricity and gas defines, calculates and up-dates the tariffs ... even after the opening of the market to eligible customers'

Importance of the Electricity business for the Group

Euro millions	Dec. 31, 02	Dec. 31, 03	
Gross Operating Margin Electricity	9,3	8,2	
Gross Operating Margin Hera Group	191,9	242,5	
In percentage terms	4,8%	3,4%	

The increased activities in the Electricity business benefited from the traditional focus in the gas area which, with approximately 700,000 customers, represents a potential customer base on which to base a "Dual Fuel" commercial policy (supply of gas and electricity).

The commercial success of this approach is evident from the growth rates achieved, despite the electricity sector having a marginal influence on the Group's overall profitability.

The Dual Fuel policy was implemented exploiting the opportunities arising from the progressive liberalisation of the energy markets. In the context of the market in 2003, the Group preferenced opportunities for growth in the electricity sector where the utilisation of the "price lever" permitted the success of both businesses (Gas and Electricity).

The Dual Fuel policy should therefore be evaluated on the basis of the analysis of the overall results achieved by the Group especially in terms of margin.

In fact, the Group intends to develop its market share in this business principally in the region in which it operates so as to complete and maintain the supply of gas to its customers.

Important future investments, equal to approximately Euro 200 million are planned for the increase in the electricity production capacity of the Group.

Results in the Electricity business

The following table illustrates the results in the year:

Euro millions	Dec. 31, 02	% De	ec. 31, 03	%	Var. %	
Revenues	78,4	97,6%	126,6	98,1%	61,5%	
Incr. internal constructions	1,9	2,4%	2,4	1,9%	26,3%	
Value of Production	80,3	100,0%	129,0	100,0%	60,6%	
Operating costs	(67,2)	(83,7)%	(116,2)	(90,1)%	72,9%	
Personnel costs	(3,8)	(4,7)%	(4,6)	(3,6)%	21,1%	
Gross Operating Margin	9,3	11,6%	8,2	6,4%	(11,8)%	

The **Value of Production** increased by +60.6% from Euro 80.3 million to Euro 129.0 million.

The revenues from the sale of electricity increased by +61.5% from Euro 78.4 million to Euro 126.6 million with significant differences in the mix:

Euro millions	Dec. 31, 02	% D e	ec. 31, 03	%	Var. %
Non-eligible customers	25,0	31,9%	29,6	23,4%	18,4%
Eligible customers	53,4	68,1%	85,0	67,1%	59,2%
Trading activity			12,0	9,5%	
Total revenues	78,4	100,0%	126,6	100,0%	61,5%

The increase in the revenues from non-eligible customers is due to the greater quantity of work carried out for the customers, taking into consideration that the volumes sold decreased (from 242 to 228 GW/h, egual to -6%) in relation to the further reduction of the

entry level for eligible customers in May 2003. Conversely, in accordance with the Group development plans, exploiting principally the commercial synergies related to the possibility of offering Dual Fuel services to Gas customers, electricity sales to "eligible" customers increased by almost 60% in value terms and over 40% in volume terms (from 706 to 1,018 GW/h), without considering the intermediary volumes to other traders (382 GW/h).

Electricity	Dec. 31, 02	Dec. 31, 03	Var. %
Number of customers	48.934	50.075	2,3%
Non-eligible customers	48.796	49.049	0,5%
Eligible customers	138	1.026	
Volumes sold (GW/h)	948	1.628	71,7%
Non-eligible customers	242	228	(5,8)%
Eligible customers	706	1.018	44,2%
Trader		382	

The significant increase in the eligible customers is to be taken into consideration with the commercial policy already outlined at the beginning of this section while in relation to the number of non-eligible customers the trend is related to the performance in the market.

The tariffs to non-eligible electricity customers, regulated by AEEG, varied in the year by almost +15% in the first half of the year and -10% in the second: part of the year.

The **Gross operating margin** decreased from Euro 9.3 million to Euro 8.2 million (-11.8%) which as a percentage on the value of production decreased from 11.6% to 6.4%. The reduction in the margin is related to the different composition of the customers served where the lower margincustomers, eligible and traders, acquire a greater share. The decrease in the margin in absolute terms is attributable, conversely, to the increased competitive pressures on the consolidated customers.

Finally it should be noted the importance of the contract for the supply of electricity signed with the company ATEL, leader in the sector in Switzerland. This contract, in force from the beginning of 2004, will permit the Group to dispose of a further competitive source of electricity for the sale to eligible customers.

Investments

The distribution network managed increased from 1,410 to 1,423 km. The investments made in the year, equal to Euro 2.7 million, principally related to extraordinary maintenance and the extension (including new connections) of the distribution network.

Concessions and Tariffs in the Electricity sector

On July 16, 2003 the lower house of the Italian Parliament approved the revised legislative bill on the energy market (so-called "Marzano Law"), which has been before the Senate Industry Commission since September.

The proposed bill, which has not yet received final approval, concerns the period of liberalisation in the electricity market accelerating the opening and amending the provisions of legislation no. 57/2001.

The current revised legislative bill proposes, that on the date the legislation comes into force, the customers who will be considered as "eligible" are those who exercise a business activity and who in the previous year registered consumption equal to 0.05 GWh; from July 1, 2004 all "non domestic" customers will be considered eligible and, from July 1, 2007 (limit date fixed by the new European Community directive for the complete opening of the electricity market) all customers will be able to freely chose their supplier.

While on the one hand the new European and national legislation, accelerating the period of liberalisation, renders the prospect of the traditional customers (noneligible) as "contestable" to local distributors, on the other hand this will open, symmetrically, considerable market prospects that will reward those operators capable of expanding their customer base on the basis of an appropriate "mix" between own production and provisioning in the generation market.

On October 8, 2003 the Guide Lines adopted by the Authority were published in the Official Gazette, for the presentation and valuation of the projects admissible to receive the energy efficiency certificates (Industry Ministerial decree of April 24,2001). The Guide Lines complete the legislative process, initiated by the Bersani and Letta decrees, which define the obligations of the distributors of electricity and gas in terms of energy efficiency savings. The realisation of a market of energy efficiency certificates will consent, to the companies who have reacted promptly to the new regulations, to meet the legislative obligations efficiently and create value through energy savings programmes for the final user.

On January 31, 2004 the Authority for electricity and gas (AEEG) defined the tariff base for the transmission, distribution and sale of electricity for the period 2004-2007, fixing at 3.5% the price cap for the distribution activities for the years after 2004 (3).

2.4 Distribution and sale of

Electricity business

Importance of the Integrated Cycle business for the Group

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

Euro millions	Dec. 31, 02	Dec. 31, 03
Gross Operating Margin Water Cycle	53,6	66,4
Gross Operating Margin Hera Group	191,9	242,5
In percentage terms	27,9%	27,4%

The integrated water cycle represents 27.4% of the total Group margin. The aqueduct activities relate to abstraction, adduction, distribution, sewerage and purification: the business is carried out in over 130 municipalities with approximately 2 million inhabitants connected to the network of approximately 18 thousand km covering practically the whole region.

Hera covers a primary role in the competition for the national water sector and is among the primary distributors in Italy thanks to its almost complete coverage in the 4 ATO areas of the Provinces of Ravenna, Forli-Cesena, Rimini and Bologna.

The progressive implementation of the provisions of the so-called Galli law will permit the completion of coverage of the water services in the region served, with a marginal increase in costs, and the adjustment to the tariff regime in order to adequately remunerate the capital invested.

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, 02	% D	ec. 31, 03	%	Var. %	
Sales	195,4	76,4%	212,3	70,3%	8,6%	
Other revenues	45,3	17,7%	35,7	11,8%	(21,2)%	
Incr. internal constructions	15,0	5,9%	53,8	17,9%	258,7%	
Value of Production	255,7	100%	301,8	100%	18,0%	
Operationg costs	(137,1)	(53,6)%	(175,7)	(58,2)%	28,2%	
Personnel costs	(65,0)	(25,4)%	(59,7)	(19,8)%	(8,2)%	
Gross Operating Margin	53,6	21,0%	66,4	22,0%	23,9%	

2.5 Integrated Water Cycle Business

The water cycle sector was particularly influenced by the account "Increases in internal construction and work in progress" within the value of production, and in operating costs, by the change in the organisation of the operating investments on the distribution network mentioned previously. This change did not have any effect on the overall margins in the business area.

In 2003 **Revenues** amounted to Euro 212.3 million increasing by +8.6% compared to the previous year. This result benefited from:

 particularly favourable climatic conditions in the summer period resulting in an increase in aqueduct volumes invoiced of approximately +2.2%.

- acquisition of water service in new Municipalities (Castel San Pietro, Molinella and Cotignola) which together with urban expansion, resulted in an increase in customers of approximately 3.7%.
- tariff increases (on average equal to +3.6%) in line with the CIPE provisions principally based on the investments made.

Against this there was a decrease in other revenues from Euro 45.3 million to Euro 35.7 million (-21.2%) prevalently due to the extraordinary work carried out in 2002 in some municipalities.

The principal factors attributing to the results in the aqueduct sector are shown in the table below:

Aqueduct	Dec. 31, 02	Dec. 31, 03	Var. %
Number of users (units)	616.860	639.563	3,7%
Domestic users	512.746	535.697	4,5%
Industrial users	104.114	103.866	(0,2)%
Volumes sold (millions of mc)	176	180	2,3%
Domestic users	116	119	2,6%
Industrial users	60	61	1,7%

From a technical view point, the Hera aqueduct services, in addition to containing water losses (approximately 15%) to levels significantly lower than the national average, confirmed the adequacy of its plant and provisioning, guaranteeing a service without interruption even in the situations of emergency in the summer period.

The Sewerage service is provided in 89 municipalities with approximately 1.6 million inhabitants connected to the network of approximately 6,601 km. This service invoiced 134 million cubic metres increasing slightly from the previous year.

The water purification service is performed in over 124 municipalities with approximately 1.7 million inhabitants. This service invoiced approximately 155 million cubic metres in line with the previous year.

The **Gross Operating Margin** increased by 23.9% from Euro 53.6 million to Euro 66.4 million with an improvement of 1 percentage points.

This increase of Euro 12.8 million was for one third attributable to a greater exploitation of the plant capacity in relation to the increase in volumes, for one third due to the significant containment of costs (in particular labour) and, finally, to tariff increases.

Investments

The distribution network of approximately 18,000 km and numerous purification and sewerage plants required investments in the year of Euro 54.8 million. The investments related prevalently to regulatory requirements and extraordinary maintenance of the purification plant and maintenance interventions for improvements in efficiency and the extension (including new connections) of the distribution network.

Euro milions	Dec. 31, 02	Dec. 31, 03
- Aqueduct system	33,4	38,9
- Purification Sewerage system	9,5	15,9
Total .	42.9	54.8

Concessions and Tariffs in the Integrated Water Cycle sector

With the modifications to the legislation on environment, included in article 14 of the legislative decree 269 (4), the finance act for 2004 reformed the discipline in relation to important local public services (5).

The new regulation abolishes the rules, introduced by article 35 of legislation no. 448/2001 (finance act for 2002), in relation to the transitory period for the full application of the principle of competition in the awarding of local public services and establishes the principle of the "public tender" of the services within 2006. However, there are important exceptions: the direct awarding (without tender) by the local public bodies are permitted if:

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

The finance act for 2004 provides, in addition, that the principle of obligatory public tender does not apply to the service management companies quoted on the stock exchange; for this latter, however, the duration

of the concession is limited to the "average duration of the concessions awarded in public tender" in the relevant sectors.

The analysis of the scenario related to the different interpretations of the regulatory framework is in course; it is considered, however, reasonable to at least confirm the expectations contained in the IPO information prospectus in relation to the guaranteed duration of the direct concessions awarded (equal at least to those provided for in the regional legislation).

Tariff framework

The tariff framework is less uncertain and fragmented in the water sector. While awaiting the complete application of the normalised method (expected by the end of 2004), in application of the Galli legislation, CIPE has the responsibility to issue transitory tariff regulations.

The latest important regulation (applied in the period July 2002 – June 2003) resulted for Hera in an increase in the weighted average revenues from the water cycle of 3.6%; for the first quarter of 2004 the latest amendment is due (which will have retroactive effect from July 2003) relating to the transitory period. From July 2004 the normalised tariffs will be applied; discussion groups have commenced with all of the ATO's on the determination of the cost components for the definition of the new tariffs.

(4) Legislative decree no. 269 of September 30, 2003, "Urgent provisions in favour of the development and correction of public financino".

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, 02	Dec. 31, 03
Gross Operating Margin Waste Management	58,2	62,3
Gross Operating Margin Hera Group	191,9	242,5
In percentage terms	30,3%	25,7%

The activity of the Group is focused in a significant manner on the Waste Management business which represents an important part (25.7% of the Gross Operating Margin) of the overall Group business. The waste treatment plants held places Hera among the most important groups in the sector at a European level.

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

The Group has matured a long experience in this business area and today is capable of treating significant levels of material optimising its treatment and waste disposal sufficient also to guarantee co-operation with the "waste emergency" faced by other regions in Italy.

Noteworthy in relation to this was the treatment in the vear of approximately 70.000 tonnes of waste from the Campania Region and the Province of Asti.

The waste management sector is currently in transition and in light of the events at a European level and the progressive passage from a tax regime (TARSU) to one based on tariffs (as per the Ronchi legislation), an improvement in future profitability is expected.

Hera considers the activities developed in the waste management area as strategic for the future development of the Group in which investments are planned of approximately Euro 230 million (principally relating to increased capacity of the waste-to-energy plants).

Analysis of the results in the waste management business

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

2.6 Waste Management **business**

Euro millions	Dec. 31, 02	% D	ec. 31, 03	%	Var. %	
Revenues	288,4	99,0%	284,6	99,6%	(1,3)%	
Incr. internal constructions	2,9	1,0%	1,2	0,4%	(58,6)%	
Value of Production	291,3	100,0%	285,8	100,0%	(1,9)%	
Operating costs	(154,0)	(52,9)%	(148,4)	(51,9)%	(3,6)%	
Personnel costs	(79,1)	(27,1)%	(75,1)	(26,3)%	(5,1)%	
EBITDA	58,2	20,0%	62,3	21,8%	7,0%	

During the year the Group reviewed its commercial policy in this business area privileging the sectors with highest added value at the expense of others such as the disposal of stagnant materials which resulted in a small decrease in sales. In addition, there was a small, and unusual, decrease in the production of urban waste in the year.

During 2003, a further 10 municipalities passed to tariffs, among which some of considerable size for the number of inhabitants (Rimini and Ravenna). The positive effect of this passage was mitigated by the

necessity to reach the full application of the normalised method of the Ronchi legislation in a progressive

Particular attention was dedicated to the incentives for differentiated waste which sees the reaching of 29.3% in the whole of the area served by Hera, net of the quantities from street cleaning.

Volumes treated (thousands of tonnes)	Dec. 31, 02	% D e	ec. 31, 03	%	Var. %	
Urban Waste	1.245	50%	1.179	49%	(5,3)%	
Special Waste	1.245	50%	1.214	51%	(2,5)%	
Total volumes treated	2.490	100%	2.393	100%	(3,9)%	

Volumes treated (thousands of tonnes)	Dec. 31, 02	%	Dec. 31, 03	%	Var. %
Landfill sites	956	38%	919	38%	(3,9)%
Waste-to-energy plants	371	15%	362	15%	(2,4)%
Selection plants	366	15%	533	22%	45,6%
Compost plants	130	5%	41	2%	(68,5)%
Inert chemical plants	667	27%	538	23%	(19,3)%
Total volumes treated	2.490	100%	2.393	100%	(3,9)%

The volumes of waste treated, shown in the previous table, includes urban and special waste (this latter increasing in importance). The waste treated in landfill sites decreased in relation to the overall reduction in the volumes treated while the activity of selection and compost increased.

The Gross Operating Margin increased from Euro 58.2 million to Euro 62.3 million, approximately +7%. This increase was realised due to the reduction in the incidence of operating costs made possible by the rationalisation of the waste treatment plants and through the focus on activities of higher added value. The

result, positive also in terms of margin (+1.8 percentage points), was appreciated even more taking into consideration that the closure of some plants in the year caused a temporary increase in operating costs.

Investments

The table below shows the principal investments made in the waste management business:

The above table illustrates the commitment dedicated to the completion of the work on the new waste-to-

Euro millions	Dec. 31, 02	Dec. 31, 03
- Waste-to-energy plant Bologna (FEA)	27,0	55,5
- New waste-to- energy projects		2,4
- Recovery and treatment plants	23,9	15,1
- Other investments	11,0	4,4
Total	61,9	77,4

energy plant at Bologna (FEA) which, as planned, will be in full operation during 2004. The plant, replacing the previous one built thirty years ago and which is still in operation, has a waste disposal capacity of approximately 180.000 tonnes and has already obtained the CIP 6 licence for 22 MW of installed generation capacity.

Also of importance during the year was the completion of the preliminary activities concerning the planning and request for the authorisation of four new waste-to-energy plants which will increase the Group's waste-to-energy capacity.

The other investments on plant mainly concerned the rationalisation and the maintenance of the Group's waste disposal and treatment capacity.

Concessions and Tariffs in the Gas sector

In relation to the concession and tariff regime reference should be made to the information contained in the section on the Integrated Water Cycle.

The national legislator enacted a legislative decree on the use of renewable energy sources in the domestic electricity market, approved by the Cabinet on July 25, which also acknowledged the directive 77/2001. The directive, which includes waste among the sources worthy of incentives for development, establishes the contribution for the generation of electricity with the objective of doubling (from 6% to 12%) within 2010, the percentage of renewable sources in the final consumption of energy in the European Community, favouring those operators with waste-to-energy plants and who have planned further expansion.

Tariff framework

The passage to a "normalized tariff" system to cover the entire costs of the waste collection and treatment cycle, which is expected by the end of 2004 with the Ronchi decree, has not yet been completed. Although the ATO's are set up and operating on a regional scale, the majority of the contractual negotiations are still with the municipalities. The first "Convenzione di prima attivazione" (First Agreed Convention) for the waste management service was signed in 2002 with ATO no. 9 (municipality of Rimini). In 2003 within the regions of Bologna, Forlì-Cesena, Ravenna and Rimini, 71 municipalities were operating under the tax system and 33 under a tariff system.

It should be noted that the regional regulations exclude from "the regulatory area" the waste disposal plants. Therefore, for the transfer of waste to these plants, a tariff is not applied valued at cost but at a "price" agreed with the local public bodies (and, in the future, with ATO's).

2.7 Other Services

The size of the Hera Group required a reorganisation of its activities directed towards a better management of some complementary activities to the principal activities, such as, for instance, Public Lighting and District Heating. In 2004 these activities, which were previously included in the Gas business, will undergo

further changes and rationalisation as described in the section "Significant events after the year-end".

The Group also performs funeral and cemetery services, heat management, maintenance of public parks and other minor services.

Euro million	Dec. 31, 02	% D	ec. 31, 03	%	Var. %
Revenue other business	24,2	88,3%	83,7	82,5%	245,9%
Incr. internal constriction	3,2	11,7%	17,7	17,5%	453,1%
Value of Production	27,4	100,0%	101,4	100,0%	270,1%
Operating costs	(17,6)	(64,2)%	(72,2)	(71,2)%	310,2%
Personnel costs	(9,4)	(34,3)%	(23,2)	(22,9)%	146,8%
Gross Operating Margin	0,4	1,5%	6,0	5,9%	1400,0%

- Below is shown an analysis of the results in the Other Services:

Following the above-mentioned reclassifications, the results are not comparable to the previous year.

It is noted however that the increase in the margin from Euro 0.4 million to Euro 6.0 million is attributable. in addition to the reclassifications, to the acquisition, at the beginning of 2003, of funeral services in the municipality of Bologna. This latter contributed approximately 15% to the increase.

With regard to the services connected to the management of Public Lighting, at the end of 2003 a restructuring project was approved to include all the activities in one company (Hera Luce Srl), intended to exploit the dimensional synergies from 2004. The Group operates the service in 42 municipalities, 4 of which were acquired in 2003, with 202,000 light units.

Investments

During the year investments were made of Euro 23.5 million including Euro 13.2 million for the Regional Telematic Plan, which presents significant synergies with the maintenance interventions of the distribution network, and Euro 3.1 million for the extension of the

The remaining investments related to Public lighting (Euro 2.0 million), to cemetery services (Euro 1.8 million) and other minor investments.

summary of which is outlined below:

Networks

Testing was carried out in some of the drinking water production plants of a device based on MIMS (Membrane Introduction Mass Spectrometry) technology for real time monitoring of volatile organic substances in drinking water. Subsequently, a project was defined to create an integrated monitoring system for the area covered by the Group. Financing was requested for this project from the European Community within the scope of LIFE Ambiente.

Another experiment concerning a further device based on MIMS (Membrane Introduction Mass Spectrometry) technology was successfully carried out in a laboratory for the real time monitoring of volatile organic substances in sewage and dirty waters. These results will consent, once the monitoring is on a continuous basis, improvement in the management of the most important purification plants. In 2004 the testing will continue in the field, at the main purification plant in Bologna.

During 2003, the Research and Development Coordination consolidated the principal projects, a

2.8 Research and development

Other research projects

tourists) will be completed in 2004.

The Group obtained the financing from the "Technological Innovation Fund" set up by law no. 46/82 for the new SOV continuous monitoring systems (control on the emission of organic volatile substances and of odours from the cooking of ceramic tiles in gas emissions). The overall cost for this project in accordance with the above-mentioned law amounted to Euro 324 thousand.

The W-SAHARA (Stochastic Analysis of Well Head Protection and Risk Assessment) project was completed. The project was focused on developing a method to establish the protection areas for wells used for drinking purposes. The results allowed the protection area for the principal wells of the Reno

The SASCO project (Arable Systems for the Controlled Distribution of Mud), is a prototype for farm working in the agricultural field unrelated to the food sector, dealing with recycling dehydrated mud in its current state, resulting from the purification of urban sewage. This project concluded with the emergence of the possibility to obtain further economies in the

The study on the alluvial cone of the Marecchia river continued. This study consists in the qualitative and quantitative analysis in support of the sustainable management of the water resources. An experiment was launched (ISA) for the purification and recycling of sewage water for the protection of damp areas in the

In the waste management field, testing was carried out on a fluidised bed reactor eliminating corrosive gases in the waste-to-energy plants. The objective was to reduce smoke pollution, increase the energy recovery efficiency and reduce plant maintenance costs.

The LIFE-GIDUT project (differentiated collection and communication in areas with a high concentration of

cone to be determined.

mud management.

Po delta.

Waste Management

The MIDI-CHIP project (Microbial Diversity Chip) examining DNA in micro arrays for monitoring microbiological diversity was carried out in collaboration with various European Universities which constitutes a step forward in the analysis of the biological content of surface waters. The project was concluded in 2003.

Analysis of polymeric materials used by Hera by means of pyrolysis to improve the control and evaluation of supplies.

For the fulfilment of the overall research and development activities approximately Euro 2.3 million was incurred as shown in the following table:

Network Services	950.000
Waste Management	400.000
Other Services	950.000
Total	2.300.000

In the management of these services Hera makes use of networks, plants and assets owned by the Group and manages other networks, plants and assets owned by the local public bodies who are shareholders in Hera and by the Asset Companies whose shareholders are also shareholders in Hera.

2.9.2 Energy Sector

In relation to transactions in the Gas Area, the management of the service is, as is normal practice, entrusted exclusively to the Hera Group, in virtue of agreements of varying duration between ten and thirty-five years. Following the changes in the Letta Decree, the term for the duration of these conventions is identified as presumably to December 31, 2009.

The conventions have as their purpose methane gas distribution or similar, for heating, domestic uses, artisan, industrial and for other general use, as well as 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 remuneration received by Hera for the management of the gas distribution service consists of the payment of the tariffs in force from the customer.

The contractual deeds discipline the relationship with

In 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 important convention is that with the Municipality of Imola. This convention has a duration of thirty years. On its expiry it can be renewed on the basis of the provisions of article 2 of the Bersani Decree.

The concession does not provide for the recognition

payment of the tariffs in force applicable to the user. In consideration of the level of efficiency and coverage achieved by the Hera Group in the management of the water services, the Catchment Area Authorities ("ATO") of the provinces of Bologna, Ravenna, Forlì-Cesena and Rimini have already recognised the so-called safeguard period in favour of the Hera Group in these ATO areas (respectively ATO no. 5, ATO no. 7, ATO no. 8 and ATO no. 9). With these ATO's discussion tables

2.9.3 Water Sector

rage and purification services.

ge and purification services.

purification plants.

In the Water Sector Hera manages aqueduct, sewe-

The conventions with the Municipalities relate to the

aqueduct service or the sewerage and purification

service or the combination of the aqueduct, sewera-

The management of the aqueduct service includes

the public services of collection, purifying, distribu-

tion and sale of drinkable water for civil and industrial

use; the sewerage and purification services include

the management of the networks and sewage and

In some cases the conventions provide for the plan-

ning and construction of new networks and plants to

The management of the service is awarded exclusi-

vely to Hera for the municipal territory with the obli-

gation of the Municipality not to grant to third parties

usage of the subsoil of its property or state aque-

The duration of these conventions differs between

the Municipalities served and varies from a minimum

of ten years to a maximum of thirty years. The finan-

ce act of 2004 provides, for quoted companies, that

the duration of the contracts are in line with the "ave-

rage duration of the contracts awarded by tender".

The conventions regulate, in addition, other aspects

such as the manner of managing the services as

relating to, principally, the charges for ordinary and

extraordinary maintenance work on the networks

and plants necessary for the functioning of the ser-

vices. The contracts normally establish that the

Municipalities grant to Hera, even without charge,

the right to use the networks and plants for the func-

tioning of the integrated water cycle. At the end of

the concession Hera has the obligation to return to

the Municipalities the assets utilised for the provision

of the service. Any works carried out by Hera for the

innovation or improvement of the networks must be

returned, at the end of the concession, to the

Municipalities against payment of the residual value

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 remuneration received by Hera for the manage-

ment of the integrated water service consists of the

Hera and the rights of the users.

of those assets.

well as reciprocal obligations between the parties

use in the management of the service.

ducts without the prior consent of Hera.

have been on-going in relation to the introduction of the new tariff system.

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.

It is provided that AEEG can impose the suspension or the withdrawal of the concession, based on a predetermined procedure, against the confirmation of breaches and violations attributable to the concessionaire company that compromises in a serious and sustained manner the provision of the electricity distribution service.

of exclusive rights.

The company is obliged to apply tariffs fixed by current regulations in force and the resolutions adopted by AEEG.

2.9.4 Waste Management business

In the Waste Management Sector, the conventions between Hera and the Municipalities relate to refuse collection, street sweeping and cleaning and waste refuse treatment and disposal.

The management of the service is awarded exclusively to Hera for the municipal territory. The duration of these conventions varies between ten, twenty and a maximum of twenty-seven years. The provisions of the 2004 finance act are also applicable for this sector.

The most important conventions in the Waste Management Sector in terms of revenues, costs and users served are with the Municipality of Bologna, in that the other large municipalities in the area covered (Ravenna, Forlì, Rimini) have already adopted the "taxtariff" passage and therefore the payment for the service relates to the payment by the users of the tariffs in force. The management of the service is awarded exclusively to Hera.

The conventions discipline the method for the functioning of the services, the amount payable to Hera for the services performed, the reciprocal obligations of the parties and the cost of the rental concession for the use or occupation by Hera of roads and their relevance to 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. In consideration of the level of efficiency and coverage achieved by the Hera Group in the management of the waste management services, the Environment Agencies of the provinces of Bologna, Ravenna, Forli-Cesena and Rimini have, on the request of the Municipalities concerned, recognised the so-called safeguard period in favour of the Hera Group in these ATO areas

AR

2.9.5 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

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

2.9 Transactions with related parties

2.9.1 Management of the services

The Hera Group performs, in almost the whole of the territory of the shareholder Municipalities, local public services of (i) gas distribution, (ii) management of the integrated water cycle, (iii) waste management services and collection and disposal of waste refuse and (iv) other services, such as district heating, heat management, the sale and distribution of electricity, refuse treatment and disposal, cemetery and funeral services and maintenance of public parks. These activities are carried out through the direct awarding of contracts by the Municipalities.

The contracts awarded by the shareholder Municipalities to the Hera Group can be summarised:

- in the Energy Sector, gas distribution and other services such as district heating and heat management (gas area) and electricity distribution and sale (electricity area);
- in the Water Sector, the management of the aqueduct, sewerage and purification services;
- in the Waste Management Sector, collection and street cleaning, treatment and disposal of waste;
- in the Other Sectors, the management of cemetery and funeral services and the maintenance of public parks.

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

A rental contract has also been signed with CON. AMI for the network 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 contracts contain similar provisions to those contained in the contracts with the Asset Companies.

State property granted 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.

2.9.6 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, TE.AM and UNICA, participating companies in the Integration, have agreed contracts for the procurement of water. HERA, following the Integration, sub-entered into these aforesaid procurement contracts.

In 2003, the Hera Group acquired from Romagna Acque a total of 55.2 million cubic metres of water for a total value of Euro 21,997 thousand.

The availability of the water supply from Romagna Acque, that integrates the sources of the HERA Group, confers to the Group high margins of reliability and continuity in the provisioning in a territory such as Romagna, particularly vulnerable due to the existence of subsidence.

2.9.7 Transactions between HERA and Frullo Energia Ambiente S.r.I. (FEA)

FEA operates in the sector for the management of waste treatment plants and in particular the management of the waste-to-energy waste plant at Frullo (located at Granarolo in Emilia, Bologna, via del Frullo no. 5).

HERA holds 51% of the share capital of FEA, while the remaining 49 % is held by Actelios S.p.A. The waste-to-energy plant was conferred on January 1, 2001 to Seabo, now HERA.

Currently the restructuring work and the technological and environmental requalification of the plant are in the completion phase. The new plant, that will enter into service in the middle of 2004, will be equipped with an electricity generation capacity of 22 MW.

In 2002 agreements were signed between Hera and Fea relating to the conferment of waste (Put-or-Pay) and the procurement of thermal energy (Takeor-Pay) up to the date of entry into service of the new plant. Commencing from that date the contracts will come into force relating to the newly constructed plant and have a duration of 25 years.

2.9.8 Transactions between HERA and HERA COMM S.r.I. Unipersonale

HERA COMM S.r.l. Unipersonale is held entirely by HERA and supplies energy (gas, electricity and district heating) to final users, in accordance with the provisions of article 21 of the Letta Decree.

This company was set up on the conferment by the company Seabo Energia, following the integration process, of the business division relating to energy customers and at the same time, in November 2002, was given its current name HERA COMM S.r.l. Unipersonale.

2.9.9 Transactions between HERA and the Local Operating Companies

At the beginning of 2003 the business divisions containing the technical, human and financial resources to carry out the management activities of the networks (water, gas and energy) and waste collection in the areas covered were conferred to the five local operating companies. These activities are regulated by service contracts agreed between Hera and the local operating companies.

The table below shows the principal transactions of a commercial nature with related parties; in particular they relate to the Municipality of Bologna that represents the largest "counter-party" partly due to the waste management contract as the "TIA" procedures have not yet been adopted in this area and the principal subsidiaries of Hera SpA in relation to their size:

Related parties '000 euro	Cost	Receivables	Payables	Revenues
Municipality of Bologna	7.843	4.530	4.531	52.063
Hera Comm s.r.l.	27.306	214.651	151.920	185.077
Hera Bologna s.r.l.	151.674	60.844	88.036	32.989
Hera Imola-Faenza s.r.l.	52.991	23.704	29.322	12.672
Hera Forlì-Cesena s.r.l.	53.536	76.427	70.173	9.551
Hera Ravenna s.r.l.	79.219	100.482	107.441	13.349
Hera Rimini s.r.l.	69.087	33.977	54.520	10.181
Famula-on-Line SpA	5.792	4.321	6.146	565
FEA s.r.l .	14.320	1.105	2.734	874
Uniflotte s.r.l.	13.652	4.015	4.918	1.869

Investments of Board of Directors and of the General Manager (art.79 reg. Consob)

Name		Investm.	N. of shares as at 31 december 2002	N. shares	N. shares	N. of shares as at 31 december 2003
			31 december 2002	acquired	Solu	31 december 2003
Tomaso Tommasi di Vignano	Chairman	Hera S.p.A.	-	-	_	-
Stefano Aldrovandi	CEO	Hera S.p.A.	_	25.000	_	25.000
Vichi Ermanno	Vice Chairman	Hera S.p.A.	-	-	_	-
Aleardo Benuzzi	Vice Chairman	Hera S.p.A.	-	5.000	_	5.000
Enrico Biscaglia	Member	Hera S.p.A.	-	-	_	-
Filippo Brandolini	Member	Hera S.p.A.	-	2.500	-	2.500
Piero Collina	Member	Hera S.p.A.	-	_	-	-
Pier Giuseppe Dolcini	Member	Hera S.p.A.	-	2.500	-	2.500
Gianluigi Magri	Member	Hera S.p.A.	-	2.500	-	2.500
Nicodemo Montanari	Member	Hera S.p.A.	-	2.500	-	2.500
Fabio Alberto Roversi Monaco	Member	Hera S.p.A.	-	-	-	-
Roberto Sacchetti	Member	Hera S.p.A.	-	-	-	-
Giovanni Tamburini	Member	Hera S.p.A.	-	-	_	_
Antonio Venturini	Statutory auditor	Hera S.p.A.	-	_	_	_
Fernando Lolli	Statutory auditor	Hera S.p.A.	-	-	-	-
Sergio Santi	Statutory auditor	Hera S.p.A.	-	11.000	_	11.000
Fulvio Alberto Medini	Statutory auditor	Hera S.p.A.	-	_	_	_
Roberto Barilli		Hera S.p.A.	-	10.000	_	10.000

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2.10 Significant events

subsequent to the year-end

pany was transformed into the Group trading company, in view of the anticipated commencement of the Electricity Exchange, modifying the name of the company to HERA Trading S.p.A.;

the company Seabo Fleet Service S.r.I. changed its name to Uniflotte S.r.I. and the operational management of all of the vehicle fleet of the Group was transferred to the company.

Strategic projects

In the first months of 2004 an intensive programme of planning and authorisation procedures continued for the strategic plants inserted in the Group's Industrial Plan. In detail:

- In relation to the 80MW co-generation power station in Imola, integration requests are expected with regard to the VIA (Environment Impact Estimation) forwarded on October 6, 2003 for mid-April; as a consequence, the official result of the VIA is expected by the end of July;
- In relation to the 230MW combined cycle station in Rimini, it is possible that the last conference on services will be called by June; the official result of the VIA is consequently expected two months thereafter;
- With regard to the waste-to-energy plant in Forli, having received the integration request on March 9, 2004 from the Forli/Cesena province and considering that the replies and data requested will be ready by the end of March, the final verdict on the VIA is expected by the end of May;
- With regards to the waste-to-energy plant in Ravenna, the completion of the documentation representing the Study of Environmental Impact and the Final Plan are expected by the end of April; the VIA request and the relative publication in the B.U.R. (Official Regional Gazette) will be carried out immediately after this completion;
- In relation to the CDR waste-to-energy plant in Faenza, the Environmental Impact Study and the Final Plan were complete; the VIA request and the relative publication in the B.U.R. will be carried out by the end of March;
- With regards to the waste-to-energy plant at Coriano-Rimini the Environmental Impact Study and the Final Plan were completed; with regard to the presentation of the integrated VIA request, this can only be made after the adoption of the Inter-provincial Plan for Waste disposal by the Province of Rimini.

Equity participations

company and the Hera Group began.

Investment in Agea SpA

rised below.

In particular holdings in the following companies were sold: Campania Bioenergie S.r.I., SIS-TER S.p.A. and AMIR S.p.A. and the following companies were liquidated: INTER.IMM S.r.I., RISORSACQUA S.c.a.r.I. e STA S.r.I.

The most important for the Group activity are summa-

Following the acquisition of 42% of the share capital of

Agea SpA at the end of 2003, the shareholders' mee-

ting of Agea nominated the new Board of Directors of

the company. Four members are represented by Hera on the Board. After the nomination of the new Board of

Directors the first collaboration projects between the

More important from a strategic and industrial view point were the following operations:

 the remaining quota was acquired (27.51%) in the share capital in EOS ENERGIA S.p.A.; after Hera became the sole shareholder, the com-

Privacy Protection Policy

In accordance with the legislative provisions relating to the protection of personal data the company is preparing, as required by law, the updating of the "Privacy Protection Document", integrating the contents with the current requirements.

The income statements of the individual Local Operating Companies and of Hera Comm Srl are shown below in order to provide information on the contribution to the consolidated result.

Hera Bologna Srl

The results for the year 2003 show a value of production of Euro 201.5 million and a gross operating margin of Euro 22.6 million, with an incidence on the value of production of 11.2%.

The year ended with an operating profit of Euro 22.2 million, equal to 11% of the value of production and a pre-tax profit of Euro 22.2 million equal to 11.0 % of the value of production. The net profit was Euro 12.2 million equal to 6.1% of the value of production.

The distribution of gas and the management of the inte-

grated water cycle characterised the results in the year especially in relation to the greater volumes supplied.

The overall volumes of gas distributed, compared to the previous year, registered an increase of +11% principally due to the more rigid climate compared to 2002 (a total of 2,204 degrees cold compared to 1,870 in 2002), in addition to the extension of the area served.

In the integrated water cycle the increase in the volumes of water input in the network (+7% compared to 2002) is principally due to the temperatures in the summer months, far higher than in the previous year, while the increases in the volumes of sewage waste and purified water (respectively +5 and +4%) are largely a consequence of the enlargement of the area served (with the entry of the municipalities of di Baricella, Castello d'Arigile and Molinella).

Euro million	Dec. 31, 02	%	Dec. 31, 03	%
Value of Production	0,0	0,0%	201,5	100,0%
Gross Operating Margin	0,0	0,0%	22,6	11,2%
Operating Profit	0,0	0,0%	22,2	11,0%
Net Profit	0,0	0,0%	12,2	6,1%

Hera Rimini Srl

The results for the year 2003 show a value of production of Euro 76.0 million and a gross operating margin of Euro 7.0 million, with an incidence on the value of production of 9.2%.

The year ended with an operating profit of Euro 5.7 million and a net profit of Euro 2.8 million equal to 3.7% of the value of production.

Sales performed well in the Integrated Water Cycle partly due to the climatic conditions in the summer of

2003. In the waste management area, the activity was developed based on operational continuity, guaranteeing all aspects of the services disciplined by the specific service contracts agreed between Hera and the municipalities and the conventions in place between the Group and the ATO.

The year closes with positive results also from a qualitative/quantitative view point reserving close attention to the quality of the services, to the environment and work place security, central aspects in the sustainability strategy of the Group.

Euro million	Dec. 31, 02	%	Dec. 31, 03	%
Value of Production	0,0	0,0%	76,0	100,0%
Gross Operating Margin	0,0	0,0%	6,6	8,7%
Operating Profit	0,0	0,0%	5,7	7,5%
Net Profit	0,0	0,0%	2,8	3,7%

Hera Ravenna Srl

The Value of Production in 2003 amounted to Euro 99.0 million attributable to the acquisition of new services (in particular the gas service in the municipality of Cotignola), the greater quantities of gas and water provided, the passage from the tax to the tariff system for the collection of waste in the

municipalities of Ravenna, Cervia and Russi and the adjustment in the Lughese industrial area.

The Gross Operating Margin amounted to Euro 13.6 million (13.7% of the Value of Production) and the net profit to Euro 7.8 million (7.9% of the Value of Production).

Euro million	Dec. 31, 02	% D	ec. 31, 03	%
Value of Production	0,0	0,0%	99,0	100,0%
Gross Operating Margin	0,0	0,0%	13,6	13,7%
Operating Profit	0,0	0,0%	13,4	13,5%
Net Profit	0,0	0,0%	7,8	7,9%

2.11 Results of the Local Operating Companies

Hera Forlì-Cesena Srl

The Value of Production for 2003 was Euro 69.5 million. Significant increases in consumption were registered in the year connected principally to the provision of drinking water and methane gas in part due to the favourable climatic conditions.

The Gross Operating Margin, equal to Euro 6.5 million, represents 9.3% of the Value of Production and the

positive result is attributable to the significant containment of operating costs for outsourcing services (-3%). The Company is not the owner of the networks and plant; therefore the amount of depreciation is limited resulting in an Operating Result of Euro 6 million equal

The year 2003 ended with a net profit of Euro 3.3 million equal to 9.7 % of the value of production.

to 8.7% of the Value of Production.

Euro million	Dec. 31, 02	%	Dec. 31, 03	%	
Value of Production	0,0	0,0%	69,5	100,0%	
Gross Operating Margin	0,0	0,0%	6,5	9,3%	
Operating Profit	(0,0)	0,0%	6,0	8,7%	
Net Profit	0,0	0,0%	3,3	4,7%	

Hera Imola-Faenza Srl

The value of production in 2003 was Euro 69.5 million. Also for this company there was a significant increase in the quantities of gas and water provided and significant synergies were achieved in operating costs, in particular in relation to personnel costs, which decreased from Euro 14.5 million in 2002 to

Euro 13.1 million in 2003.

The Gross Operating Margin was approximately Euro 4.6 million, equal to 6.6% of the Value of Production; the operating profit was Euro 4.2 million and the net profit Euro 2.2 million equal to 3.1% of the Value of Production.

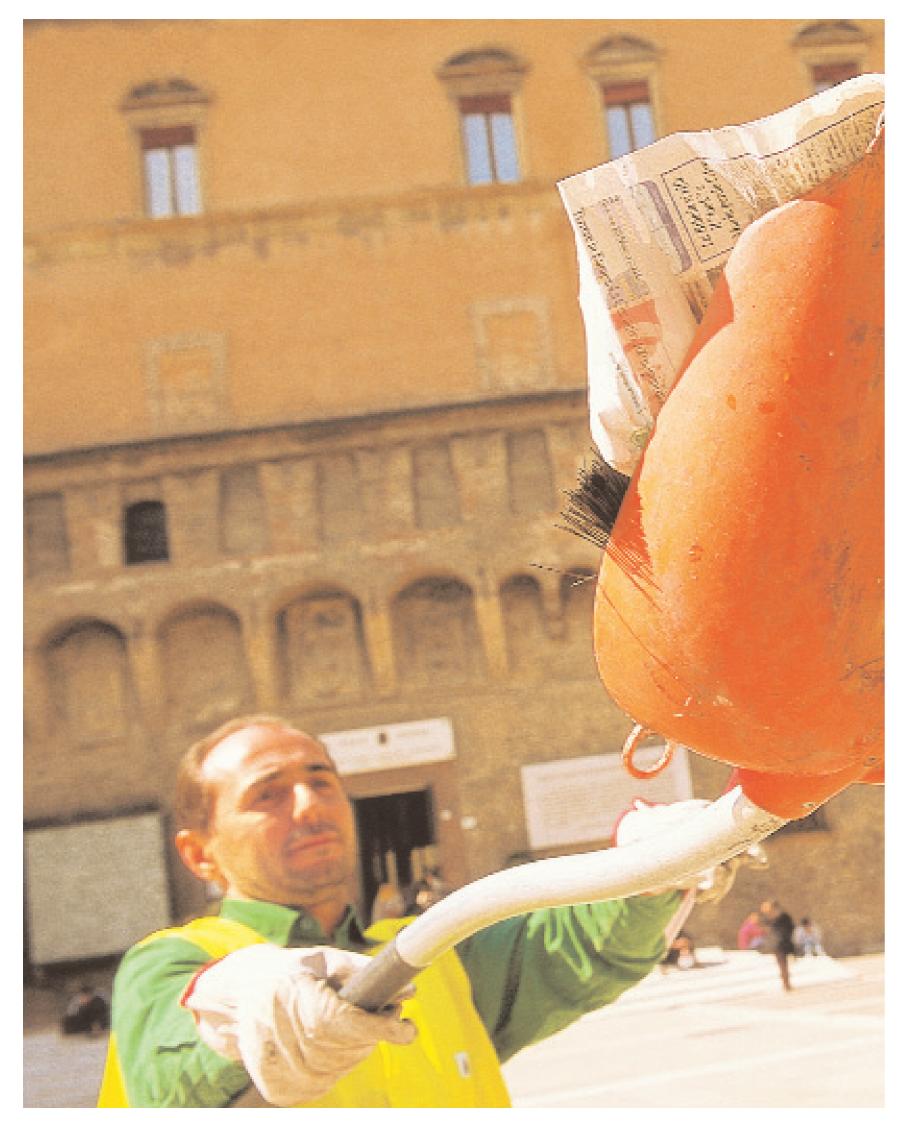
Euro million	Dec. 31, 02	%	Dec. 31, 03	%	
Value of Production	0,0	0,0%	69,5	100,0%	
Gross Operating Margin	0,0	0,0%	4,6	6,6%	
Operating Profit	(0,0)	0,0%	4,2	6,0%	
Net Profit (estimate 2002)	0,0	0,0%	2,2	3,1%	

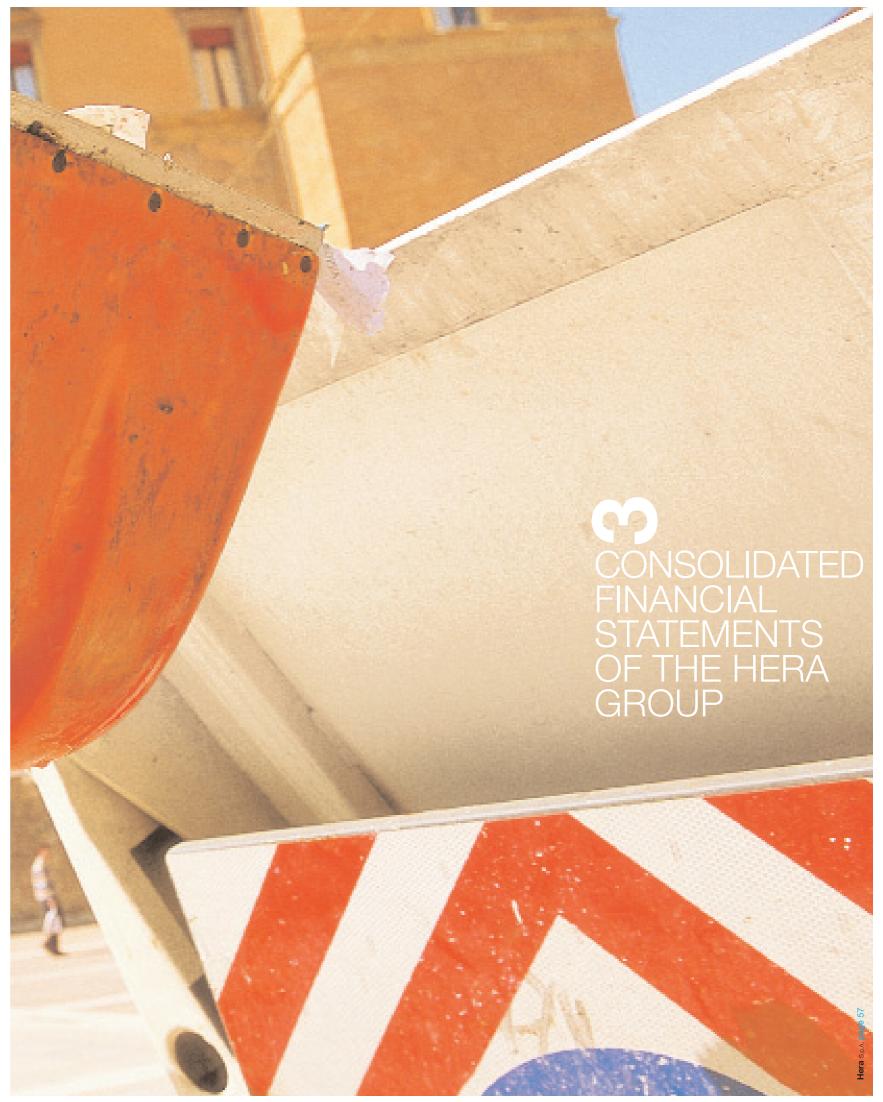
Hera Comm Srl

The data for the year 2003 are not comparable with those in the previous year as the company Hera Comm received the conferment of the business divi-

sions from Hera S.p.A of the companies in the integration only at the beginning of November 2002. In relation to the comments and analysis of the operational performance reference should be made to the gas and electricity business segment analysis in the present report.

Euro million	Dec. 31, 02	%	Dec. 31, 03	%	
Value of Production	284,5	100,0%	635,1	100,0%	
Gross Operating Margin	3,5	1,3%	1,3	0,2%	
Operating Profit	2,8	1,0%	0,1	0,0%	
Net Profit	1,9	0,7%	0,3	0,0%	





CONSOLIDATED FINANCIAL STATEMENTS AS AT Dec. 31, 2003

BALAN	NCE S	SHEET - ASSETS			Dec. 31, 2003	Dec. 31, 2002
A)	SU	BSCRIBED CAPITAL UNPAID:				
		Called			0.7	740
	-	Called			87	718
	-	Uncalled			501	
Total s	subsc	ribed capital unpaid			588	718
Total 5	Juboo	insea oupital alipaid			000	710
B)	FIX	ED ASSETS:				
	Inta	ngible assets:				
	1)	formation, start-up and similar costs			12.592	7.998
	2)	research, development and advertising costs			1.941	2.739
	3)	industrial patents and intellectual property licences			9.345	6.738
	4)	concessions, licenses, trademarks and other			208.640	241.679
	5)	goodwill			91.767	94.727
	6)	Intangible assets in progress and advances			15.210	12.049
	7)	other			16.493	11.772
	8)	differences on consolidation			4.844	5.640
Total					360.832	383.342
	Tan	gible assets:				
	1)	land and buildings			129.202	120.759
	2)	plant and machinery			452.981	414.798
		industrial and sales equipment			36.672	43.162
	4)	other fixed assets			41.838	38.761
	5)	construction in progress and advances			249.139	156.949
Total					909.832	774.429
III	Ein	ancial assets:				
III	1)	Investments in:				
	a)	unconsolidated subsidiaries			1.035	820
	b)	associated companies			88.204	23.915
	c)	parent companies			00.204	20.010
	d)	other			21.716	926
	2)	Receivables:	Payable with	in one vear	21.710	020
	-,	Ticocivabics.	Dec. 31, 2003	Dec. 31, 2002		
	a)	unconsolidated subsidiaries	200.01, 2000	246		262
	b)	associated companies		210		202
	c)	parent companies				
	,	other	193	3.266	44.897	18.032
	ω,		193	3.512		. 0.002
	3)	other securities			260	261
	4)	Treasury Stock				
Total	,				156.112	44.216
Total fi	ixed a	assets			1.426.776	1.201.987

)	CU	RRENT ASSETS			Dec. 31, 2003	Dec. 31, 2002
	Inve	entory:				
	1)	raw materials, supplies and consumable stores			26.556	18.936
	2)	work in progress and semi-finished products			1.372	197
	3)	contract work in progress			13.280	13.545
	4)	finished goods			904	740
	5)	payments on account			506	36
tal					42.618	33.454
	Do	ceivables:	Payable av	or one veer		
II	Red	cervables:	Payable ov			
	1\	trada racaj valdos	Dec. 31, 2003 4.713	Dec. 31, 2002 2.555	543.580	468.238
		trade receivables subsidiaries not consolidated	4.713	2.000	043.000	408.238
	2)	associated companies	5		9.207	4.640
	3)	•	5		9.207	4.040
		parent companies others	18.461	7.809	66.130	119.432
tal	0)	Ou IOIS	23.179	10.364	618.917	592.387
al	1) 2) 3) 4) 5) 6)	investments in subsidiaries not consolidated investments in associated companies investments in parent companies investments in other companies treasury shares (Nominal value)			9.935 9.935	8.424 8.424
		sh in banks and on hand:				
		bank and post office accounts			92.152	72.864
		cheque				8
	3)	cash-on-hand and cash equivalents			566	102
ıl					92.718	72.974
al cu	ırren	t assets			764.188	707.239
D)		EPAYMENTS AND ACCRUED INCOME:			10.000	10 515
		payments and accruals counts on loans			18.926	19.515
tal n	one:	ments and accrued income			10.006	10 515
aai Di	epa)	ments and accrued income			18.926	19.515

BALAN	NCE SHEET - LIABILITIES			Dec. 31, 2003	Dec. 31, 2002
A)	SHAREHOLDERS' EQUITY:				
	Share capital			793.202	786.531
ı II	Share premium reserve			12.253	11.505
	Revaluation reserve			3.048	3.048
IV	Legal reserve			4.789	3.312
V	Reserve for own shares in portfolio			4.709	0.012
VI	Statutory reserves				
VI	Other reserves:				
* '	- Extraordinary reserve			820	286
	- Capital grants reserve			6.000	6.000
	- Reserve for accelerated depreciation			2.194	2.194
	- Share swap surplus reserve			9.335	9.399
	- Un-distributable reserves			-10.780	-13.800
	- Consolidation reserve				50
VIII	Retained earnings or losses carried forward			1	
IX	Net profit for the period			49.454	33.156
	shareholders' equity for the Group			870.316	841.681
	ty interest:				
X	Share capital and reserves			20.639	20.146
XI	Net profit for the period			3.553	3.459
Total s	chareholders' equity pertaining to minority interests			24.192	23.605
Total o	consolidated shareholders' equity			894.508	865.286
Total c	onioniaanoa onaronoraoro oquity			00 11000	0001200
B)	PROVISIONS FOR RISKS AND CHARGES:				
1)	pension and similar provision			36	
2)	taxation			1.901	1.393
3)	other			107.068	81.729
4)	consolidation provision: for future contingencies and charges				
Total p	provision for contingencies and charges			109.005	83.122
0)	FMDI OVEE I FAVINO INDEMNITY			00.070	74.000
C) D)	EMPLOYEE LEAVING INDEMNITY PAYABLES:	Davable ov	er one year	68.372	74.209
D)	PATABLES.	Dec. 31, 2003	Dec. 31, 2002		
1)	debentures	Dec. 51, 2005	5.165	5.165	7.747
2)	convertible debentures		0.100	0.100	1.141
3)	due to banks	323.766	46.761	515.412	187.395
4)	sums due to other financial institutions	28.882	139.555	31.323	157.672
5)	advances	1.527	100.000	4.649	1.925
6)	trade payables	957	1.154	374.725	303.632
7)	notes payable	501	1.104	014.120	000.002
8)	due to unconsolidated subsidiaries			347	45
9)	due to associated companies			6.184	3.029
10)	due to parent companies			00.	0.020
11)	Taxes payable	123		67.207	95.294
12)	social security institutions	23		10.307	11.492
13)	other payables	39.944	36.362	80.640	94.628
	payables	395.222	228.997	1.095.959	862.859
E)	ACCRUED EXPENSES AND DEFERRED INCOME			10.00	40.000
	accrued expenses and deferred income			42.634	43.983
	discounts on loans				
Total a	accrued expenses and deferred income			42.634	43.983
	LIABILITIES			2.210.478	1.929.459

A)	GUARANTEES GIVEN:		
1)	to third parties:		
a)	guarantees	106.071	112.124
b)	endorsements		5.762
C)	other personal guarantees	7.467	
d)	real guarantees	129.153	22.404
Total		242.691	140.290
2	to subsidiary companies:		
a)	guarantees		
b)	endorsements		
C)	other personal guarantees		
d)	real guarantees		
Total			
3)	to associated companies:		
a)	guarantees		
b)	endorsements		
C)	other personal guarantees	2.547	
d)	real guarantees		
Total		2.547	
4)	to parent and other group companies		
a)	guarantees		
b)	endorsements		
C)	other personal guarantees		
d)	real guarantees		
Total			
Total g	uarantees given	245.238	140.290
B)	OTHER MEMORANDUM ACCOUNTS		
-	Bills in circulation		20
-	Other memorandum accounts Securities held by third parties		21.104
-	Other memorandum accounts	1.282.734	1.473.722
Total o	ther memorandum accounts	1.282.734	1.494.846
C)	GUARANTEES RECEIVED:		
1)	from third parties and group companies:		
a)	guarantees		
b)	endorsements		
C)	other personal guarantees		
d)	real guarantees		
Total g	uarantees received		

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A \	E STATEMENT	Dec. 31, 2003	Dec. 31, 2002
A)	VALUE OF PRODUCTION:		
	1) revenues - goods and services	1.221.533	1.066.974
	2) change in inventory	-309	283
	3) change in contract work in progress	23.131	2.712
	4) additions to internally produced fixed assets	67.501	30.990
	5) other revenues and income		
	- other revenues and income	10.865	26.733
	- grants received	8.578	5.559
	granto 1000/vod	0.070	0.000
Total		1.331.299	1.133.251
B)	PRODUCTION COST:	1.331.299	1.100.201
6)	raw materials, consumables and supplies	-527.626	-469.269
,		-301.744	
7)	services		-208.046
8)	use of third party assets	-58.217	-54.386
9)	personnel expense:		
	a) wages and salaries	-134.010	-131.218
	b) social security contributions	-47.473	-45.425
	c) employee leaving indemnity	-9.922	-10.067
	d) pension and similar costs	-2	-120
	e) other costs	-1.022	-2.568
10)	amortisation, depreciation and write-downs:		
	a) amortisation of intangible fixed assets	-38.025	-32.110
	b) depreciation of tangible fixed assets	-57.493	-49.361
	c) other write-downs of fixed assets	-23	-983
	d) write down of receivables among current assets and cash	-3.775	-2.918
11)	change in raw materials, consumables and supplies	7.043	-123
12)	provision for risks	-3.456	-3.481
		-26.903	
13)	other provisions		-25.502
14)	other operating costs	-15.824	-20.107
Total		-1.218.472	-1.055.684
Total		-1.218.472	-1.055.684
	DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	-1.218.472 112.827	-1.055.684 77.567
(A - B)	DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION FINANCIAL INCOME AND CHARGES:		
(A - B) C)	FINANCIAL INCOME AND CHARGES:		
(A - B)	FINANCIAL INCOME AND CHARGES: income from investments:		77.567
(A - B)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated		77.567
(A - B) C)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies		77.567 433 16
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies		77.567
(A - B) C)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income:		77.567 433 16
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets:	112.827	433 16 16
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties		77.567 433 16
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated	112.827	433 16 16
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies	112.827	433 16 16
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated	112.827	433 16 16
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies	112.827	433 16 16
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies - parent companies	112.827	433 16 16 16 49
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies - parent companies b) from securities classified under fixed assets other than equity investments	112.827 20	433 16 16 16 649 192
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies - parent companies b) from securities classified under fixed assets other than equity investments c) from securities classified under current assets other than equity investments	112.827 20	433 16 16 16 649 192
(A - B) (C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies - parent companies b) from securities classified under fixed assets other than equity investments c) from securities classified under current assets other than equity investments d) other than above:	112.827 20 13 126	433 16 16 16 649 192 30 90
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies - parent companies b) from securities classified under fixed assets other than equity investments c) from securities classified under current assets other than equity investments d) other than above: - third parties - unconcolidated subsidiares	112.827 20 13 126 3.653 4	77.567 433 16 16 16 649 192 30 90 3.223
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies - parent companies b) from securities classified under fixed assets other than equity investments c) from securities classified under current assets other than equity investments d) other than above: - third parties - unconcolidated subsidiares - associated companies	112.827 20 13 126 3.653 4 15	77.567 433 16 16 16 649 192 30 90 3.223
(A - B) (C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: third parties subsidiaries not consolidated associated companies parent companies b) from securities classified under fixed assets other than equity investments c) from securities classified under current assets other than equity investments d) other than above: third parties unconcolidated subsidiares associated companies parent companies parent companies parent companies	112.827 20 13 126 3.653 4	77.567 433 16 16 16 649 192 30 90 3.223
(A - B) C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: third parties subsidiaries not consolidated associated companies parent companies b) from securities classified under fixed assets other than equity investments c) from securities classified under current assets other than equity investments d) other than above: third parties unconcolidated subsidiares associated companies parent companies parent companies interest and other financial charges:	112.827 20 13 126 3.653 4 15 133	77.567 433 16 16 16 649 192 30 90 3.223 58
(A - B) (C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: third parties subsidiaries not consolidated associated companies parent companies b) from securities classified under fixed assets other than equity investments c) from securities classified under current assets other than equity investments d) other than above: third parties unconcolidated subsidiares associated companies parent companies interest and other financial charges: a) third parties	112.827 20 13 126 3.653 4 15 133 -19.287	77.567 433 16 16 16 649 192 30 90 3.223 58
(A - B) (C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies - parent companies b) from securities classified under fixed assets other than equity investments c) from securities classified under current assets other than equity investments d) other than above: - third parties - unconcolidated subsidiares - associated companies - parent companies interest and other financial charges: a) third parties b) unconcolidated subsidiares	112.827 20 13 126 3.653 4 15 133 -19.287 -320	77.567 433 16 16 16 649 192 30 90 3.223 58 -13.706 -3.889
(A - B) (C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: third parties subsidiaries not consolidated associated companies parent companies from securities classified under fixed assets other than equity investments from securities classified under current assets other than equity investments d) other than above: third parties unconcolidated subsidiares associated companies parent companies interest and other financial charges: a) third parties b) unconcolidated subsidiares c) associated companies interest and other financial charges: a) unconcolidated subsidiares c) associated companies	112.827 20 13 126 3.653 4 15 133 -19.287	77.567 433 16 16 16 649 192 30 90 3.223 58
(A - B) (C) 15)	FINANCIAL INCOME AND CHARGES: income from investments: a) subsidiaries not consolidated b) associated companies c) other companies other financial income: a) from receivables classified under non-current assets: - third parties - subsidiaries not consolidated - associated companies - parent companies b) from securities classified under fixed assets other than equity investments c) from securities classified under current assets other than equity investments d) other than above: - third parties - unconcolidated subsidiares - associated companies - parent companies interest and other financial charges: a) third parties b) unconcolidated subsidiares	112.827 20 13 126 3.653 4 15 133 -19.287 -320	77.567 433 16 16 16 649 192 30 90 3.223 58 -13.706 -3.889

INCO	ME ST	ATEMENT (continued)	31 dic 2003	31 dic 2002
D)	A D	JUSTMENT TO FINANCIAL ASSET VALUES		
18)	AD	revaluations;		
10)	a)	equity investments	630	5.654
		financial fixed assets other than equity investments	000	0.004
	-	securities classified under current assets other than equity investments		
19)	0)	write-downs:		
a)	eau	uity investments	-5.795	-7.101
b)		ncial fixed assets other than equity investments		-51
C)		curities classified under current assets other than equity investments		
Total a	adjust	ments	-5.216	-1.447
E)	EX	TRAORDINARY INCOME AND (EXPENSES)		
20)	,	extraordinary income:	5.770	0.040
	a)	gains	5.773	9.918
0.4)	b)	gains on assets disposal	46	7.016
21)	(-)	extraordinary expenses:	0.000	4.500
	a)	expenses	-8.662	-4.592
	b)	loss on assets disposal	-62 -117	-288
	c)	taxes relating to prior years	- /	
Total e	extrac	ordinary items	-3.022	12.054
	Pro	ofit before taxation	88,595	75.274
22)		taxation on profit for the period:	00.000	131217
/	a)	current taxation	-43.975	-46.384
	,	deferred taxation	8.387	7.725
23)	- /	profit for the period	53.007	36.615
/	0		23.00	
Net pr	ofit fo	or the period pertaining to minority interests	-3.553	-3.459
Not as	ofit f	or the period pertaining to the Group	49.454	33.156
Met pr	OIIL TO	or the period pertaining to the Group	49.454	33.130

3.3 Notes to the consolidated

financial statements as at

December 31, 2003

The investments in subsidiaries whose size are 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 consolidated under the proportional 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 H.E.R.A. 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 companies in liquidation or in active and those whose accounts are insignificant are excluded from the consolidation area and are therefore valued at cost or under the net equity method.

The list of the companies consolidated by the full consolidation method, proportional and 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.

3) REFERENCE DATE

The consolidated financial statements are prepared on the basis of the financial statements approved by the shareholders' meetings or, in the absence of this, on the financial statements approved by the Board of Directors at December 31.

In the case where the statutory accounts are closed on a date differ than that of the Group specific financial statements are prepared at the period end date of the Group.

1) FORM AND CONTENT

Introduction

STATEMENTS

The consolidated financial statements consist of a balance sheet, income statement and notes (prepared in the format required by the Legislative decree no. 127/91 and subsequent modifications), which provide the information required by article 38 of the aforesaid decree and are an integral part of the consolidated financial statements.

FORM AND CONTENTS OF THE

CONSOLIDATED FINANCIAL

2) CONSOLIDATION AREA

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

4) 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 consolidated is eliminated against the corresponding quota of the subsidiary's net equity.

The carrying value of treasury shares are deducted from the carrying value of the participations and net equity of the companies included in the consolidation.

These amounts are recorded in the Consolidated Financial Statements in the accounts "treasury shares" and "reserve for treasury shares".

The difference between the carrying value of the participations that are eliminated and the corresponding quota of net equity is recorded in the consolidated net equity. In the event of acquisitions, the aforesaid difference is attributed to the elements of assets and liabilities of the companies included in the consolidation. Any remaining difference, if negative, is recorded in the account consolidation reserve, or, where it is the result of expected unfavourable economic results, in the account consolidation provision for future contingencies and charges. If it is positive, the difference is recorded in the balance sheet under consolidation difference. The amount of capital and reserves of subsidiaries relating to third parties are recorded within shareholders' equity in the account "Total shareholders' equity pertaining to minority interests". The portion of the consolidated result relating to third parties is recorded in the account "Net profit (loss) pertaining to minority interests".

5) ACCOUNTING PRINCIPLES AND POLICIES

a) General criteria

The accounting principles and policies 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 H.E.R.A. 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).

The accounting principles utilised in the period do not differ from those utilised in the preparation of the consolidated financial statements in the previous year, in particular in the valuation and in the continuity of these accounting principles.

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 period, while consideration is made of risks and losses even if know subsequent to the period 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.

b) 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.

c) Revaluations

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

d) 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:

e) 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 appraisals on the business assets, and amortised on a straight-line basis for the period of their envisaged

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.

Advertising costs are charged directly to the income

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.

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They principally relate to software programmes purchased for ownership and amortised on the basis of their presumed future use, but in any case not greater than 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. This account principally relates to concession rights for the management of public services and are amortised on a straiaht-line basis over the lesser period between the economic/technical life of the assets granted and the duration of the concession. The residual value of the intangibles assets corresponding to water concessions resulting from the merged companies and/or business.

divisions spun-off, however, are amortised for the residual duration of 11 years considering the residual duration of the transitory management period provided for in the Regional Law no. 25 of 1999; the residual value of the intangibles assets corresponding to the management of themethane gas distribution network resulting from the merged companies and/or spun-off are amortised for the duration of 8 years considering the residual duration of the transitory management period provided for in the Letta Decree no. 164 of 2000.

Goodwill is recorded only if purchased, 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 supported by valuation reports. The goodwill is amortised over a period of ten years commencing from the effective legal date of the integration process, in consideration of the benefits that the Company considers it will obtain in this period.

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

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

The consolidation difference arises in the consolidated financial statements on the elimination of the carrying value of the participations consolidated against the corresponding quota of the subsidiary's net equity. Any positive difference not attributed to the assets of the companies included in the consolidation, is recorded as an adjustment to the consolidated net equity or where the necessary conditions exist, recorded under assets in the item "consolidation dif-

ference": this item is amortised over the period in which the benefits are expected to arise, with a maximum limit of ten years.

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.

f) Tangible assets and depreciation

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

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

The cost of production includes directly and indirectly attributable expenses.

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

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 used for each operating sector are shown in the table below:

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	30,00
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 Punta purification plants	5,00	10,00
Lifting plant	6,00	12,00
Laboratory equipment	5,00	10,00
Network	2,50	5,00
Electric cabins	3,50	7,00
Equipment	5,00	10,00
Furniture	6,00	12,00

District heating and gas service	min %	max %
Land	0	0
Stage one units – Abstraction		
- Buildings	2,75	5,50
- General 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
Autovehicles	12,50	25,00

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.

g) Financial assets

EQUITY INVESTMENTS

The investments included in this account are investments of a permanent nature.

The investments in "non-consolidated subsidiaries", as they are not fully operative at the year-end or would not have a significant effect on the net equity and result for the period, are recorded at acquisition or subscription cost.

The investments in associated companies are valued under the net equity method or cost in the case of companies not operating.

RECEIVABLES

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

Trade receivables are recorded under current assets.

OTHER SECURITIES

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

h) Inventory

inclusive of incidental expenses, and their market value at the end of the period.

The cost is determined in accordance with the LIFO method (first in, first out).

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

Stocks of obsolete or slow-moving articles are written down bearing in mind their possible utilisation or sale, through the provision of a specific obsolescence reserve. Contract work in progress where referring to long-term contracts are recorded in accordance with the per-

centage of completion method, determined comparing the costs sustained with the total expected costs for the completion of the work. Any losses on the orders estimated with reasonable approximation are fully charged to the income statement in the year in which this is ascertained.

i) Receivables

receivable at realisable value is made through the creation of a doubtful debt provision which is shown in the financial statements as a direct deduction of the receivable. 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.

I) 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.

n) Prepayment and accruals

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

o) Employee leaving indemnity

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.

p) Provision for contingencies and charges

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

The reserve made against the post-closure landfill costs are charged to the income statement based on 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.

q) Payables

Payables are recorded at their nominal value.

r) Risks, commitments guarantees

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 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.

s) Recognition of revenues and costs

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

More specifically:

- 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 deducted from the value of the assets to which they refer and are recorded in the income statement in line with the depreciation period on the assets;
- costs are stated in accordance with the accruals principle;
- financial income and expenses are recognised in accordance with the accruals principle;

t) Income taxes

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

Deferred taxes are calculated on the temporary timing differences arising and recorded in a provision for deferred taxes, 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 that 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 tax assets 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.

u) Conversion criteria of foreign currencies

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

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Analysis of the account items:

ASSETS

A) SUBSCRIBED CAPITAL UNPAID

	Dec. 31, 2003	Dec. 31, 2002	Variation
Called	87	718	-631
Uncalled	501		501
TOTAL	588	718	-130

B) FIXED ASSETS

I - INTANGIBLE ASSETS

The balance of intangible assets at the beginning and end of the year are shown below:

		Dec. 31, 2003			Dec. 31, 2002	
	Cost	(Amortisation)	Net value	Cost	(Amortisation)	Net value
formation, start-up and similar costs	17.307	-4.715	12.592	11.212	-3.214	7.998
research, development and advertising costs	16.446	-14.505	1.941	16.150	-13.411	2.739
industrial patents and intellectual						
property licences	17.044	-7.699	9.345	10.523	-3.785	6.738
concessions, licenses, trademarks and others	304.599	-95.959	208.640	329.723	-88.044	241.679
goodwill	105.108	-13.341	91.767	97.480	-2.753	94.727
assets under construction and payments on account	15.210	0	15.210	12.049	0	12.049
other	29.540	-13.047	16.493	18.424	-6.652	11.772
consolidation difference	6.693	-1.849	4.844	6.388	-748	5.640
TOTAL	511.947	-151.115	360.832	501.949	-118.607	383.342

The movements in intangible assets in the period are as follows:

	BALANCE Dec. 31, 2002	Increases	Revaluation Write downs	Other Movements	Amortisation	BALANCE Dec. 31, 2003
formation, start-up and similar costs	7.998	7.907	19	255	-3.587	12.592
research, development and advertising costs	2.739	483	1	-177	-1.105	1.941
industrial patents and intellectual						
property licences	6.738	4.401	-382	1.762	-3.174	9.345
concessions, licenses, trademarks and others	241.679	1.628	-4	-18.254	-16.409	208.640
goodwill	94.727	6.753	787	-912	-9.588	91.767
assets under construction and payments on accoun-	t 12.049	10.661	-231	-7.269		15.210
other	11.772	3.645	20	4.117	-3.061	16.493
consolidation difference	5.640			305	-1.101	4.844
TOTAL	383.342	35.478	210	-20.173	-38.025	360.832

Set-up and expansion costs at December 31, 2003 principally relate to the quotation costs and nonrecurring charges relating to the implementation of the new organisational model of the parent company.

Research, development and advertising costs amount to Euro 1,941 thousand, decreasing Euro 798 thousand compared to the previous year. These costs principally relate to the costs incurred by the Group in order to obtain new services or for the improvement of those existing.

Industrial patent rights and copyright utilisation were Euro 9,345 thousand at December 31, 2003 and Euro 6,738 thousand at December 31, 2002, and relate essentially to costs incurred for the purchase and implementation of the SAP R/3 software and programmes.

Concessions, licences, trademarks and similar rights total Euro 208,640 thousand at December 31, 2003 and Euro 241,679 thousand at December 31, 2002. They include principally the value of concessions held by the Parent Company covering gas, water and purification concessions. The right to exploit such works is amortised for the lesser period between their economic/technical life and the duration of the concession. As previously noted, the Parent Company prudently in 2002 began to amortise the residual value of the intangible assets corresponding to water concessions from the companies merged and spun-off into Hera for the period of 11 years considering the residual duration of the transitory management as per the Regional Law no. 25/1999; the residual value of intangible assets corresponding to the concessions of the methane gas distribution networks from the companies merged and spun-off is amortised for a duration of 8 years considering the residual duration of the transitory management as per the Decree no. 164/2000.

The account goodwill, equal to Euro 91,767 thousand at December 31, 2003, 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. The increase in goodwill principally refers to the Parent Company and relates to: to the goodwill (Euro 1,688 thousand) arising from the conferment by the Municipality of Castel San Pietro Terme of the gas distribution, waste management and public lighting services business unit and the share swap deficit (Euro 4,159 thousand) emerging from the proportional partial spin-off of GEAT SpA for the transfer to Hera SpA of the waste management and public lighting services business unit.

The assets in course amount to Euro 15,210 thousand at December 31, 2003 and mainly comprise costs sustained in purchasing software packages not yet installed or in the course of implementation.

Other intangibles amount to Euro 16,493 thousand at December 31, 2003 and are comprised principally of: improvement to third party assets, costs incurred on access roads to plants and indemnity for the redemption of the gas concessions.

The consolidation difference, equal at December 31, 2003 to Euro 4,844 thousand, arises from the difference between the purchase value of the investment and the relevant value of the shareholders' equity of the subsidiaries Nuova Geovis SpA and Medea SpA.

The column "other movements" also includes the reclassification of assets held under concession to owned assets, as per the relative deeds, amounting to Euro 28 million.

II - TANGIBLE ASSETS

The movements during the year, relating to historical cost and depreciation, are shown below:

COST	BALANCE			Other		BALANCE
	Dec. 31, 2002	Increases	Var. Consol.	Movements	(Disposals)	Dec. 31, 2003
land and buildings	136.367	1.096	63	12.460	-547	149.439
plant and machinery	585.934	43.837	12.585	31.236	-1.208	672.384
industrial and sales equipment	115.706	2.517		-50.907	-138	67.178
other fixed assets	49.333	5.979	-82	52.657	-3.813	104.075
assets under const. & on acc.	156.949	91.259		931		249.139
TOTAL	1.044.289	144.688	12.566	46.377	-5.706	1.242.215
DEPRECIATION	BALANCE			Other		BALANCE
	Dec. 31, 2002	Depreciation	Var. Consol.	Movements	(Disposals)	Dec. 31, 2003
	45.007	0.440	0	4.005	100	20.000

DEPRECIATION	BALANCE			Other		BALANCE
	Dec. 31, 2002	Depreciation	Var. Consol.	Movements	(Disposals)	Dec. 31, 2003
land and buildings	15.607	3.112	2	1.635	-120	20.236
plant and machinery	171.136	39.028	-114	10.311	-958	219.403
industrial and sales equipment	72.545	5.305		-47.326	-18	30.506
other fixed assets	10.572	10.048	-62	44.919	-3.239	62.238
assets under const. & on acc.						
TOTAL	269.860	57.493	-174	9.539	-4.335	332.383

NET VALUE	BALANCE			Other Mov.		BALANCE	
	Dec. 31, 2002	Increases	Depreciation	Var. Consol.	(Disposals)	Dec. 31, 2003	
land and buildings	120.759	1.096	-3.112	10.886	-427	129.202	
plant and machinery	414.798	43.837	-39.028	33.624	-250	452.981	
industrial and sales equipment	43.162	2.517	-5.305	-3.581	-121	36.672	
other fixed assets	38.761	5.979	-10.048	-7.719	-574	41.838	
assets under const. & on acc.	156.949	91.259		931		249.139	
TOTAL	774.429	144.688	-57.493	49.578	-1.372	909.832	

For a detailed analysis of investments reference should be made to the directors' report on operations.

However, it should be noted that part of the increase in land and buildings for Euro 11 million and plant and machinery for Euro 6 million was due to a change of holding the assets under concession to owned assets.

III - FINANCIAL ASSETS

1) Investments

The analysis of financial assets is as follows:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Investments in:			
subsidiaries not consolidated	1.035	820	215
associated companies	88.204	23.915	64.289
parent companies			
other	21.716	926	20.790
Receivables:			
subsidiaries not consolidated		262	-262
associated companies			
parent companies			
other	44.897	18.032	26.865
other securities	260	261	-1
treasury shares			
TOTAL	156.112	44.216	111.896

Investments in subsidiaries not consolidated

The subsidiaries not consolidated are as follows:

	Dec. 31, 2003	Dec. 31, 2002	Variaition
Cir Inerti Srl (in liquidation)		12	-12
Campania Bio Energie	495	493	2
AMI PIU' Spa (in liquidation)		55	-55
Hera Bologna Srl		50	-50
Hera Rimini Srl		50	-50
Hera Ravenna Srl		50	-50
Hera Forlì-Cesena Srl		50	-50
Hera Imola-Faenza Srl		50	-50
Partecipazione Srl		10	-10
Hera Immobiliare Srl	100		100
Sister SpA	369		369
HeraClion	10		10
Immobiliare Berti Pichat	10		10
Ambiente 3000	51		51
TOTAL	1.035	820	215

The non-consolidated subsidiaries are substantially non-operating or did not have significant operations in the period under consideration.

As previously noted the companies: Hera Bologna Srl, Hera Rimini Srl, Hera Ravenna Srl, Hera Forlì-Cesena Srl and Hera Imola-Faenza Srl became operative as of January 1, 2003 and are thus fully consolidated.

Investments in associated companies

The investment in associated companies are comprised of:

	Dec. 31, 2003	Dec. 31, 2002	Variation
A.S.A. Spa	526	738	-212
Acantho Spa	120	4.970	-4.850
Agea	58.039		58.039
AMAV AMBIENTE Spa	218	175	43
ASPES MULTISERVIZI	14.109	14.693	-584
ATTIVABOLOGNA	1.113	1.228	-115
Castellamare di Stabia		213	-213
Energica	73		73
GALA		56	-56
Italgestioni	11.191		11.191
LEUCOPETRA Spa	459	399	60
LOCRIDE AMBIENTE	396	395	1
PENISOLA VERDE Spa	79	67	12
RECUPERA Srl	160	107	53
TORRICELLI Srl		335	-335
VIVISERVIZI	200	214	-14
YELE Spa	189	144	45
Other investments	1.332	181	1.151
TOTAL	88.204	23.915	64.289

The principal changes in the account "investments in associated companies" relate to the write-down in Acantho Spa due to the losses recorded in the year and the investments made by the Parent Company in the companies Agea and Italgestioni.

The investment in the company Agea SpA was maintained at cost as it was acquired in December 2003.

Investments in other companies

The investment in other companies are comprised of:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Valdisieve Scrl	70	70	
Energia Italiana Spa	19.910		19.910
Ambiente Mare	300	300	
Other companies	1.436	556	880
TOTAL	21.716	926	20.790

The most important increase in the year relates to the subscription by the Parent Company of the share capital increase in the company Energia Italiana SpA.

C) CURRENT ASSETS

I - INVENTORY

The composition of inventory is shown in the following table:

D	ec. 31, 2003	Dec. 31, 2002	Variation
Inventory:			
raw materials, supplies and consumable stores	26.556	18.936	7.620
work in progress and semi-finished products	1.372	197	1.175
contract work in progress	13.280	13.545	-265
finished goods	904	740	164
payments on account	506	36	470
TOTAL	42.618	33.454	9.164

Inventories consist principally of spare parts and equipment used primarily to maintain and run plant in operation.

The increase in the year of Euro 9,164 thousand compared to the previous year is due to the storage of methane gas by the subsidiary Hera Comm Srl.

II - RECEIVABLES

Receivables are comprised of:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Receivables:			
trade receivables	543.580	468.238	75.342
subsidiaries not consolidated		77	-77
associated companies	9.207	4.640	4.567
parent companies			
others	66.130	119.432	-53.302
TOTAL	618.917	592.387	26.530

Trade receivables

Trade receivable are comprised of:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Customers Italy	552.037	475.775	76.262
Contentious receivables	2.587	1.447	1.140
Less: provision for doubtful debts	-11.044	-8.984	-2.060
TOTAL	543.580	468.238	75.342

Trade receivables at December 31, 2003 increased by Euro 75,342 thousand compared to the previous year essentially due to the increase in business.

Trade receivables include the quota of income matured at the end of the year on bills not yet invoiced. This quota is calculated based on an estimate of the historical consumption between the last reading and the end of the year.

Trade receivables are shown net of the doubtful debt provision considered adequate in relation to the effective recovery of the receivables. The provision for doubtful debts is made at the end of each year based on historic analyses for receivables concerning mass users.

Receivables from associated companies

Receivables from associated companies are comprised of:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Acantho Spa	6.747	3.212	3.535
AGESS		37	-37
ASPES MULTISERVIZI Spa	1.857	221	1.636
Attivabologna Srl consortile	207		207
RECUPERA Srl	255	25	230
SEAS Scrl		372	-372
Sinergie ambientali Srl		58	-58
STA Srl		43	-43
Others	141	642	-501
TOTAL	9.207	4.640	4.567

The receivables from associated companies at December 31, 2003 amount to Euro 9,207 thousand and principally relate to trade receivables at market conditions.

Other receivables

The analysis of other receivables included in non-current and current assets are as follows:

Dec	. 31, 2003	Dec. 31, 2002	Variation
due within one year			
Tax authorities	23.828	69.538	-45.710
Social security institutions	305	309	-4
DDPP loans to receive	4.150	4.276	-126
Grants	1.111	1.934	-823
Advances to suppliers and credit notes to receive	4.208	7.329	-3.121
Other receivables	14.260	31.503	-17.243
	47.862	114.889	-67.027
due over one year			
Receivables on loans covered by state grants	292	818	-526
Grants		852	-852
From Asset Companies and CON.AMI	38.904	9.825	29.079
Tax authorities	17.593	4.999	12.594
Advance taxes paid on employee leaving indemnity	1.219	1.486	-267
Other receivables	5.157	4.595	562
	63.165	22.575	40.590
TOTAL	111.027	137.464	-26.437

Receivables due within one year

The level of receivables due within one year is related to receivables due from the fiscal authorities.

Receivables due over 12 months

The main variations in receivables over one year relate to the increase in the receivable from the Asset Companies and the receivable from Con.Ami relating to the receivable for the investments made by HERA in the business division rented from Con.Ami. 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 SpA), against the indemnity at the end of the rental contract.

The balance of current financial assets are comprised of:

III - CURRENT FINANCIAL ASSETS

	Dec. 31, 2003	Dec. 31, 2002	Variation
Current financial assets:			
Other securities	9.935	8.424	1.511
TOTAL	9.935	8.424	1.511

The account principally relates to UNIPOL Assicurazioni insurance certificates with a return in 2003 of over 5%.

IV - CASH IN BANKS AND ON HAND

The composition is as follows:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Cash and banks on hand:			
bank and postal accounts	92.152	72.864	19.288
cheques on hand		8	-8
cash-in-hand and cash equivalents	566	102	464
TOTAL	92.718	72.974	19.744

Bank and post office deposits represent the liquidity available in current accounts as of the close date of the periods under consideration and include interest that has accrued but not yet been credited as of the period end.

For an analysis on the liquidity reference should be made to the directors' report on operations.

D) PREPAYMENT AND ACCRUALS

The composition of prepayments and accrued income is as follows:

Dec.	31, 2003 E	Dec. 31, 2002	Variation
Accrued income:			
interest on securities	15	14	1
other accrued income	59	60	-1
Total accrued income	74	74	
Prepayments:			
insurance premiums	103	809	-706
other prepayments	18.749	18.632	117
Total prepayments	18.852	19.441	-589
TOTAL ACC. INCOME & PREPAYMENT	S 18.926	19.515	-589

The account "Other prepayments" includes, for Euro 15,462 thousand, the substitute tax, paid by the Company in order to obtain fiscal relief on the amortisation on the share swap deficit, in order to correlate the cost with the amortisation period on the share swap deficit.

LIABILITIES

A) SHAREHOLDERS' EQUITY

SCHEDULE OF MOVEMENTS IN SHAREHOLDERS' EQUITY

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

	BALANCE	Allocation	Dividends	Other	Profit	BALANCE	
	Dec. 31, 2002	of results		movements	for period	Dec. 31, 2003	
Share capital	786.531			6.671		793.202	
Share premium reserve	11.505			748		12.253	
Revaluation reserve	3.048					3.048	
Legal reserve	3.312	1.477				4.789	
Treasury shares held							
Statutory reserve							
Other reserves:							
Extraordinary	286	534				820	
Capital grant reserve	6.000					6.000	
Reserve for accelerated depre	2.194					2.194	
Share swap surplus reserve	9.399			-64		9.335	
Un-distributable reserves	-13.800			3.020		-10.780	
Consolidation reserve	50			-50			
Other reserves							
Retained earnings or losses ca		31.145	-27.528	-3.616		1	
Net profit for the period	33.156	-33.156			49.454	49.454	
Total Group shareholder equity	841.681		-27.528	6.709	49.454	870.316	
Minority interests:							
Share capital and reserves	20.146			493		20.639	
Net profit for the period	3.459	-3.459			3.553	3.553	
Total minority interest shareholder	23.605	-3.459		493	3.553	24.192	
TOTAL SHAREHOLDERS' EQUITY	865.286	-3.459	-27.528	7.202	53.007	894.508	

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

The statement below shows a summary between the differences between the financial statements of the parent company and the consolidated financial statements on the items impacting the result for the year and net equity. All the amounts in the reconciliation are shown net of the deferred taxation impact on consolidation.

Schedule of reconciliation between the parent company and consolidated financial statements

	Current	year	Prior yea	ar
	Net result	Net Equity	Net result	
AS PER FIN. STATEMENTS OF PARENT COMPANY	48.523	880.164	29.539	851.81
Elimination of operations between consolidated				
companies net of fiscal effect:				
- Reversal of write-down in subsidiary companies	3.969		277	
- Dividends received from consolidated companies	-36.538	-36.538	-7.864	-7.26
Effect of uniform accounting principles with				
the Group net of the fiscal effects:				
- Application of finance method for leased assets	547	1.339	184	4:
- Valuation at net equity of companies recorded at cost	1.307	-1.147	5.693	-1.3
- Recording of taxes on undistributed profits of subsidiaries				
Carrying value of the consolidated companies		-133.488		-141.4
Net equity and result for the period of consolidated companies	36.844	161.600	5.750	135.7
Allocation of difference to assets of consolidated companies				
and related amortisation:				
- Consolidation goodwill	-1.101	4.844	-748	5.6
Effects of other adjustments:				
- Elimination conferment Amga Energia	-4.763	-4.763		
- Other adjustments	666	-1.695	325	-1.8
CONSOL. FINANCIAL STATEMENTS - Group quota	49.454	870.316	33.156	841.6
CONSOL. FINANCIAL STATEMENTS - Min. interests	3.553	24.192	3.459	23.6
CONSOL, FINANCIAL STATEMENTS	53.007	894.508	36.615	865.2

B) PROVISION FOR CONTINGENCIES AND CHARGES

The provisions for contingencies and charges are as follows:

BALANCE			Other	BALANCE
Dec. 31, 2002	Provisions	Utilisations	Movements	Dec. 31, 2003
			36	36
1.393	370	-78	216	1.901
5.214	1.028	-607	-1.950	3.685
76.515	29.331	-4.049	1.586	103.383
81.729	30.359	-4.656	-364	107.068
83.122	30.729	-4.734	-112	109.005
	Dec. 31, 2002 1.393 5.214 76.515 81.729	Dec. 31, 2002 Provisions 1.393 370 5.214 1.028 76.515 29.331 81.729 30.359	Dec. 31, 2002 Provisions Utilisations 1.393 370 -78 5.214 1.028 -607 76.515 29.331 -4.049 81.729 30.359 -4.656	Dec. 31, 2002 Provisions Utilisations Movements 36 1.393 370 -78 216 5.214 1.028 -607 -1.950 76.515 29.331 -4.049 1.586 81.729 30.359 -4.656 -364

Reserve for legal cases and litigation with personnel

The legal reserve for disputes in course relates to specific legal cases and cases brought by employees.

Reserve for landfill closure and post-closure expenses

The account "other provisions" includes landfill closure and post-closure expenses reserve that amounts to Euro 47,397 thousand (Euro 42,287 thousand at December 31, 2002). The reserve made by the Group represents the future post-closure costs for the management of the landfills currently in use. The increase of Euro 5,100 thousand between 2002 and 2003 is attributable to the quantity of waste conferred to the landfills and to the adjustment to the reserve made in the year following adherence by the Parent Company of Legislative Decree no. 36 of 2003.

This law entered into force on March 27, 2003 reflecting the European Union directive no. 31 of 1999 relating to waste landfills that defines the necessary criteria for the construction and management of landfills.

Reserve for restoration of third party assets

Also included in this item is the restoration of third party assets reserve made in accordance with current legislation and contractual obligations of the Group as leasee of the distribution network from the Asset Companies. At December 31, 2003 this reserve amounted to Euro 48,381 thousand (Euro 28,055 thousand at December 31, 2002). These provisions are made based on the normal depreciation rates for the assets in question, rates which are agreed contractually in order to indemnify the lessor for the impairment to the assets utilised in the activities of the company. They are calculated on the value of the assets received in rental and on the value of the new investments recorded in fixed assets.

C) EMPLOYEE LEAVING INDEMNITY **PROVISION**

The table below shows the movements in the period:

	BALANCE Dec. 31, 2002	Provisions	Utilisations	Other Movements	BALANCE Dec. 31, 2003	
TOTAL	74,209	9.922	-15.446	-313	68.372	

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

The significant utilisation in the year is partly due to the decision of some employees to avail of the possibility to utilise the advance to subscribe for shares in the Company on the occasion of the IPO.

D) PAYABLES ANALYSIS OF PAYABLES

	Dec. 31, 2003	Dec. 31, 2002	Variation
debentures	5.165	7.747	-2.582
convertible debentures			
due to banks	515.412	187.395	328.017
other lenders	31.323	157.672	-126.349
payments on account	4.649	1.925	2.724
trade payables	374.725	303.632	71.093
accounts payable on bills accepted and dra	awn		
due to subsidiaries not consolidated	347	45	302
due to associated companies	6.184	3.029	3.155
due to parent companies			
sums payable to taxation authorities	67.207	95.294	-28.087
social security institutions	10.307	11.492	-1.185
other payables	80.640	94.628	-13.988
TOTAL	1.095.959	862.859	233.100

Debentures

	Dec. 31, 2003	Dec. 31, 2002	Variation
within one year	5.165	2.582	2.583
over one year		5.165	-5.165
TOTAL	5.165	7.747	-2.582

The account relates to a non-convertible bond, issued for a nominal value of Euro 5,165 thousand, duration January 1, 1999 to January 1, 2004, consisting of 2,000 bonds of a nominal value of Euro 2,582 each, represented by bearer bonds issued in a single denomination unit.

Due to banks

The table below shows the composition of bank payables:

	Dec. 31, 2003	Dec. 31, 2002	Variation
within one year	191.646	140.634	51.012
over one year	323.766	46.761	277.005
TOTAL	515.412	187.395	328.017

The increase is due in addition to the greater financing requirements, to which reference should be made to the directors' report on operations, to the inclusion of mortgage loans, classified for an amount of Euro 128 million under payables to other lenders in 2002.

Due to other lenders

The table below shows the composition of payables to other lenders:

	Dec. 31, 2003	Dec. 31, 2002	Variation
within one year	2.441	18.117	-15.676
over one year	28.882	139.555	-110.673
TOTAL	31.323	157.672	-126.349

This account includes the payables to the Cassa Depositi e Prestiti.

This account also includes payables recorded to other lenders due to the effect of the application of IAS 17 for finance leases amounting to Euro 10,294 thousand.

Payments on account

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

	Dec. 31, 2003	Dec. 31, 2002	Variation
within one year	3.122	1.925	1.197
over one year	1.527		1.527
TOTAL	4.649	1.925	2.724

Trade payables

The table below shows the composition of trade payables:

	Dec. 31, 2003	Dec. 31, 2002	Variation
within one year	373.768	302.478	71.290
over one year	957	1.154	-197
TOTAL	374.725	303.632	71.093

The increase of Euro 71,093 thousand is more than proportional to the increase in volumes purchased with a lengthening of the average payment terms by 3 days.

Payables to subsidiary companies not consolidated and associated companies

The table below shows the composition of payments to subsidiary companies not consolidated and associated companies:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Payables to Subsidiaries			
not consolidated			
AMI PIU'		42	-42
Campania Bio Energie	346		346
Other	1	3	-2
Total	347	45	302
Payables to Associated companies			
Acantho S.p.A.	2.171	988	1.183
Agea	31	000	31
Asa S.p.A.	487	882	-395
Aspes Multiservizi Spa	65		65
Astra		650	-650
Attiva Bologna Srl	676		676
CBE		347	347
Hydrolazio Scrl	151		151
Recupera		23	-23
Service Imola Srl	80		80
SGS Srl	475		475
Sinergie Ambientali	32	32	
Torricelli		54	-54
Viviservizi Srl	1.663		1.663
Other associated companies	353	53	300
Total	6.184	3.029	3.155
TOTAL	6.531	3.074	3,457

The payables relate to transactions of a commercial nature.

Payables to tax authorities

The payables to the tax authorities consist of:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Income taxes	41.663	49.629	-7.966
VAT	6.494	11.812	-5.318
Employee withholding taxes	4.079	5.116	-1.037
Substitute taxes	869	17.494	-16.625
Other taxes	14.102	11.243	2.859
TOTAL	67.207	95.294	-28.087

The account includes the payables for taxes by the Hera Group.

Payables to social security institutions

The payables to social security institutions are shown below:

	Dec. 31, 2003	Dec. 31, 2002	Variation
within	10.284	11.492	-1.208
over	23		23
TOTAL	10.307	11.492	-1.185

They principally relate to payables of the Group to the social security organisations.

Other Payments

The other payables are shown below:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Payables to employees	15.145	26.839	-11.694
Payables for deposits received	39.890	36.739	3.151
Payables for utilities	188	9.847	-9.659
Other payables	25.417	21.203	4.214
TOTAL	80.640	94.628	-13.988

The reduction in the other payables, in particular to personnel, is prevalently due to the reduction of the payables for vacation days not taken and the absence in 2003 of provisions for the pending renewal of contracts.

E) ACCRUED EXPENSES AND DEFERRED INCOME

The composition of accrued expenses and deferred income are as follows:

	Dec. 31, 2003	Dec. 31, 2002	Variation
	Dec. 31, 2003	Dec. 31, 2002	variation
Accrued expenses:			
Interest expense	560	754	-194
Other	2.028	2.209	-181
Total accrued expenses	2.588	2.963	-375
Deferred income:			
Contributions for plants and equipment	332	350	-18
Other	39.714	40.670	-956
Total deferred income	40.046	41.020	-974
TOTAL ACCRUED AND DEFERRED INCO	ME 42.634	43.983	-1.349

The item "other deferred income" principally relates to the contributions for new connections received from customers deferred to future years in proportion to the quota of amortisation on the related asset. In relation to this account, 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.

Amount to Euro 693,481 thousand at December 31, 2003 and relate principally to the assets of the water and gas services received in concessions.

MEMORANDUM ACCOUNTS

The memorandum account consists of:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Sureties	106.071	117.886	-11.815
Guarantees	139.167	22.404	116.763
Total Guarantees given	245.238	140.290	104.948
Others memorandum accounts	1.282.734	1.494.846	-212.112
Total Other memorandum accounts	1.282.734	1.494.846	-212.112
TOTAL	1.527.972	1.635.136	-107.164

Sureties

This account includes the sureties given for various guarantees.

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

Guarantees

The guarantees include Euro 125,159 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.

Other memorandum accounts

The "Other memorandum accounts" consist of:

Company in usufruct

At December 310,8541, 2003 amounted to Euro 10,854 thousand and represents the value of the landfill of the Companies Baricella Ambiente SpA and

Assets in rental

They amount to Euro 462,743 thousand at December 31, 2003 and principally relate to the assets of the water and gas services received under rental contracts from the Asset Companies.

Interest hedge cover

At December 31, 2003 amount to Euro 83,116 thousand and represent the notional amount of the interest derivative instruments agreed by the company. The current value of these financial instruments, at December 31, 2003, is a negative amount of Euro 2,842 thousand.

Commodity swap contracts

At the end of the year the subsidiary Hera Comm Srl had commodity swap cover contracts for a nominal amount of Euro 30,536 thousand determined by converting the underlying nominal quantity to the contractual price. These contracts were made in order to reduce the exposition of the Group to the risk in commodity price variations deriving from the purchase of fuel.

B) PRODUCTION COST

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

A) VALUE OF PRODUCTION

INCOME STATEMENT

	Dec. 31, 2003	Dec. 31, 2002	Variation
	200.0., 2000	200:01, 2002	
Analysis of value of production:			
revenues - goods and services	1.221.533	1.066.974	154.559
variation in product inventory	-309	283	-592
variation in contract work in progress	23.131	2.712	20.419
increases on internal work capitalised			
under fixed assets	67.501	30.990	36.511
other revenues and income:			
Other revenues and income	10.865	26.733	-15.868
Grants received	8.578	5.559	3.019
TOTAL	1.331.299	1.133.251	198.048

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

The significant increase in the account "variation in contract work in progress" relates to the charging to cost and subsequent capitalisation of assets acquired by the Local Operating Companies for construction work performed on behalf of the Parent Company which did not occur in the year 2002. The work in progress of these companies at December 31, 2003 was classified in fixed assets

under construction and payments on account.

The account other revenues and income is comprised of:

DESCRIPTION	Dec. 31, 2003	Dec. 31, 2002	Variation
Grants received	8.578	5.559	3.019
Over-accruals of previous years and similar	1.349	2.074	-725
Reimbursement for damage claims	1.975	2.529	-554
Recovery of taxes	239		239
Reimbursement of costs	953		953
Other income	6.349	22.130	-15.781
TOTAL	19.443	32.292	-12.849

PURCHASES OF RAW MATERIALS, ANCILLARY, CONSUMABLES AND GOODS

The analysis of purchases is as follows:

DESCRIPTION	Dec. 31, 2003	Dec. 31, 2002	Variation
Methane gas for resale	336.079	302.895	33.184
Fuel for heat generation	124	7.529	-7.405
Electricity for resale	3.616	55.896	-52.280
Lpg	2.421	872	1.549
Water for resale	22.252	19.733	2.519
Raw material costs	364.492	386.925	-22.433
Water for industrial use	78	440	-362
Methane for industrial use	1.114	8.770	-7.656
Electricity for industrial use	107.315	31.043	76.272
Fuels and lubricants	6.460	6.761	-301
Consumables for plant and networks	27.120	24.670	2.450
Spare parts materials	3.270	2.556	714
Chemical products	6.122	4.894	1.228
Other materials	11.655	3.210	8.445
Purchases of ancillary materials,			
consumables and goods:	163.134	82.344	80.790
TOTAL	527.626	469.269	58.357

COMPOSITION OF SERVICES

The analysis and the composition of services is as follows:

DESCRIPTION	Dec. 31, 2003	Dec. 31, 2002	Variation
Water, methane, heat & energy services	20.707	18.508	2.199
Expenses on works and maintenance			
of plant and network	127.936	54.633	73.303
Waste transportation, disposal			
and collection services	58.855	55.410	3.445
Commercial and transport costs	13.777	19.446	-5.669
Environmental expenses	5.947	10.195	-4.248
Insurance	8.028	8.033	-5
Other services	66.494	41.821	24.673
TOTAL	301.744	208.046	93.698

C) FINANCIAL INCOME AND CHARGES

The analysis and the composition of services is as

PERSONNEL COSTS

DESCRIPTION	Dec. 31, 2003	Dec. 31, 2002	Variation
wages and salaries	134.010	131.218	2.792
social security contributions	47.473	45.425	2.048
employee leaving indemnity	9.922	10.067	-145
pension and similar costs	2	120	-118
other costs	1.022	2.568	-1.546
TOTAL	192.429	189.398	3.031

Personnel costs for the year 2003 amounted to a total of Euro 192,429 thousand (Euro 189,398 thousand in 2002).

The analysis of the number of personnel is as follows:

	Dec. 31, 2003	Dec. 31, 2002	Variation
Blue collar	2.630	2.793	-163
Temporary	143	111	32
White collar	1661	1.669	-8
Senior Management	71	68	3
TOTAL	4.505	4.641	-136

COMPOSITION OF OTHER OPERATING COSTS

The composition of other operating costs are as follows:

DESCRIPTION	Dec. 31, 2003	Dec. 31, 2002	Variation
Association contributions	1.118	1.158	-40
Other contributions	1	1.261	-1.260
Consumption tax	348	440	-92
Rental for occupation of public areas (Cosap)	651	678	-27
Special landfill levy	4.850	4.781	69
Ecology tax on transfer of landfills	797	848	-51
Other taxes and levies	2.406	1.721	685
Loss on fixed asset sales	391	988	-597
Other costs	5.262	8.232	-2.970
TOTAL	15.824	20.107	-4.283

Financial income is comprised of:

	Dec. 31, 2003	Dec. 31, 2002	Variatio
Financial income			
FROM INVESTMENTS			
subsidiaries not consolidated		433	-43
associated companies		16	-1
other companies		16	-1
		465	-46
Other financial income			
FROM RECEIVABLES IN NON-CURRENT ASS	ETS		
from other	20	649	-62
subsidiaries not consolidated			
associated companies		192	-19
parent company		102	10
paroni company	20	841	-82
from securities classified under non-curi FROM GOVERNMENT SECURITIES	rent assets not col	nstituting participations	
Interest			
trading			
other			
FROM OTHER SECURITIES			
Interest	10	00	
trading	13	30	-1
other Total	13	30	-1
iotai	13	30	-1
from securities classified under current a	assets not constitu	uting participations	
FROM GOVERNMENT SECURITIES			
Interest		90	-9
trading	23		2
other			
FROM OTHER SECURITIES			
Interest			
trading	102		10
other	1		
Total	126	90	3
income other than above from third parts	ies		
Tax credit on dividends	717		71
Interest income from banks	1.249	934	31
interest on tax credit	- 10		-
Interest from customers	654	1.123	-46
Interest norm customers Interest on other short-term receivables	144	220	-7
Exchange gains realised	6	220	-1
5 5	0		
Positive adjustment to exchange values			
Income on short term deposits	000	0.40	
Other financial income Total	883 3.653	946 3.223	-6 43
Iotai	3.033	3.223	40
Other financial income			
FROM INVESTMENTS			
subsidiaries not consolidated	4	58	-5
associated companies	15		1
other companies	133		13
	152	58	9

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

	Dec. 31, 2003	Dec. 31, 2002	Variation
From equity investments not consolidate	ted:		
Interest from subsidiaries not consolidated	320	3.889	-3.569
Interest from associated companies	351	12	339
TOTAL	671	3.901	-3.230

DESCRIPTION	Dec. 31, 2003	Dec. 31, 2002	Variation	
Financial charges on:				
debentures	386	303	83	
bank current accounts	6.982	5.096	1.886	
mortgages and other medium/long term loa	ns 7.299	7.002	297	
other payables	37	53	-16	
other financial charges	4.583	1.252	3.331	
TOTAL	19.287	13.706	5.581	

It should be noted that the parent company, Hera Spa, in the years 2001 and 2002 took out interest hedging cover on approximately 50% of its medium term debt; due to the decrease in interest rates and despite the periodic maintaining of these positions, the valuation of these operations at December 31, 2003 is a negative amount of Euro 2.8 million. It was considered not to record this amount in the income statement taking into account the consistent medium term duration of the operation (6 years) with progressive reduction of the risk aligned to the repayment of the financing and the interesting cost of debt obtained.

D) ADJUSTMENT TO FINANCIAL ASSET **VALUES**

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

E) EXTRAORDINAY INCOME AND CHARGES

COMPOSITION EXTRAORDINARY INCOME

Below is shown the composition of extraordinary income:

DESCRIPTION	Dec. 31, 2003	Dec. 31, 2002	Variation
Extraordinary income:			
Over accruals in previous years and similar	558	354	204
Other extraordinary income	5.215	9.564	-4.349
Gains on tangible asset sales	46	7.016	-6.970
TOTAL	5.819	16.934	-11.115

COMPOSITION OF EXTRAORDINARY CHARGES

Below is shown the composition of extraordinary charges:

DESCRIPTION	Dec. 31, 2003	Dec. 31, 2002	Variation
Extraordinary expenses:			
Expenses and losses of an extract	ordinary nature 8.184	3.486	4.698
Other extraordinary expenses	595	1.106	-511
Losses on tangible asset sales	62	288	-226
TOTAL	8.841	4.880	3.961

F) INCOME TAXES

COMPOSITION OF INCOME TAXES

Below is shown the composition of income taxes:

DESCRIPTION	Dec. 31, 2003	Dec. 31, 2002	Variation
current taxation	43.975	46.384	-2.409
deferred taxation	-8.387	-7.725	-662
TOTAL	35.588	38.659	-3.071

In 2003 income taxes amounted to Euro 35,588 thousand decreasing by Euro 3,071 thousand compared to the previous year.

Current income taxes of Euro 43,975 thousand were calculated based on the fiscal charge on the individual companies.

The current income taxes of the Parent Company take into consideration the effect of Law 383 of October 18, 2001, so-called "Tremonti bis", applied on the presentation of the tax declaration for the year 2003, moment in which the parameters were made available in which to calculate the benefit, relating to all of the business units of the different companies that gave rise to the creation of Hera Spa from the complex merger and spin-of operation.

The deferred income tax equal to Euro 8,387 thousand is determined from the sum of the deferred tax income and charges of the different companies consolidated. The tax rate of the group for the year 2003 was equal to 40%.

APPENDIX

Fully consolidated Group companies

		Shareholders		Percentage held		Total
Company:	Head Q.	Equity	Directly	Undirectly	Total	Stake
Capogruppo:						
HERA Spa	Bologna	793.202	-	-	-	-
Controllate:						
AKRON SPA	lmola	1.000	51,00%		51,00%	51,00%
AMGA ENERGIA SRL	S. Mauro Pascoli	1.332	80,00%		80,00%	80,00%
ARES SPA	Bologna	770	94,99%		94,99%	94,99%
BARICELLA AMBIENTE SPA	Baricella	258	50,00%		50,00%	50,00%
CALES SRL	lmola	11	50,09%		50,09%	50,09%
CIR SECCO SPA	Voltana (RA)	1.000	56,56%	43,54%	100,00%	78,67%
DIRAMA SRL	Mordano	99		100,00%	100,00%	51,00%
EOS ENERGIA SPA	Ravenna	2.600	72,49%		72,49%	72,49%
FAMULA ON LINE SPA	Bologna	516	60,00%		60,00%	60,00%
FRULLO ENERGIA AMBIENTE	Bologna	17.139	51,00%		51,00%	51,00%
GAL. A. SPA	Bologna	100	50,00%		50,00%	50,00%
GEAT SERVICE SRL	Riccione	163	51,00%		51,00%	51,00%
HERA IMOLA-FAENZA S.R.L.	lmola	750	100,00%		100,00%	100,00%
HERA BOLOGNA S.R.L	Bologna	1.250	100,00%		100,00%	100,00%
HERA COMM S.R.L.	lmola	88.592	100,00%		100,00%	100,00%
HERA FORLI'-CESENA SRL	Cesena	650	100,00%		100,00%	100,00%
HERA LUCE SRL	S. Mauro Pascoli	217	69,30%		69,30%	69,30%
HERA RAVENNA S.R.L.	Ravenna	850	100,00%		100,00%	100,00%
HERA RIMINI S.R.L.	Rimini	1.050	100,00%		100,00%	100,00%
HERASOCREM SPA	Bologna	2.218	51,00%		51,00%	51,00%
INGENIA SRL	Imola	52	74,00%		74,00%	74,00%
MEDEA S.P.A.	Sassari	4.000	100,00%		100,00%	100,00%
NUOVA GEOVIS S.P.A.	S. Agata Bolognese	2.205	51,00%		51,00%	51,00%
SEAS Srl Consortile	Bologna	51	6,00%	94,00%	100,00%	97,89%
SBI SRL	Bologna	100	51,00%		51,00%	51,00%
SELECTA SPA	Coriano (RN)	568	100,00%		100,00%	100,00%
SOTRIS SPA	Ravenna	2.340	62,00%		62,00%	62,00%
UNIFLOTTE S.R.L.	Bologna	1.810	51,00%		51,00%	51,00%
ROMAGNA COMPOST SRL	Cesena	310	60,00%		60,00%	60,00%
SINERGIA SRL	Forlì	414	51,00%		51,00%	51,00%

Controlled Companies (non active) booked at cost

	\$	Shareholders	Pe	ercentage held		Total
Company:	Head Q.	Equity	Directly	Undirectly	Total	Stake
AMBIENTE 3000 S.R.L	Bologna	100	51,00%		51,00%	51,00%
Campania Bio Energie S.R.L.	Napoli	500	99,00%		99,00%	99,00%
CONSORZIO ENERGIA SERVIZI BOLOGNA	Bologna	5	51,50%		51,50%	51,50%
HERA CLION SRL	Bologna	10	100,00%		100,00%	100,00%
SISTER SPA	Imola	516	92,50%		92,50%	92,50%
HERA IMMOBILIARE SRL	Bologna	100	100,00%		100,00%	100,00%
IMMOBILIARE BERTI PICHAT	Bologna	10	100,00%		100,00%	100,00%
CONSORZIO FRULLO	Bologna	2	33,00%	67,00%	100,00%	67,17%

Companies Booked at their Net Equity

		Shareholders	Pe	ercentage held		Total
Company :	Head Q.	Equity	Directly	Undirectly	Total	Stake
ACANTHO SPA	Bologna	5.217	49,47%		49,47%	49,47%
ADRIATICA ACQUE SRL	Rimini	209	41,78%		41,78%	41,78%
AGESS SCRL	Forlì	80	21,44%		21,44%	21,44%
AMAV AMBIENTE SPA	S. Anastasia (NA)	103	49,00%		49,00%	49,00%
ASA SPA	Castelmaggiore	1.820	20,00%		20,00%	20,00%
ASPES MULTISERVIZI SPA	Pesaro	10.964	24,00%		24,00%	24,00%
ATTIVABOLOGNA SRL CONSORTILE	Bologna	2.559	0,00%	48,00%	48,00%	48,00%
AZIMUT SRL	Rimini	50	29,00%		29,00%	29,00%
CGS TRASF.IDEA METROPOLI	Bologna	21	76,98%		76,98%	76,98%
ENERGICA SPA	Faenza	200	50,00%		50,00%	50,00%
HYDROLAZIO S.C.A.R.L.	Bologna	510	32,00%		32,00%	32,00%
SERVICE IMOLA SRL	Borgo Tossignano	10	40,00%		40,00%	40,00%
INTERIMM SRL	Carpegna	10	100,00%		100,00%	100,00%
ITALGESTIONI SRL	Bologna	14.000	49,00%		49,00%	49,00%
LEUCOPETRA SPA	Ercolano	351	48,00%		48,00%	48,00%
Linpha Srl	Empoli	90		50,00%	50,00%	25,50%
LOCRIDE AMBIENTE SPA	Siderno superiore	1.523	25,00%		25,00%	25,00%
Oikothen Scrl	Siracusa	80		40,00%	40,00%	38,00%
PENISOLA VERDE SPA	Sorrento	103	48,00%		48,00%	48,00%
RECUPERA SRL	Cassana (FE)	413	24,50%		24,50%	24,50%
RIO D' ORZO SRL	Castello di Serravalle	115	21,00%		21,00%	21,00%
S.G.S. SRL	Rimini	52	41,00%		41,00%	41,00%
SINERGIE AMBIENTALI SRL	Bologna	100	50,00%		50,00%	50,00%
VIVISERVIZI SRL	Bologna	452	48,00%		48,00%	48,00%
YELE SPA	Vallo della Lucania	103	35,00%		35,00%	35,00%

Other Companies booked at Cost

	\$	Shareholders	Pe	ercentage held		Total
Company :	Head Q.	Equity	Directly	Undirectly	Total	Stake
Agea Spa	Ferrara	12.756	42,00%		42,00%	42,00%
Italeko Spa	Sofia Bulgaria	50	33,00%		33,00%	33,00%
Consorzio Rizzoli Energia	Bologna	10	27,00%		27,00%	27,00%
STA Srl	Modena	57	36,36%		36,36%	36,36%

Relevant investments in accompliance to art. 120, comma 4. D.LGS. 58/98 Article 126 delibera CONSOB

ACANTHO S.p.A. Share capital € 5.217.373,2 fully pa	aiu-iii neiu by neka S.p.a. sin	CE 2000	AZIMUT S.r.i. Share capital € 50.000 fully	y paid-in HERA S.P.A. investment since 01/	1/2002
Head quarters: Viale C.B. Pichat n. 2/4 - 40127 BOLOGNA			Head quarters: Via Dario Campana n. 65 - 479		
Shareholder	Investment in €	Stake	Shareholder	Investment in €	Stak
HERA S.p.A.	2.581.035	49,47%	HERA S.p.A.	14.500	299
ADRIATICA ACQUE S.r.I. Share capital € 209.435 an Held by HERA S.p.A. since 31/12/2002	d paid-in for € 124.248,50			al € 258.230 fully paid-in HERA S.P.A. investn	nent since 1992
Head quarters: Via Dario Campana n. 65 - 47900 RIMINI			Head quarters: Via Roma n. 76 - 40052 BARK Shareholder	CELLA (BO) Investment in €	Stak
Shareholder	Investment in €	Stake	HERA S.p.A.	129.115	50 50
HERA S.p.A.	87.500	41,78%	FILMA O.P.A.	129.113	30
ASPES Multiserv. S.p.A.	62.500	29,84%	CALES S.r.I. Share capital. € 11.000 fully	paid-in HERA S.P.A. investment since 01/1	1/2002
·		·	Head quarters: Via Molino Rosso n. 8 - 40026	S IMOLA (BO)	
AGEA S.p.A. Share capital € 15.016.100, of which € Held by HERA S.p.A. since 09/12/2003	12.756.220 paid in		Shareholder HERA S.p.A.	Investment in € 5.510	Stal 50,09
Head quarters: Via Diana n. 40 - 44044 FERRARA					00,00
Shareholder	Investment in €	Stake		are capital € 500.000 of which € 150.000 pa	id in
HERA S.p.A.	5.357.610	42,00%	HERA S.P.A. investment since 01/07/2003	3	
			Head quarters: Viale Gramsci n. 17/b - 80122	2 NAPOLI	
AGESS S.c.r.l. Share capital € 99.000, of which € 79	.750 paid in		Shareholder	Investment in €	Stak
HERA S.p.A. investment since 01/11/2002			HERA S.p.A.	495.000	99
Head quarters: P.zza Falcone e Borsellino n. 23 - 47100 FG	ORLI'		CID SECCO S - A Share assistal C 4 000 0	000 fully poid in UEDA C DA :	01/11/0000
Shareholder	Investment in €	Stake	CIR SECCO S.p.A. Snare capital € 1.000.0	000 fully paid-in HERA S.P.A. investment since	e 01/11/2002
HERA S.p.A.	17.100	21,44%	Head quarters: Via Traversagno n. 30 - 48022		
AKRON S.p.A. Share capital € 1.000.000 fully paid-in	n Held by HERAS n A since 0	1/11/2002	Shareholder	Investment in €	Stal
		1711/2002	HERA S.p.A.	564.600	56,460
Head quarters: Via Molino Rosso n. 8 - 40026 IMOLA (BO)	·	Otala	ENERGIA ITALIANA S.p.A. Share capital €	21.700.000 fully paid-in HERA S.P.A. investn	nent since 200
Shareholder	Investment in €	Stake F10/			
HERA S.p.A.	510.000	51%	Head quarters: Via Giovanni Battista Pirelli n. 3		Ctal
AMAV AMBIENTE S.p.A. Share capital. € 103.200 full	lly paid-in Held by HERA S.p.A	. since 01/11/2002	Shareholder HERA S.p.A.	Investment in € 2.387.000	Stak
Head quarters: Via Pomigliano n. 2 - 80048 SANT'ANASTA			ΠΕΝΑ 3.μ.A.	2.307.000	11
Shareholder	Investment in €	Stake	ENERGICA S.p.A. Share capital € 200.00	0 fully paid-in HERA S.P.A. investment sinc	e 24/04/2003
HERA S.p.A.	50.568	49%	Head quarters: Via Convertite n. 12 - 48018 F	-aenza (RA)	
ΠΕΙ ΙΑ Ο.β.Α.	00.000	4070	Shareholder	Investment in €	Stak
AMBIENTE 3000 S.r.I. Share capital € 100.000 fully p	paid-in Held by HERA S.p.A. si	nce 01/06/2003	HERA S.p.A.	100.000	50
Head quarters: Viale Carlo Berti Pichat n. 2/4 - BOLOGNA					
Shareholder	Investment in €	Stake	EOS ENERGIA S.p.A. Share capital € 2.6	00.000 of which € 780.000 paid in	
HERA S.p.A.	51.000	51%	HERA S.P.A. investment since 2001		
			Head quarters: Via Romea Nord n. 180/182 -	48100 RAVENNA	
AMBIENTE MARE S.p.A. Share capital € 2.000.000 f	ully paid-in Held by HERA S.p.	A. since 01/11/2002	Shareholder	Investment in €	Stak
Head quarters: Via del Marchesato n. 35 - 48023 MARINA	DI RAVENNA (RA)		HERA S.p.A.	1.884.740	72,49
Shareholder	Investment in €	Stake	AGEA S.p.A.	208.520	8,02
HERA S.p.A.	300.000	15%	ASPES Multiserv. S.p.A.	101.660	3,91
AMGA ENERGIA S.r.I. Share capital € 1.331.783,45 full	ty noid in Hold by HEDA C n A c	inos 01/11/2002	EAMILIA ON LINE C. n. A. Chara conital C	516.427 fully paid-in HERA S.P.A. investme	ent since 2001
		IIICe 01/11/2002			siit siiice 200 i
Head quarters: Via Due Martiri n. 2 - 47030 S. MAURO PA	,		Head quarters: Viale C.B. Pichat n. 2/4 - 4012		
Shareholder	Investment in €	Stake	Shareholder	Investment in €	Stak
HERA S.p.A.	1.065.427	80%	HERA S.p.A.	309.856	60°
ARES S.p.A. Consortile Share capital € 770.000 fully	paid-in Held by HERA S.p.A.	since 1998	FRULLO ENERGIA AMBIENTE S.r.l. Cap. So	c. € 17.139.100 fully paid-in HERA S.P.A. inves	tment since 20
Head quarters: Viale Don Minzoni n. 1 - 40127 BOLOGNA			Head quarters: Viale C.B. Pichat n. 2/4 - 4012	27 BOLOGNA	
Shareholder	Investment in €	Stake	Shareholder	Investment in €	Stak
HERA S.p.A.	731.405	94,98766%	HERA S.p.A.	8.740.941	51
A S A S n A Share conital € 1 900 000 fully maid in	Hold by HEDA S n A since 400	24	GAL A S n A Share conital 6 400 404 ful	lly paid-in HERA S.P.A. investment since 19	07
A.S.A. S.p.A. Share capital € 1.820.000 fully paid-in		77			31
Head quarters: Via Lirone n. 10 - 40013 CASTEL MAGGIO	` '	01.1.	Head quarters: Viale C.B. Pichat n. 2/4 - 4012		٥
011	Investment in €	Stake	Shareholder	Investment in €	Stal
		20%	HERA S.p.A.	50.052	50
	364.000	2070			
			GEAT SERVICE S.r.I. Share capital € 163.00	00 fully paid-in HERA S.P.A. investment since	1° luglio 2003
Shareholder HERA S.p.A. ASPES MULTISERVIZI S.p.A. Share capital € 10.963.6 Head quarters: Via dei Canonici n. 144 - 61100 PESARO			GEAT SERVICE S.r.I. Share capital € 163.00 Head quarters: Via Mantova n. 6 - 47838 RICC	• •	1° luglio 2003
HERA S.p.A. ASPES MULTISERVIZI S.p.A. Share capital € 10.963.6				• •	1° luglio 2003 Stak

3 CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA 3.3 No

Head quarters: Via Casalegno n. 1 - 40026 IN	ИOLA		HERA S.P.A. investment since 13/11/20	003	
Shareholder	Investment in€	Stake	Head quarters: Viale C. Berti Pichat n. 2/4 -	40127 BOLOGNA	
HERA S.p.A.	750.000	100%	Shareholder	Investment in €	Stake
HEDA BOLOGNA S r I Share capital € 1	.250.000 fully paid-in HERA S.p.A. investmen	t since 21/10/2002	HERA S.p.A.	10.000	100%
		1 SIIICe 21/10/2002	INGENIA S.r.I. Share capital € 52.000 fu	ully paid-in HERA S.P.A. investment since 01/1	1/2002
Head quarters: Viale C.B. Pichat n. 2/4 - 401		Ctoke	•		.,
Shareholder HERA S.p.A.	Investment in € 1.250.000	Stake 100%	Head quarters: Via Molino Rosso n. 8 - 400 Shareholder	Investment in €	Stake
HERA S.P.A.	1.250.000	100%	HERA S.p.A.	38,480	74%
HERA CLION S.r.l. Share capital € 10.00	0 . HERA S.p.A. investment since 30/09/2003	3		3000	. 1,5
Head quarters: Viale C.B. Pichat n. 2/4 - 401	27 BOLOGNA		INTER.IMM S.r.I. Share capital. € 10.20	00 fully paid-in HERA S.P.A. investment since 3	1/12/2002
Shareholder	Investment in €	Stake	Head quarters: Via Salvadori n. 15 - 61021	CARPEGNA (PS)	
HERA S.p.A.	10.000	100%	Shareholder	Investment in €	Stake
HEDA COMM C v.l. Chave conital C 00 F0	d 544 fully noid in UEDA C n A investment of	inaa 0001	HERA S.p.A.	10.200	100%
•	1.541 fully paid-in HERA S.p.A. investment s	Ince 2001	ITALEKO S.n.A. Share canital LEVBG 5	60.000 fully paid-in HERA S.P.A. investment sin	ce 01/11/2002
Head quarters: Via Molino Rosso n. 8 - 40026	,		Submitted to the laws of Bulgary	10.000 fully paid-in HENA 3.F.A. investment sin	Ce 01/11/2002
Shareholder	Investment in €	Stake		ELA (DI II OADIA)	
HERA S.p.A.	88.591.541	100%	Head quarters: Via Viskiar Planina n. 8 - SOI		Stake
HERA FORLI'-CESENA S.r.I. Share capital	€ 650.000 fully paid-in HERA S.p.A. investmer	nt since 21/10/2002	Shareholder HERA S.p.A.	Investment in Levbg	33%
Head guarters: Via Spinelli n. 60 - 47023 CES	SENA (EC)		FILINA 3	10.500	33/6
Shareholder	Investment in €	Stake	ITALGESTIONI S.r.I. Share capital € 14.0	00.000 fully paid-in HERA S.P.A. investment sinc	e 01/08/2003
HERA S.p.A.	650.000	100%	Head quarters: Via della Cooperazione n. 30	0 - 40129 BOLOGNA	
			Shareholder	Investment in €	Stake
HERA IMMOBILIARE S.r.I. Share capital	€ 100.000 fully paid-in HERA S.p.A. investm	ent since 26/06/2003	HERA S.p.A.	6.860.000	49%
Head quarters: Viale C.B. Pichat n. 2/4 - 401	27 BOLOGNA		1 = 110 0 P = Th 1 0 1 1 1 0 0 P		04/44/0000
Shareholder	Investment in €	Stake	LEUCOPETRA S.p.A. Snare capital € 350	0.880 fully paid-in HERA S.P.A. investment since	01/11/2002
HERA S.p.A.	100.000	100%	Head quarters: Via Benedetto Cozzolino n. 3	39 - 80056 ERCOLANO (NA)	
HERA LLICE S.r.I. Share capital € 216.60	0 fully paid-in HERA S.p.A. investment since	2000	Shareholder	Investment in €	Stake
		2000	HERA S.p.A.	168.422,40	48%
Head quarters: Via Due Martiri n. 2 - 47030 S	, ,	0.1	LOCRIDE AMBIENTE S.p.A. Share capi	ital € 1.522.745, of which € 1.224.287 paid in	
Shareholder HERA S.p.A.	Investment in € 150.104	Stake 69,3%	HERA S.P.A. investment since 01/07/20		
ΠΕΝΑ 3.μ.Α.	130.104	09,3%	Head quarters: Via Santa Caterina n. 81 - 89	90/10 SIDERNO SI IPERIORE (RC)	
HERA RAVENNA S.r.I. Share capital € 85	60.000 fully paid-in HERA S.p.A. investment	since I 21/10/2002	Shareholder	Investment in €	Stake
Head quarters: Via Romea Nord n. 180/182 -	48100 RAVENNA		HERA S.p.A.	380.685	25%
Shareholder	Investment in €	Stake			
HERA S.p.A.	850.000	100%	MEDEA S.p.A. Share capital € 4.000.00	00 fully paid-in HERA S.P.A. investment since 0	1/07/2003
			Head quarters: Via Torres n. 4 - 07100 SAS	SSARI	
HERA RIMINI S.r.I. Share capital € 1.050	.000 fully paid-in HERA S.p.A. investment si	nce 21/10/2002	Shareholder	Investment in €	Stake
Head quarters: Strada Consolare per San Ma	rino n. 80 - 47900 RIMINI		HERA S.p.A.	4.000.000	100%
Shareholder	Investment in €	Stake	NUOVA GEOVIS S n A Share canital E	2.205.000 fully paid-in HERA S.P.A. investmen	t since 2001
HERA S.p.A.	1.050.000	100%		• •	1 311100 2001
HERASOCREM S.n.A. Share canital € 2.	218.368 fully paid-in HERA S.p.A. investmen	t since 10/07/2003	Head quarters: Via Romita n. 1 - 40019 SAN	· · ·	01-1
		10/01/2000	Shareholder	Investment in €	Stake
Head quarters: Viale C.B. Pichat n. 2/4 - 401. Shareholder	Investment in €	Stake	HERA S.p.A.	1.124.550	51%
HERA S.p.A.	1.131.368	51%	PENISOLAVERDE S.p.A. Share capital €	103.200 fully paid-in HERA S.P.A. investment sir	nce 01/11/2002
1 L. V. C.P.J. I.	1.101.000	0170	Head guarters: Corso Italia n. 236 - 80067	SORRENTO (NA)	
			Shareholder	Investment in €	Stake
HYDROLAZIO Soc. Cons. a r.l. Share capi	ital € 510.000 fully paid-in HERA S.p.A. investi	ment since 01/07/2003	HERA S.p.A.	49.536	48%
Head quarters: Via Don Minzoni n. 1 - 40127	BOLOGNA				
in	liquidation since 25/06/2003		RECUPERA S.r.I. Share capital € 413.2	00 fully paid-in HERA S.P.A. investment since	01/11/2002
Shareholder	Investment in €	Stake	Head quarters: Via Cesare Diana n. 40 - 44	044 CASSANA (FE)	
HERA S.p.A.	163.200	32%	Shareholder	Investment in €	Stake
IDEAMETROPOLI Centro Global Service	S.r.I. Can. Soc. € 21.045 fully paid-in		HERA S.p.A.	101.234	24,5%
HERA S.p.A. investment since 1988	G.i.i. Cap. 300. € 21.043 fully paid-in		AGEA S.p.A.	210.732	51%
•	404 07 DOLOONA		RIO D'ORZO S.r.I. Share capital € 115.	000 fully paid-in HERA S.P.A. investment since	1999
Head quarters: Viale Carlo Berti Pichat, 2/5 -					
	liquidation since 01/05/2003	Stake	Head quarters: Via S. Apollinare n. 1346 - 4 Shareholder	Investment in €	Stake
Shareholder	Investment in €				

ROMAGNA COMPOST S.r.l. Share capital € 310.000, versa	to per € 93.000	
Held by HERA S.p.A. since 01/11/2002		
Head quarters:: Via Cesare Spinelli n. 60 - 47023 CESENA (FC)		
Shareholder	Investment in €	Stake
HERA S.p.A.	186.000	60%
S.T.A. S.r.l. Share capital € 57.200 fully paid-in Held by HE	RA S.p.A. since 01/11/200)2
Head quarters: Via Cesare Razzaboni n. 80 - 41100 MODENA		
Shareholder	Investment in €	Stake
HERA S.p.A.	20.800	36,363%
AGEA S.p.A.	5.200	9,091%
SBI S.r.l. Share capital € 100.000 fully paid-in Held by HER	A S.p.A. since 2002	
Head quarters: Viale C.B. Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Investment in €	Stake
HERA S.p.A.	51.000	51%
UNIFLOTTE S.r.I. Share capital € 1.810.000 fully paid-in He	old by HFRA S.n.A. since	2001
Head quarters: Viale C.B. Pichat n. 2/4 - 40127 BOLOGNA	ay manta orpina onice i	
Shareholder	Investment in €	Stake
HERA S.p.A.	923.100	51,00%
·		
SEAS LAVORI E SERVIZI Soc. Cons. a r.l. Share capital € 5	* *	
HERA S.p.A., ARES S.p.A. Cons. e da MEDEA S.p.A. invest	inent since 1998	
Head quarters: Viale C.B. Pichat n. 2/4 - 40127 BOLOGNA Shareholder	Investment in €	Stake
HERA S.p.A.	3,060	6%
MEDA S.p.A.	26.520	52%
ARES S.p.A. Cons.	21.420	42%
SELECTA S.p.A. Share capital € 567.600 fully paid-in HERA	A S n A investment since	.01/11/2002
	4 S.p.A. IIIVestillellt sillce	01/11/2002
Head quarters: Via Raibano n. 32 - 47853 CORIANO (RN) Shareholder	Investment in €	Stake
HERA S.p.A.	567,600	100%
SERVICE IMOLA S.r.I. Share capital € 10.000 fully paid-in I		since 01/11/2002
Head quarters: Via Allende n. 25 - 40026 BORGO TOSSIGNANO	,	<u>.</u>
Shareholder LIEDA S D A	Investment in € 4.000	Stake 40%
HERA S.p.A.	4.000	40%
SGS S.r.I. Share capital € 52.000 versato per € 26.520 HEF	RA S.p.A. investment sinc	e 31/12/2002
Head quarters: Via Carlo Zavagli n. 118 - 47900 RIMINI		
Shareholder	Investment in €	Stake
HERA S.p.A.	21.320	41%
SINERGIA S.r.I. Share capital € 414.000 fully paid-in HERA	S.p.A. investment since	01/11/2002
Head quarters: Via Righi n. 1 - 47100 FORLI' (FC)		
Shareholder	Investment in €	Stake
HERA S.p.A.	211.140	51%
SINERGIE AMBIENTALI S.r.I. Share capital € 100.000 fully	naid_in HEDA C n A inve	etment since 01/07/2002
	paid-iii HENA 3.p.A. iiives	Stille III 3110e 01/01/2003
Head quarters: Via Don Minzoni n. 1 - 40121 BOLOGNA Shareholder	Investment in €	Stake
HERA S.p.A.	50.000	50%
·		
SIS-TER S.p.A. Share capital € 516.000 fully paid-in HERA	S.p.A. investment since (01/11/2002
Head quarters: Via Molino Rosso n. 8 - 40026 IMOLA (BO)		2
Shareholder HERA S.p.A.	Investment in € 477.300	Stake 92,5%
TIE IN O.P.A.	411.300	92,070
SOTRIS S.p.A. Share capital € 2.340.000 fully paid-in HER	A S.p.A. investment since	01/11/2002
Head quarters: S.S. 309 Romea Km. 2,6 n. 272 - 48100 RAVENN	IA .	
Shareholder	Investment in €	Stake

1.450.800

62%

HERA S.p.A.

TECHIMP S.r.l. Share capital € 127.500 fully paid-in HER.	A S.P.A. investment since 2001	
Head quarters: Viale Tagliapietre n. 8 - 40100 BOLOGNA		
Shareholder	Investment in €	Stake
HERA S.p.A.	16.575	13%
VIVISERVIZI S.r.I. Consortile Share capital € 451.500 of v	vhich € 142.725 paid in	
HERA S.P.A. investment since 2002		
Head quarters: Viale C.B. Pichat n. 2/4 - 40127 BOLOGNA		
Shareholder	Investment in €	Stake
HERA S.p.A.	216.720	48%
VELE 0 - 4 Oham and to 100 400 f. H. and d. t. HEDA 0	DA :	00
YELE S.p.A. Share capital € 103.400 fully paid-in HERA S	S.P.A. Investment since 01/11/20	02
Head quarters: Largo Calcinali n. 1 - 84078 VALLO DELLA LUCA	ANIA (SA)	
Shareholder	Investment in €	Stake
HERA S.p.A.	36.190	35%

COMPANIES UNDIRECTLY HELD BY HERA S.P.A.

Investment of HERA COMM S.r.l.:

ATTIVABOLOGNA S.r.I. Consortile Share capital € 2.558.6 HERA COMM investment since 29/09/2003	00 versato per € 808.725	
Head guarters: Viale C.B. Pichat n. 2/4 - 40127 BOLOGNA		
riedu quarters. Viale O.D. Fichat II. 2/4 - 4012/ BOLOGIVA		
Shareholder	Investment in €	Stake
HERA COMM S.r.I.	1.228.128	48%

Investment of AKRON S.p.A.:

DIRAMA S.r.l. Share capital € 99.000 fully paid-in i	nvestment since 1997	
Head quarters: Via S.S. Selice n. 12/A - 40027 MORDA	NO (BO)	
Shareholder	Investment in €	Stake
AKRON S.p.A.	99.000	100%
LINPHA S.r.I. Share capital € 90.000 fully paid-in A	KRON S.p.A. investment since 2002	
Head quarters: Via Garigliano n. 1 - 50053 EMPOLI		
Shareholder	Investment in €	Stake

Investment of ARES S.p.A. Consortile:

OIKOTHEN S.c.a r.l. Share capital € 80.000 fully paid-in Al	RES S.p.A. Consortile investme	nt since 2001
Head quarters: Via Augusta n. 17 - 96100 SIRACUSA		
Shareholder	Investment in €	Stake
AKRON S.p.A. Consortile	32.000	40%

ATTIVABOLOGNA

HYDROLAZIO

OIKOTHEN SCRL

Receiv.	v/Share	Fixed	Working	Accrual	_	Reserve	Profit	Provision	Leav.Ind.	Debts	Accruals	
	holders	Assets	Capital		Equity							
CGS TRASF.IDEAMETROPOLI		10	1.022		21	-1	-158			1.170		
HERA COMM SRL		1.966	610.469	4	88.592	94	290			523.125		
UNIFLOTTE SRL		4.013	7.235	46	1.810	1.889	-374	5	1.018	6.946		
HERA LUCE SRL		3.368	2.118	11	217	243	199		107	4.731		
FRULLO ENERGIA AMBIENTE		104.499	38.449	3	17.139	369	5.008	750	944	118.647	94	
FAMULA ON LINE SPA		8.989	9.566	82	516	6.088	178		496	11.359		
NUOVA GEOVIS SPA		10.449	3.291	16	2.205	144	658	37	275	6.641	3.796	
C.B.E. SRL												
SBI SRL		12	518		100	-24	13			441		
MEDEA SPA		10.469	4.348	22	4.000	-302	-1.377	1.153	32	11.332	1	
						-302					ı	
HERA BOLOGNA SRL		2.235	185.297	150	1.250		12.244	83	22.752	151.353		
HERA RIMINI SRL		1.450	63.968		1.050		2.827		9.534	52.007		
HERA RAVENNA SRL		1.399	137.718		850		7.790	234		121.721		
HERA FORLI'-CESENA		3.503	108.584	2	650	-1	3.307		6.900	101.233		
HERA IMOLA-FAENZA SRL		1.058	53.155		750	604	2.184	303	5.850	44.522		
SELECTA		207	1.613	17	568	155	176		61	877		
SOTRIS		3.742	6.120	90	2.340	345	806	4.562	25	1.865	9	
NTER-IMM SRL		508	74		10	41	3	_		528		
CALES SRL		13	487		11	20	-20			489		
SINERGIA SRL		2.003	1.872	12	414	939	347		11	2.168	8	
AMGA ENERGIA		2.003	11.866	16	1.332	939 57	6.416	100	46	5.905	140	
	017							100	40		140	
ROMAGNA COMPOST SRL	217	81	306	2	310	103	38		7.5	155		
AKRON		1.262	3.882	4	1.000	248	528		79	3.293		
SISTER												
NGENIA		31	407	6	52	46	14		2	329	1	
ARES SPA		113	1.578	1	770		-237			1.159		
EOS ENERGIA	1.820	450	997		2.600	368	60			239		
OIR SECCO		3.986	2.745	108	1.000	104	173		162	5.203	197	
BARICELLA AMBIENTE		555	614	14	258	705	86		.02	134		
HERA IMMOBILIARE		2	100		100	. 00	-20			22		
AMBIENTE 3000			91		100	-8	-20			8		
		FOE		0	2.218	-0		68				
HERASOCREM		505	1.904	3			9	08		117		
HERA CLION SRL		2	10		10		-7			9		
GALA SPA		10.967	3.001	30	100	13	34			13.789	62	
GEAT SERVICE		116	772		163	-30	2		148	605		
MMOBILIARE BERTI PICHAT		2	10		10		-2			4		
CONSORZIO ENERGIA SERVIZ		1	868		5			864				
DIRAMA		598	1.105	72	99	563	123		16	932	42	
SEAS		1	2.873		51	3				2.820		
ASA SPA		9.387	2.292	76	1.820	265	545	6.337	120	2.599	69	
RIO D'ORZO SRL			425	10	1.020	-37		0.007	120	527	0.9	
		161		00			-19	100	070		O.E.O.	
ACANTHO SPA		14.261	13.879	90	5.217	5.830	-10.804	162	278	27.197	350	
SINERGIE AMBIENTALI		1	84		100	-11	-8			4		
LOCRIDE AMBIENTE		881	2.613	79	1.523	100	2	383	101	1.464		
VIVISERVIZI	309	25	2.305	1	452	-5	-31			2.224		
ASPES		20.853	33.878	98	10.964	568	1.566	2.778	6.422	32.019	512	
RECUPERA		3.362	1.974	8	413	7	235	51	17	3.945	676	
STA												
SGS		36	759	13	52	3	-3	68	44	640	4	
AZIMUT		3	122	10	50	-23	20		7-7	78	*	
ADRIATICA ACQUE	85	141	559	3	209	-20	-92		10	654	7	
	93			3		0						
MOLA SERVICE		17	179		10	2	55		1	122	6	
AGESS		21	313	4	80	-15	1		9	263		
/ELE		125	2.552	30	103	309	128		52	2.115		
PENISOLA VERDE		371	1.174	15	103	39	23	66	141	1.128	60	
AMAV AMBIENTE		296	2.814	28	103	264	77	45	221	2.276	152	
LEUCOPETRA		529	4.967		351	460	156	115	921	3.514	46	
ENERGICA		1.380	35		200		-34			1.249		
TALEKO		1.000			200		0-7			1.240		
		21 610	1 771	4.4	14,000	6,000	707	1 007	070	10.004	05.4	
TALGESTIONI		31.618	4.771	44	14.000	6.039	727	1.207	272	13.834	354	
CONSORZIO FRULLO												
AGEA SPA		148.529	32.660	836	12.756	72.671	1.086	4.870	7.989	79.549	3.104	
CONSORZIO RIZZOLI ENERGIA		200	130		10					320		
ATTIVAROLOGNA	1.750	84	4.052		2.559	-60	-180		45	3.523		

1.750 84 4.052 1 2.559 -60 -180

510 4 -28

80 12 -25

64

938

550

668 337

	Revenues	Oper. Costs	(Exp.)	to finan. Assets	Inc./ (Exp.) Extraordinary	Tax	Ne
			Illianciai	Addeta	Extraordinary		
CGS TRASF, IDEAMETROPOLI	662	-816	4		-7	-158	
HERA COMM SRL	635.110	-635.045	176		442	-393	29
UNIFLOTTE SRL	14.429	-14.541	-463		303	-101	-37
HERA LUCE SRL	4.368	-3.982	-12		000	-175	19
FRULLO ENERGIA AMBIENTE			-2.273		8		
	17.763	-12.421				1.931	5.00
FAMULA ON LINE SPA	11.506	-10.961	14		-381		17
NUOVA GEOVIS SPA	7.707	-7.325	-156		491	-59	65
C.B.E. SRL							
SBI SRL	632	-627	12		9	-13	1
MEDEA SPA	727	-1.866	-188		-50		-1.37
HERA BOLOGNA SRL	201.523	-179.359	214			-10.134	12.24
HERA RIMINI SRL	76.035	-70.362	-129		-37	-2,680	2.82
HERA RAVENNA SRL	99.024	-85.604	76		-60	-5.646	7.79
HERA FORLI'-CESENA							
	69.505	-63.478	76		12	-2.808	3.30
HERA IMOLA-FAENZA SRL	69.542	-65.387	136		-1	-2.106	2.18
SELECTA	3.067	-2.734	1		-24	-134	17
SOTRIS	5.825	-4.574	30		69	-544	80
INTER-IMM SRL	146	-127	-14			-2	
CALES SRL	3.965	-3.984	-1				-2
SINERGIA SRL	5.000	-4.289	-100			-264	34
AMGA ENERGIA	8.573		-192		7 067	-1.800	6.41
		-7.532			7.367		
ROMAGNA COMPOST SRL	345	-283	2			-26	3
AKRON	9.823	-8.884	53		-62	-402	52
SISTER							
INGENIA	507	-489			-4		1
ARES SPA	134	-338	-3	-12	-18		-23
EOS ENERGIA	89	-103	74				6
CIR SECCO	7.336	-6.873	-114			-176	17
BARICELLA AMBIENTE	1.287	-1.151	-52		35	-33	8
-	1.207		-02		30	-33	
HERA IMMOBILIARE		-20					-2
AMBIENTE 3000		-10	1				
HERASOCREM	135	-123	5			-8	
HERA CLION SRL		-7					
GALA SPA	2.296	-1.796	-442		-1	-23	3
GEAT SERVICE	1.559	-1.522				-35	
IMMOBILIARE BERTI PICHAT		-2					
CONSORZIO ENERGIA SERVIZ	28	-29	1				
					47	0.0	4.0
DIRAMA	3.349	-3.106	-13		-17	-90	12
SEAS	776	-775	1		-1	-1	
ASA SPA	4.272	-3.348	11		-27	-363	54
RIO D'ORZO SRL		-19					-1
ACANTHO SPA	8.484	-18.629	-527		-132		-10.80
SINERGIE AMBIENTALI	551	-9	1		.02		10.00
LOCRIDE AMBIENTE	2.984	-2.964	6		15	-39	
					13	-39	
VIVISERVIZI	3.102	-3.137	4			0.0==	
ASPES	54.380	-49.689	223	-711	-37	-2.600	1.56
RECUPERA	5.365	-4.855	-50		-17	-208	20
STA							
SGS	1.028	-972	-30		3	-32	
AZIMUT	85	-67			5	-3	(
ADRIATICA ACQUE	469	-523	-30		-5	-3	-(
			-30		-:)		
IMOLA SERVICE	411	-310				-46	Ę
AGESS	596	-588			-1	-6	
YELE	4.248	-4.084			53	-89	12
PENISOLA VERDE	3.472	-3.328	-13			-108	(
AMAV AMBIENTE	3.902	-3.634	-2		-12	-177	-
LEUCOPETRA	10.325	-9.686	-19		27	-491	15
ENERGICA	. 5.520	-34					-3
ITALEKO		04					-(
		F 000	000		^=	005	
ITALGESTIONI	6.624	-5.339	-266		-27	-265	72
CONSORZIO FRULLO							
AGEA SPA	63.562	-61.095	-490	-491	223	-623	1.08
CONSORZIO RIZZOLI ENERGIA	373	-296	-74		2	-5	
ATTIVABOLOGNA	1.022	-1.212	13		4	-7	18
	1.022				4	- 1	-2
HYDROLAZIO OIKOTHEN		-27 -19	-1 -6				-2

Il presente bilancio consolidato, composto da Stato patrimoniale e finanziaria nonché il risultato economi-Patrimoniale, Conto Economico e Nota integrativa, co dell'esercizio del gruppo. rappresenta in modo veritiero e corretto la situazione

Il Consiglio di Amministrazione

Consolidated cash flow

The consolidated cash flow is presented so as to show the most significant changes. The format of the cash flow statement utilized is that as recommended by the Accounting Principles issued by the Italian Accounting Profession (Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri).

		Dec. 31, 2003		Dec. 31, 2002
ASH FLOW GENERATED FROM ORDINARY ACTIVITIES:				
ACTITION GENERALD THOM CHUNKANT ACTIVITIES.				
Result for the period		49.454		33.156
Adjustment relating to items not affecting liquidity :				
Amortisation & depreciation	95.518		82.454	
Employee leaving indemnity mature in the year	9.922		47.110	
Employee leaving indemnity paid in year	-15.759		-6.342	
Provision (utilisation) provision for contingencies and charges	25.883	165.018	438	156.816
Changes in current assets and liabilities:				
rade receivables	-75.342		-384.549	
Receivables from parent, subsidiary and associated companies	-4.490			
Other receivables	53.302		-8.249	
nventory	-9.164		-24.646	
Prepayments and accrued income	589		-18.654	
rade payables	71.093		176.745	
Advances	2.724			
Payables to parent, subsidiary and associated companies	3.457			
Other payables	-15.173		35.252	
Accruals and deferred income	-1.349		22.274	
ax authorities	-28.087	-2.440	69.989	-8.178
ash flow generated from operating activities		162.578		24.978
Cash flow generated from operating activities		162.578		24.978
ash flow generated from operating activities		162.578		24.978
Cash flow generated from operating activities CASH FLOW GENERATED FROM INVESTMENT ACTIVITY:		162.578		24.978
		162.578		24.978
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY:	1.371	162.578	2.473	24.978
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY:	1.371 -194.266	162.578	2.473 -446.126	24.978
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY:		162.578		24.978
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets	-194.266	-293.704	-446.126	-668.835
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets increases in intangible assets increase) decrease in ' investments'	-194.266 -15.515		-446.126 -193.919	
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets in intangible assets	-194.266 -15.515		-446.126 -193.919	
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets increases in intangible assets increase) decrease in ' investments'	-194.266 -15.515		-446.126 -193.919	
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets in intangible assets increases in intangible assets increase) decrease in ' investments' CASH FLOW FROM FINANCIAL ACTIVITIES:	-194.266 -15.515 -85.294		-446.126 -193.919 -31.263	
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets increases in intangible assets increase) decrease in 'investments' CASH FLOW FROM FINANCIAL ACTIVITIES: net increase (decrease) medium/long term loans	-194.266 -15.515 -85.294		-446.126 -193.919 -31.263	
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets increases in intangible assets increase) decrease in 'investments' CASH FLOW FROM FINANCIAL ACTIVITIES: net increase (decrease) medium/long term loans increase in share capital	-194.266 -15.515 -85.294 148.074 7.296		-446.126 -193.919 -31.263	
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets increases in intangible assets increase) decrease in 'investments' CASH FLOW FROM FINANCIAL ACTIVITIES: net increase (decrease) medium/long term loans increase in share capital Other movements	-194.266 -15.515 -85.294 148.074 7.296 -27.983		-446.126 -193.919 -31.263 239.452 404.454	
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets increases in intangible assets increase) decrease in 'investments' CASH FLOW FROM FINANCIAL ACTIVITIES: net increase (decrease) medium/long term loans increase in share capital Other movements	-194.266 -15.515 -85.294 148.074 7.296 -27.983	-293.704	-446.126 -193.919 -31.263 239.452 404.454	-668.835
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets increases in intangible assets increase) decrease in 'investments' CASH FLOW FROM FINANCIAL ACTIVITIES: net increase (decrease) medium/long term loans increase in share capital Other movements	-194.266 -15.515 -85.294 148.074 7.296 -27.983	-293.704	-446.126 -193.919 -31.263 239.452 404.454	-668.835
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets in intangible assets increase in intangible assets increase) decrease in ' investments' CASH FLOW FROM FINANCIAL ACTIVITIES: net increase (decrease) medium/long term loans increase in share capital Other movements Dividends distributed	-194.266 -15.515 -85.294 148.074 7.296 -27.983	-293.704 99.859	-446.126 -193.919 -31.263 239.452 404.454	-668.835 623.959
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets in intangible assets increase in intangible assets increase) decrease in ' investments' CASH FLOW FROM FINANCIAL ACTIVITIES: net increase (decrease) medium/long term loans increase in share capital Other movements Dividends distributed	-194.266 -15.515 -85.294 148.074 7.296 -27.983	-293.704 99.859	-446.126 -193.919 -31.263 239.452 404.454	-668.835 623.959
CASH FLOW GENERATED FROM INVESTMENT ACTIVITY: Net book value of assets disposed of Purchases of tangible assets in intangible assets increases in intangible assets increase) decrease in 'investments' CASH FLOW FROM FINANCIAL ACTIVITIES: Det increase (decrease) medium/long term loans increase in share capital other movements Dividends distributed NCREASE (DECREASE) IN CASH AND BANK	-194.266 -15.515 -85.294 148.074 7.296 -27.983	-293.704 99.859 -31.267	-446.126 -193.919 -31.263 239.452 404.454	-668.835 623.959 -19.898



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AUDITOR'S REPORT PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of HERA S.p.A.

We have audited the consolidated financial statements of Hera S.p.A. and subsidiaries (the Hera Group) as of December 31, 2003. 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.

We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those 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 certain subsidiaries and associated companies, which represent approximately 8% of total consolidated assets and approximately 2% of total consolidated revenues, is of other auditors

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 Deloitte & Touche S.p.A. (now DT S.p.A.) on April 14, 2003.

Indipendent Auditor's Report

In our opinion, the consolidated financial statements present fairly the financial position of Hera Group as of December 31, 2003, and the results of its operations for the year then ended in accordance with the Italian law governing financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by Antonio Cocco Partner

Bologna, Italy April 9, 2004

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

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Verona

Sede Legale: Via Tortona, 25 – 20144 Milano
Capitale Sociale: sottoscritto e versato Euro 10.327.940,00 – deliberato Euro 10.850.000,00
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 – R.E.A. Milano n. 1720239

