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## Remuneration Report

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## EXECUTIVE SUMMARY

### I. Aims, principles and governance of the Hera Group compensation policy

#### Aims and Principles

The remuneration policy adopted by Hera represents an indispensable instrument for supporting the Group's medium- and long-term strategies, conceived as a factor that contributes to improving corporate performance and the creation of value in the medium to long-term. In fact, the incentive capacity of the systems is ensured in accordance with the strategic objectives of the Group.

The company defines and applies a general policy on remuneration designed to attract, motivate and retain resources which possess the professional qualities needed to effectively pursue the Group's objectives.

The Policy is defined in such a way as to align the interests of management with those of shareholders, with the main goal being the creation of sustainable value in the medium to long-term, through the consolidation of the link between reward and performance, both of individuals and the Group.

The guiding principles adopted for defining the remuneration policy for the top management are:

- calibrating remuneration to performance in a long-term perspective;
- constantly referencing the external market, for the reference sector as well, in order to check the consistency of the company's remuneration scheme, with the dual purpose of retaining directors and keeping costs down;
- focusing on internal consistency between the level of remuneration offered and the complexity of the role performed;
- using and constantly updating the methodology for evaluating offices, with the objective of guaranteeing standardised remuneration comparisons and analyses that are consistent with the development of the Group's organisational framework over time.

The Group's remuneration policies are defined in order to guarantee the following aims:

- Increasing value for shareholders
- Achieving sustainable and stable results in the short and medium-long terms
- Retaining employees who hold positions that are strategic for governance and the business
- Promoting the corporate mission and values, also in terms of sustainability

#### Governance

The Hera Group has set up a governance process that involves both corporate bodies and part of the company management to regulate the activities of defining, implementing and managing remuneration policies.

## II. Remuneration components

The structure of the remuneration package envisaged for the various offices is defined with a view to balancing the fixed and variable components, taking the specific risk profile of the company into account, and the desire to maintain a close alignment between the level of company and individual performance and remuneration by effectively incentivising commitment, professional growth and the adoption of behaviours deemed functional for achieving the Group's corporate objectives. The total remuneration contains a balanced mix of fixed and variable components, with a focus on identifying the metrics deemed most effective to reflect the Group's long-term prospects.

The fundamental components of remuneration for Hera Group managers are:

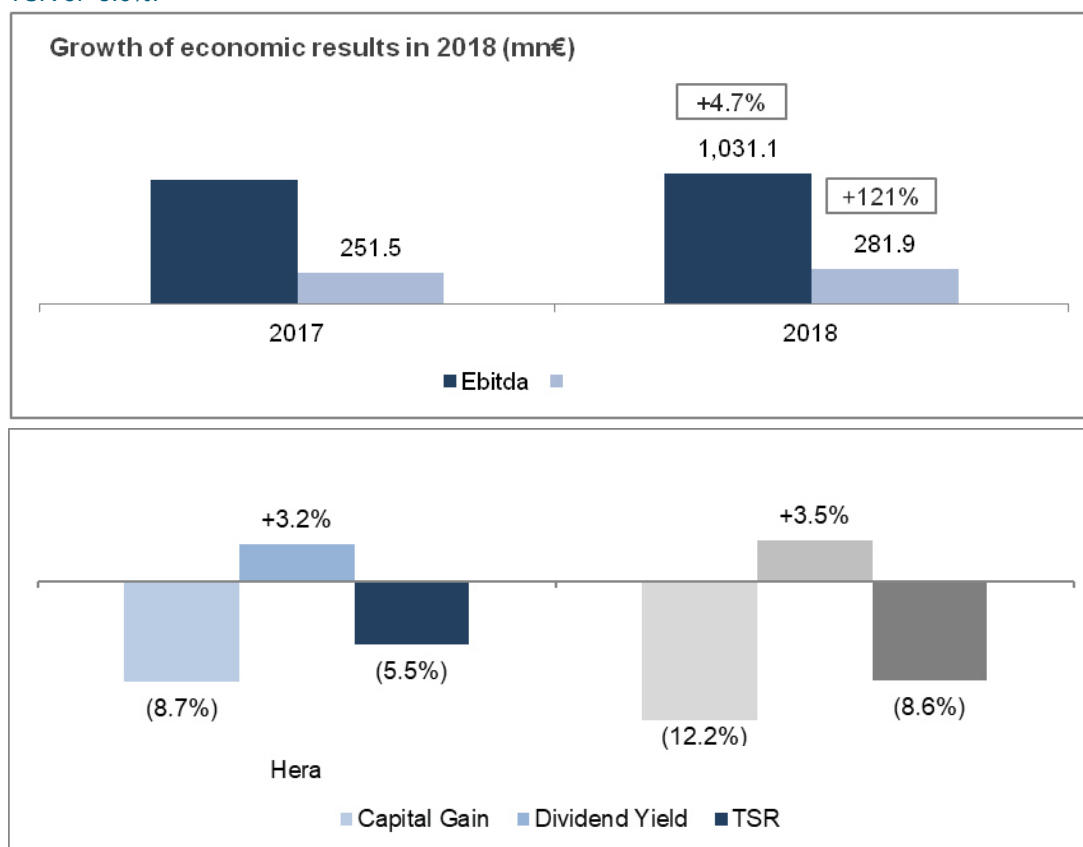
Component	Aims and characteristics	Implementation

### III. Pay for performance

Operating performance showed an increase in economic results, with the Gross Operating Margin increasing by + 4.7% and Net Profit by + 12.1%.

During 2018, the delicacy of the macroeconomic situation at the global level negatively affected the various forms of investment, and these latter gave negative returns on average.

In this context, Hera shares achieved a total shareholders' return (TSR) of -5.5%, higher than the average performance reported in the same period by local utilities (peers), which instead reported a TSR of -8.6%.



### IV. Results of the shareholders' meeting vote on the remuneration report and shareholders' engagement activities

The shareholders' meeting of April 26<sup>th</sup> 2018 voted in favor of the section before the remuneration report, pursuant to Article 123-ter, paragraph 6, TUF, with a percentage of favorable votes equal to 78.72% of the shares with voting rights.

During 2018, relations were maintained with over 316 investors at the time of the presentation of the Business Plan to 2021 and through participation in conferences, as well as through relations with some investors who requested a more in-depth dialogue on specific issues of remuneration policies.

The feedback analysis of the main Proxy Advisors helped in understanding opportunities for evolution and improvement and in guiding the work of preparing whatever changes or clarifications were required. Hera constantly monitors the analyses performed on the Group by financial analysts and Proxy Advisors in order to grasp changes in the concerns of stakeholders and the evolution of best practices, as well as to promote continuous improvement in the satisfaction of investor requests.



The Chairman of the Group was directly involved in the aforementioned reports and dialogues; he promoted and supervised the in-depth work, analysis, and maintenance of a continuous and constructive exchange of information and ideas.

## Introduction

This document was drafted in compliance with the regulations of Article 6 of the Code of Self Discipline for listed companies issued by Borsa Italiana Spa, as well as with Article 11 of Legislative Decree no. 123-ter of Legislative Decree 58/1998 (Testo Unico della Finanza, TUF), which requires listed companies to make available to the public a Remuneration Report prepared on the basis of the regulations laid out in article 84-quater and Annex 3A, Schedule 7-bis of the Regulation implementing the TUF adopted by Consob through resolution no. 11971 of May 14<sup>th</sup> 1999 (the "Issuer's Regulation"). This report also provides evidence of the investments held by the members of the Board of Directors, the members of the Board of Statutory Auditors, the General Managers or spouses not legally separated and the minor children of such persons.

This report, approved by the Board of Directors on the proposal of the Remuneration Committee on March 27<sup>th</sup> 2019, defines and illustrates:

- in section I, the policy Hera has adopted for the remuneration of top management, Directors and the General Manager of Operations, specifying the general aims pursued, the bodies involved and the procedures adopted for defining and implementing the policy;
- in section II, the compensation nominally paid in the 2018 financial year to the members of the administrative and control bodies and to the General Manager of Operations.

To make this report easier to understand and facilitate the process of reading it, a brief glossary is provided below with some of the most frequently-used terms:

BSC (Balanced scorecard)	
Group	
Deferred monetary incentive plan for management retention	
RAL (Gross annual salary)	
RDA (Direct annual remuneration)	
RGA (Total annual remuneration)	
Target RGA	
Company top management	

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# Section I: Remuneration policy

## 1 Introduction

Section I of this report outlines the principles and basic characteristics of the remuneration policy as applied to the top figures of the Hera Group, a category which includes the Operations General Director.

The fundamental principle which underpins the Group's culture and directs its choices is its commitment to combining economic and social value with the ultimate goal of satisfying the legitimate expectations of all stakeholders. Hera seeks to be a business that withstands the test of time and to improve society and the environment for future generations to come.

The sense of responsibility that is the hallmark of its corporate culture and mission translates into an approach to remuneration that is similarly responsible. The remuneration policy was conceived as a factor that contributes to improving corporate performance and the creation of value in the medium to long-term.

With a view to responsible reward and in keeping with the recommendations contained in Article 6 of the Borsa Italian SpA Code of Conduct, the Board of Directors, with the support of the Remuneration Committee, has therefore defined the remuneration policy for 2018

Pursuant to paragraph 6 of article 123-ter of the TUF, the meeting is called on to decide on this Section I of the Remuneration Report.

## 2 Scope of application

In compliance with the provisions of Annex 3A for the implementation of the TUF adopted by Consob through Resolution no. 11971 of May 14<sup>th</sup> 1999 ("Issuers' Regulation"), the remuneration policy described in this document applies to the members of the administrative bodies and to the General Manager of Operations.

The table below lists the members, currently in office, of the Board of Directors and the Board of Statutory Auditors of Hera S.p.A., appointed at the Shareholders' Meeting of April 27<sup>th</sup> 2018, as well as the General Manager of Operations.



BOARD OF DIRECTORS	
Name, surname	Position held
Tomaso Tommasi di Vignano	Chairman
Stefano Venier	Chief Executive Officer
Giovanni Basile	Vice Chairman (independent)
Francesca Fiore	Director (independent)
Giorgia Gagliardi	Director (independent)
Massimo Giusti	Director (independent)
Sara Lorenzon	Director (independent)
Stefano Manara	Director (independent)
Danilo Manfredi	Director (independent)
Alessandro Melcame	Director (independent)
Erwin P.W. Rauhe	Director (independent)
Duccio Regoli	Director (independent)
Federica Seganti	Director (independent)
Marina Vignola	Director (independent)
Giovanni Xilo	Director (independent)
BOARD OF STATUTORY AUDITORS	
Name, surname	Position held
Myriam Amato	Chairman
Antonio Gaiani	Standing auditor
Marianna Girolomini	Standing auditor
Stefano Gnocchi	Alternate auditor
Valeria Bortolotti	Alternate auditor
EXECUTIVES WITH STRATEGIC ROLES	
Name, surname	Position held
Roberto Barilli	Hera S.p.A. General Manager of Operations

### 3 Governance Model

#### 3.01 Remuneration policy definition and approval process

The bodies and subjects involved in the preparation and approval of the Hera S.p.A. remuneration policy report, as well as the bodies or individuals responsible for the correct implementation of this policy, are summarized below:

Shareholders' Meeting;	Non-binding resolution concerning Section I of the remuneration report.
Board of Directors	Defines, examines and approves the remuneration policy for the directors and executives of the Group, following a proposal from the Remuneration Committee.
Remuneration Committee	Formulates proposals to the Board of Directors for the remuneration of the Chairman, Vice Chairman, CEO and the General Manager of Operations, as well as regarding the adoption of general remuneration criteria for managers.
Chairman	Proposes the policies for Group executives to the Remuneration Committee.
Personnel and Organization Central Director;	Supports the Remuneration Committee, in particular regarding technical aspects. Oversees the correct implementation of the remuneration policy.

#### 3.02 Role, composition and responsibilities of the Remuneration Committee

The Remuneration Committee has the task of formulating proposals to the Board of Directors for the remuneration of the Chairman, Vice Chairman, CEO and the General Manager, as well as based on the suggestions put forward by the CEO, for the adoption of general remuneration criteria for managers.

The Committee also regularly evaluates the adequateness, overall consistency and concrete application of the general policy adopted for the remuneration of Executive Directors and the General Manager of Operations.

In carrying out its duties, the Remuneration Committee can access the necessary information and company functions for performing its tasks.

This Committee, initially set up at the meeting of the Board of Directors on November 4<sup>th</sup> 2002 and most recently renewed, in its latest format, on April 10<sup>th</sup> 2017, comprises the following non-executive, independent directors: Giovanni Basile acting as Chairman, Francesca Fiore, Massimo Giusti e Stefano Manara. Note that Chairman Giovanni Basile, as well as member Massimo Giusti, has experience in accounting and finance, deemed suitable by the Board of Directors at the time of appointment.

The Remuneration Committee met 4 times in 2018, and all the members took part in 3 of these meetings, while almost all of them took part in the remaining one.

Giovanni Basile (Chairman)	Majority list	4/4 meetings	4 meetings in 2018
Francesca Fiore	Minority list	4/4 meetings	
Massimo Giusti	Minority list	4/4 meetings	Average length of meetings: 1 hour and 30 minutes.
Stefano Manara	Majority list	3/4 meetings	

The committee is composed entirely of non-executive, independent members.

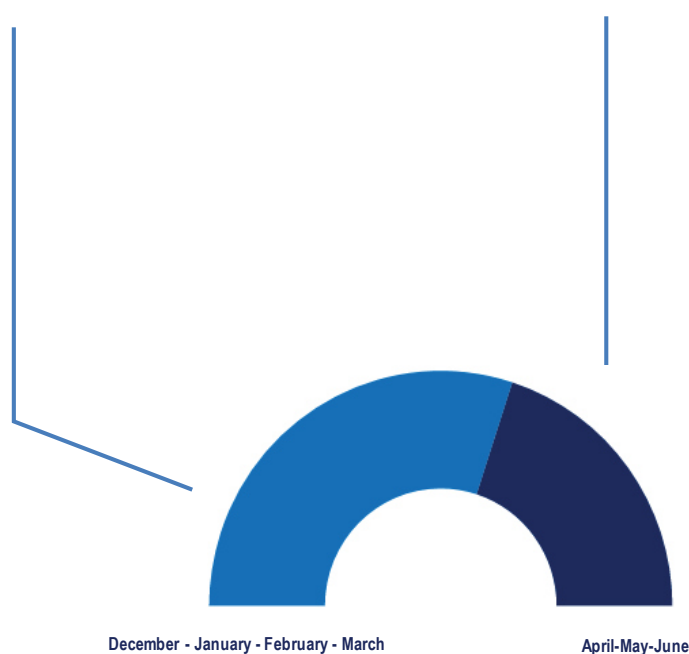
Upon the express invitation of the Chairman of the Remuneration Committee, the Chairman and the Chief Executive Officer participated in the work of the Committee, with the exception of the work involved in determining their own remuneration.

All were attended by the Hera S.p.A. Personnel and Organization Central Director, while 3 meetings were attended by the Hera S.p.A. General Manager of Corporate Social Responsibility.

The meetings of the Remuneration Committee, all regularly recorded in the minutes, lasted, on average, one hour and thirty minutes.

### 3.02.01 Remuneration Committee cycle of activity

The activities of the Committee are carried out according to an annual schedule that includes the following phases:



### 3.02.02 Activities carried out and planned

During the meetings held in the 2018 financial year, all regularly recorded in the minutes, the following subjects were discussed:

- 2018 BSC for Group Directors, Executives and Managers;
- remuneration report for the 2017 financial year;
- the Hera group remuneration policy;
- 2017 final balance - variable component - company objectives;
- 2017-2018 Welfare plan;
- final balance of 2017 variable remuneration for company top management;
- 2018 remuneration policies - managers and executives (RAL, RGA, RDA);
- long-term incentive plan for Hera Group management - 2018 activities;
- remuneration of the General Manager of Operations;
- 2019 BSC system for Group Directors, Executives and Managers;
- welfare plan for directors;
- executive management retention.

In addition, the Committee reported on the work carried out by the Boards of Directors.

## 4 Hera group remuneration policy

### 4.01 Aims and Fundamental Principles

The company defines and applies a General Policy on Remuneration designed to attract, motivate and retain resources which possess the professional qualities needed to effectively pursue the Group's objectives.

The Policy is defined in such a way as to align the interests of management with those of shareholders, with the main goal being the creation of sustainable value in the medium to long-term, through the consolidation of the link between reward and performance, both of individuals and the Group.

The guiding principles adopted for defining the remuneration policy for the top management are:

- focusing on internal consistency between the level of remuneration offered and the complexity of the role performed;
- using and constantly updating the methodology for evaluating offices and the relative weight of each office, with the objective of guaranteeing standardized remuneration comparisons and analyses that are consistent with the development of the Group's organizational framework over time.
- constantly referencing the external market, for the reference sector as well, in order to check the consistency of the company's remuneration scheme, and its capacity to both attract talent and retain directors;

### 4.02 Correlation between remuneration, risk profile and company performance

The Hera Group has defined an integrated risk management and internal control system in relation to the financial information process pursuant to the provisions of Article 123-bis, paragraph 2, letter b) of the TUF.

This system is aimed at identifying, evaluating, managing and monitoring the main risks that could compromise the achievement of the objectives of dependability, accuracy, reliability and timeliness of financial information. The Hera System takes its inspiration from the internationally recognised CoSO Framework reference model, for the analysis, implementation and evaluation of the risk management and internal control system.

In relation to the industry to which it belongs, the risk profile of the Hera Group occupies an intermediate position, between operators that concentrate more on regulated activities and operators involved in the more risky free market business operations. Overall, the risk profile is very conservative.

The remuneration currently offered is aimed at preventing management from behaving in a way that would expose the company to excessive risks or the non-sustainability of the Group's results in the medium to long-term.

Precisely in order to stress that it is coherent with the risk profile, the current remuneration policy involves a (variable remuneration) annual incentive plan based on a multi-faceted BSC system, with the objective of balancing the various perspectives of company stakeholders (reference shareholders, the market, institutional investors, customers, employees, the local area, etc.) with regard to the creation of value, sustainable performance and dividend development and policy.

In relation to the consistent growth of the Group in terms of business results, company and local area dimensions and the investment made over the years to ensure that valuable human resources are covering roles which are key for the development and sustainability of the corporate strategy, a deferred monetary incentive plan was developed for management retention that represents the most suitable retention tool consistent with the distinctive characteristics of the Group.

The performance targets based on which the variable remuneration components are assigned are put to the Board of Directors by the Remuneration Committee. In the proposal, the Committee differentiates between economic/financial indicators and sustainability indicators, and provides details concerning the relationship between variation in results and variation in remuneration, with the clear aim of bringing remuneration into line with individual and company-level performance.

#### 4.03 Group leadership model

With the aim of further strengthening the link between remuneration, performance and management behaviour, the Group's leadership model is considered as a landmark example in the context of remuneration policies.

In view of a re-reading of the competitive context and the new challenges the Group is called on to engage with, during 2016 the model was revised and updated through a participatory method that involved all management in identifying the new, key competences. This process also included a wide-ranging market benchmark and careful analysis of strategic challenges.

The new model is based on four dimensions: I/we, today/tomorrow and involves four areas of expected results (each characterized by two distinctive competences): giving shape to results (energy and decision; realization), constructing common ground (cooperation; influence), adding value (excellence and simplification; managing complexity), and building the future (innovation; valorizing people).

The model stands out by virtue of its exemplary style and agility as an approach. Each competence has been broken down in terms of distinctive behaviours for all the individual positions (directors, managers, middle managers, supervising employees and employees) on the basis of a scale from 1 to 5, ensuring that the model represents the behavioural reference point for the entire population involved.

Since 2017, the new leadership model has replaced the previous one in all the human resource management processes, including the process of performance management.

The assessment of the behaviours outlined by the leadership model is therefore an integral part of the remuneration policy for the Group's executives and also represents a part of the short-term individual objectives included in the BSC.

## 5 Balancing compensation and remuneration elements

The structure of the remuneration package envisaged for the various offices is defined with a view to balancing the fixed and variable monetary and non-monetary components, taking the specific risk profile of the company into account.

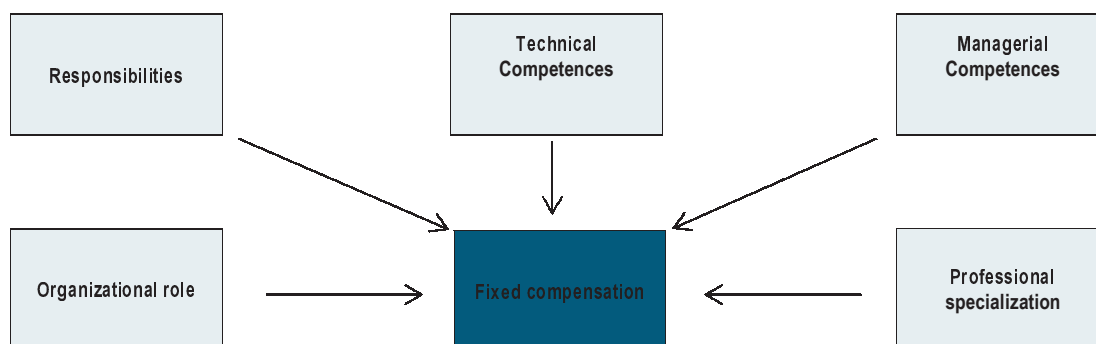
The fundamental components of remuneration for Hera Group executives are:

- fixed compensation;
- short-term variable compensation;
- deferred variable compensation for retaining managers;
- non-monetary benefits

### 5.01 Fixed compensation

The fixed component of compensation is usually determined by the professional specialization and the organizational role along with related responsibilities. It is therefore a reflection of technical, professional and managerial skills.

The levels of the fixed component of remuneration are established with respect to the specific nature of the company and its risk profile, so as to guarantee the ability to attract and retain talent with the professionalism the Group requires.



For each executive, the reference salary level is determined on the basis of the weight of the organizational position held, on the basis of which a benchmarking comparison is carried out in relation to selected external markets. The benchmarking, carried out by an external company, takes into consideration a total of 232 companies, 35% of which are Italian and 65% foreign. 14.6% of the companies have more than 5,000 employees.

These benchmarks are drawn from specialized, sector companies that carry out remuneration surveys, surveys in which the Group participates. On the whole, the remuneration level chosen as a reference point is in the medium band for the market (first quartile/median). These market references, combined with an evaluation of performance and managerial ability, form the basis of individual compensation reviews.

## 5.02 Short-term variable compensation - The BSC system

### 5.02.01 Recipients

The scope of the BSC system extends to include all Hera S.p.A. and Group subsidiary company Directors and Executives. The scope includes 46 Directors and 106 Executives. A similarly arranged evaluation form is also envisaged for the Chairman and the CEO. The short-term variable remuneration envisaged by the BSC system involves an amount expressed as a percentage of the fixed gross annual salary (RAL), divided by category of recipient:

- |                                  |     |
|----------------------------------|-----|
| ▪ Chairman and CEO of the RAL    | 40% |
| ▪ Directors of the RAL           | 25% |
| ▪ A-class executives: of the RAL | 22% |
| ▪ B-class executives: of the RAL | 17% |

Executives are expected to have a maximum of two separate variable remuneration levels, based on the weight of the manager within the organization and the strategic value of the executive's duties.

### 5.02.02 Incentive and objective definition process

The short-term incentive system involves assigning an individual BSC for each of the recipients. Each BSC includes a series of objectives belonging to three evaluation areas:

- objective-oriented projects, defined according to the Group's Strategic Map, including projects aimed at enhancing the Corporate Social Responsibility profile;



- economic objectives of the individual budget units, evaluated through economic-financial type indicators;
- evaluation based on the extent of adoption of the nine types of behaviour set out in the leadership model adopted by the Group.

Each area is divided into a series of pre-set objectives, each with a specific performance indicator. The relative weight of each area under the scope of the individual BSC is different for Directors and Executives, and corresponds to the total of the weight of the individual objectives belonging to the same area.

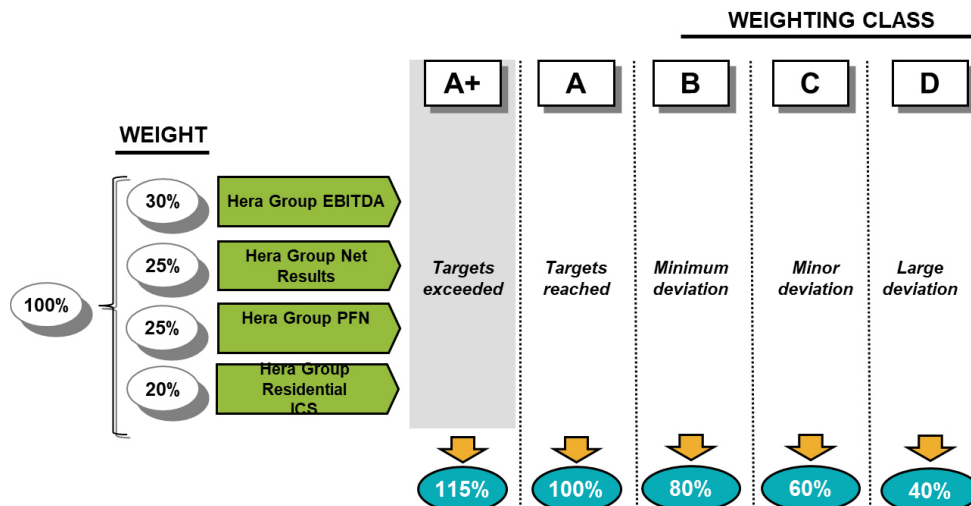
### 5.02.03 Performance measurement

The Committee defines a target at the beginning of each reference period and for each objective. The amount of the bonus to be paid to each recipient is determined according to whether the set targets are actually reached (result) and the specific weight of the individual objective.

The result of the evaluation carried out using the aforementioned individual BSC system is weighted through a company results profile, which takes into account the performance recorded by the Group with reference, for 2018, to four parameters:

- EBITDA
- Net Profit
- Net Financial Position (PFN)
- Customer Satisfaction Index (ICS)

On the basis of the performance profile achieved by the company on these four parameters, the weighting percentage to be applied to the individual individual results is defined in a range from 115% of the bonus (in the event of performance beyond that set out in the established company targets) and 40% of the bonus (in the event that performance is significantly below set company targets) according to the following scheme:



Each parameter is evaluated separately. The weighting percentage is determined by calculating the weighted average of the percentage values that come from the results of each individual indicator. All the indicators in class D cause the weighting percentage to be reduced to zero.

The maximum variable, short-term bonus, expressed in percentage terms of fixed gross annual salary, varies according to the results of the incentive system and the office held by the recipient, specifically:

- For the Executive Chairman and Chief Executive Officer: a maximum variable remuneration of 46% of the total fixed gross remuneration [(46%) = maximum individual variable (40%) x maximum company weighting (115%)];
- For directors: a maximum variable remuneration of 28.8% of the total fixed gross remuneration [(28.8%) = maximum individual variable (25%) x maximum company weighting (115%)];
- For executives: there are two distinct levels of maximum variable remuneration based on the weight of the executive within the organization and the strategic importance of the executive's tasks, equal to 25.3%, respectively [(25.3) = maximum individual variable (22%) x maximum company weighting (115%)] of the total fixed gross remuneration and 19.6% [(19.6%) = maximum individual variable (17%) x maximum company weighting (115%)] and of the total fixed gross remuneration.

The following table shows a summary of the maximum variable compensation for the various categories of recipients (in the event of maximum individual performance and outperformance of all corporate targets):

Chairman and Chief Executive Officer	115%	40%	46%
Directors	115%	25%	28.8%
A-class executives:	115%	22%	25.3%
B-class executives:	115%	17%	19.6%

The BSC system entails a series of quali-quantitative assessments for the Directors/Executives listed below:

1. a quarterly assessment that is also shared in the management review (Management Committee);
2. the most important strategic projects are evaluated in terms of the progress made, the obstacles that might cause a possible slowdown of the project and what might be done to resolve them;
3. any instances of outperformance are taken into consideration during the revised budget;
4. the assessment of projects is quali-quantitative
5. the evaluation of behaviors in keeping with the model takes place with the recipient's superior, who specifically assesses the executive's behavior according to the 8 dimensions identified by the leadership model:
  - a. Energy and decision
  - b. Realization
  - c. Cooperation
  - d. Influence
  - e. Excellence and simplification
  - f. Complexity management
  - g. Innovation
  - h. Valorization of people

This assessment system (described in section 4.3) encourages management not only to achieve the individual targets set, but also to implement behaviors that give rise to intangible value inside and outside the organization, important for granting greater strength and concreteness to the company's values in the daily work of all employees.

The table below illustrates the mechanism for measuring the bonus of a director:

	Annual gross salary (EUR)	100,000	100,000
	Target bonus (100% RAL)	25%	25%
	Target bonus (EUR) = A x B	25,000	25,000
	Individual objectives achieved (%)	100%	100%
	Company performance weighting coefficient (%)	115%	100%

With regard to transactions of strategic importance of an exceptional nature, with significant effects on the results of the company, the Board of Directors, following the proposal of the Remuneration Committee, can award discretionary bonuses to executive directors and management with strategic responsibilities. This discretionary bonus has never been awarded to either the Chairman or the CEO.

### 5.03 Deferred variable compensation for retaining managers

In its March 22<sup>nd</sup> 2016 meeting, the Board of Directors approved that a retention plan be applied to a limited number of executives, taking into account the weight of their organizational positions and the performance evaluations they achieved as part of the development process, and "market risk".

The Board of Directors has also deemed it appropriate to set up an annual evaluation mechanism for accessing and renewing/not renewing the awarding of the monetary plan.

The Board of Director's decision to introduce the retention plan stemmed from its evaluation of a series of elements:

- since the establishment of Hera, the Group has grown significantly in terms of company size, area served and final results;
- from the point of view of executive management, the Group has reached a composition that is the result of a careful balancing between bringing in new skillsets, coming from the market, and specific, valuable competencies already present;
- the Group currently enjoys a strong reputation and good visibility on the market, and consequently it makes sense to engage in highly selected retention actions for those executives who hold strategic roles and display both high performance and high market risk.

From the point of view of keeping remuneration in line with performance, the retention plan encourages a commitment to "**developing individual managerial skills**" and the achievement of the "**strategic objectives of the Group**" in a three-year perspective.

The evaluation parameter of "**developing individual managerial skills**" considers the level achieved by recipients in the three-year period in relation to the 8 dimensions identified by the leadership model:

- a. Energy and decision
- b. Realization
- c. Cooperation
- d. Influence
- e. Excellence and simplification
- f. Complexity management
- g. Innovation
- h. Valorization of people

If the recipient shows maximum achievement in each of the 8 dimensions mentioned above in the three-year period, the level of individual managerial skills is included in calculating the bonus dictated by the retention plan at a maximum value of 100%.

The incentive awarded in 2016 matures over 2016 - 2017 - 2018 and is disbursed in 2019. For the Chief Executive Officer, the maximum three-year incentive value is 100% of the fixed annual remuneration (RAL) in the event that he/she outperforms corporate targets over the three-year period.

For the rest of Group management covered by the retention plan, the maximum three-year incentive is 100% of the fixed gross annual salary (with an annual quota equal to 33% of the fixed gross annual salary) or 50% of the fixed gross annual salary (with an annual share of 17% of fixed gross annual salary); variations in the amount of bonus assigned to various recipients is based on the weight of their organizational position, the performance evaluation they achieved as part of their development process and the "market risk" involved.

The evaluation parameter of "developing individual managerial skills" does not apply to the Chief Executive Officer, as these same evaluation elements are considered to already be expressed by the achievement level of Group KPIs.

If both company performance and managerial skills are found to be below the expected level, the result will be 0%. Intermediate achievement levels between 0% and 100% are also envisaged, depending on different combinations of company performance and managerial skills achievement.

The calculation model for the maturation of the annual retention plan quota and of the bonus to be paid after the end of the reference three-year period is shown below.

### Maturation of three-year bonus

Component year n	RAL year n*	$\frac{50\% \text{ o } 100\%}{3}$	Group results level reached	Development process assessment parameter
Component year n+1	RAL year n+1*	$\frac{50\% \text{ o } 100\%}{3}$	Group results level reached	Development process assessment parameter
Component year n+2	RAL year n+2*	$\frac{50\% \text{ o } 100\%}{3}$	Group results level reached	Development process assessment parameter

### Bonus pay-out at the end of the three-year period

Value of the bonus	Component year n	Component year n+1	Component year n+2
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For the 2019-2021 three-year period, the retention plan is to evolve in terms of the parameter relating to the "strategic objectives of the Group"; three-year KPIs have been introduced that differ from those of the short-term incentive plan (BSC) and which further enhance the ability to create and share value, as well as further consolidating the Group's culture of financial solidity in the long term.

In particular, as established by the Board of Directors at the December 19<sup>th</sup> 2018 meeting, following the proposal by the Remuneration Committee, this evolution is based on the following new elements:

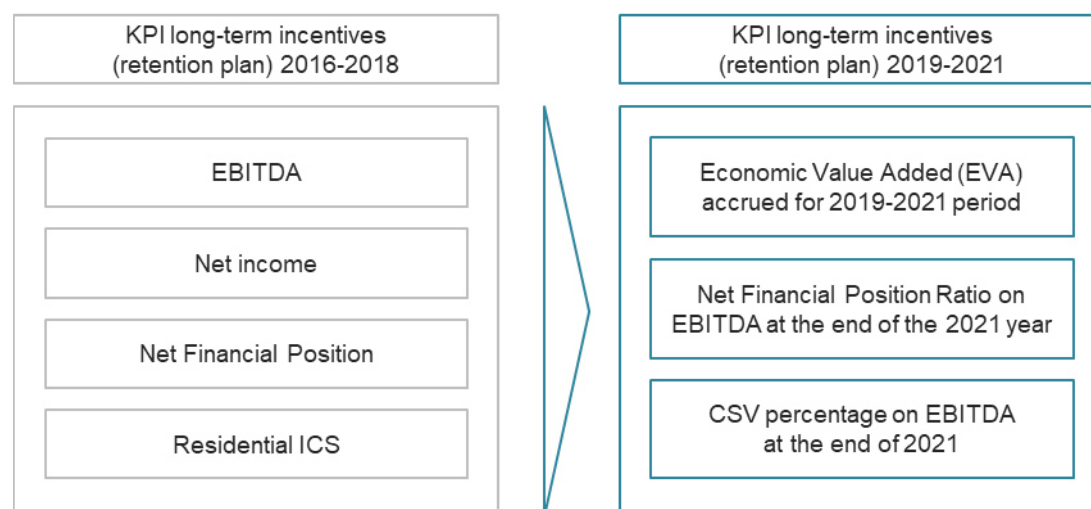
- change of objectives → differentiate the elements of evaluation of the Long-Term Incentive Plan from those of the Short-Term one (BSC);
- modifying the disbursement Plan → for current recipients, limit the risk of them abandoning their positions at the moment of the May 2019 pay-out;
- updating the list of potential recipients in line with the general criteria applied to 2018.

With regard to the **first macro area** (change of objectives), the proposed new structure aims to increase the bonus in proportion to the degree to which the set objective has been achieved.

Consequently, for the 2019-2021 three-year period, the type of objectives set was modified through the use of three new parameters (weighted equally):

- economic-financial indicator: Economic Value Added (**EVA**) or the cumulative target value for the 2019-2021 three-year period, equal to the difference between NOPAT (Net Operating Profit After Taxes) and WACC (Weighted Average Cost of Capital) for the capital invested;
- the year-end relationship as of 2021 between the **Net Financial Position and EBITDA**;
- the target percentage of Created Shared Value (**CSV**) on EBITDA at the end of the 2021 financial period.

The following diagram shows the Group's long-term strategic objectives for the new retention plan as compared to those used in the previous version:



The maximum amount of the bonus associated with the new 2019-2021 retention plan (scheduled for disbursement in May 2022) is determined on the basis of the following calculation: the April 2022 gross annual salary (RAL) of the recipient multiplied by the percentage of allocation of the incentive (50% or 100%, depending on the percentages laid out in the attribution system described above), multiplied by the level of achievement of the new pre-set corporate performance targets (with a maximum value of 100% in the event of exceeding all KPIs) and multiplied by the evaluation parameter of developing individual managerial skills (according to a three-year average, with a value of 100% if the assessment find maximum achievement).

If both company performance and managerial skills are found to be below the expected level, the result will be 0%. Intermediate achievement levels between 0% and 100% are also envisaged, depending on different combinations of company performance and managerial skills achievement.

In keeping with current functioning, the evaluation parameter of developing individual managerial skills does not apply to the Chief Executive Officer.

With regard to the **second macro area** (modifying the disbursement plan), the bonus is to be paid in the month of May of the 4th year, provided that the recipient is still part of the workforce.

In order to limit the risk of post-payment quitting - for recipients confirmed to be covered by the new Long-Term Incentive Plan - in May of the second year (i.e. in 2020) the theoretical sum accrued for the first year of the 2019-2021 three-year period (advance on the 1st year 16.67% - 33.33%) will instead be paid in the form of an "advance" (withheld in the event that the employment relationship is terminated).

The pay-out of the remaining portion (33.33% - 66.67%) is instead scheduled for 2022 (that is, at the end of the three-year period). If at the end of the period (at the end of the three-year period) the performance achieved merits a variable remuneration lower than the amount already paid as an advance, the differential will be deducted from the remuneration for the current year (4<sup>th</sup> year).

Finally, with regard to the **third macro area** (updating of potential recipients), the following general criteria apply:

- applying the retention plan to a limited number of executives, based on gauging their organizational position, the performance evaluation they achieved as part of the development process, and age;
- annual evaluation mechanism for accessing and renewing/not renewing the awarding of the monetary plan, based on the above criteria;
- top management's responsibility in choosing recipients based on the operating model, also in view of assessment criteria based on current market risk of the professional profile in question.

#### 5.04 Non-monetary benefits and social incentive plan

In line with best practices, they also receive D&O Liability insurance coverage against civil responsibility towards third parties as well as insurance coverage for professional and extra-professional accidental injury and death.

Executives who hold specific organizational positions are also to be assigned a company car for business and personal use.

Furthermore, beginning in 2017, an incentive plan was introduced, linked to the achievement of the Group's corporate objectives, that involves paying out welfare quotas that can be spent on the services included among those of the existing corporate welfare plan.

Payout is directly linked to the level of achievement of the Group KPIs already used as to weight the results of the BSC system following a scheme which, for each individual indicator, allows the bonus to be accessed only if performance exceeds the target associated with that indicator.

Each indicator is evaluated separately. The overall result is determined by calculating the weighted average of the percentage values that come from the results of each individual indicator.

The maximum value, on achieving 100% of plan objectives, is 6% of the individual theoretical variable, namely:

- executive members: there is a maximum social bonus equal to 6% of 40% of the total gross fixed remuneration (equivalent to 2.4% of the RAL);
- directors: there is a maximum social bonus equal to 6% of 25% of the total gross fixed remuneration (equivalent to 1.5% of the RAL);



- executives: there are two separate levels of maximum social bonus, equal to 6% of 22% of the total gross fixed remuneration (equivalent to 1.3% of the RAL) and 6% of 17% of the total gross fixed remuneration (equivalent to 1% of the RAL), respectively;

Furthermore, in keeping with the implementation of the Group welfare plan launched in 2016, access to a Flexible Benefit plan was established for all Group employees, involving the allocation of 385 euro in 2018.

Finally, the entire non-managerial population of the Group is allowed to convert up to 50% of the corporate performance bonus into the goods and services included as part of the corporate welfare plan.

## 6 Remuneration of Directors and the General Manager of Operations

### 6.01 Non-executive Directors

The following different types of directors can be found within the Board of Directors:

- executive directors holding specific offices to whom specific powers are delegated;
- non-executive directors (hereinafter referred to as "non-executive directors").

The current breakdown of the Hera S.p.A. Board of Directors is as follows:

- Executive directors: the Chairman of the Board of Directors Tommaso Tommasi di Vignano and the CEO Stefano Venier;
- Non-executive directors: the Vice Chairman of the Board of Directors Giovanni Basile, and Directors Francesca Fiore, Giorgia Gagliardi, Massimo Giusti, Sara Lorenzon, Stefano Manara, Danilo Manfredi, Alessandro Melcarne, Erwin P.W. Rauhe, Duccio Regoli, Federica Seganti, Marina Vignola and Giovanni Xilo.

With regard to non-executive directors, following their appointment, the Shareholders' Meeting on April 27<sup>th</sup> 2017 established that they would receive a gross annual payment of 40,000 euro, in addition to reimbursement of living expenses sustained while carrying out their office.

The Board of Directors, with regard to the offices held by Directors in Group companies, as well as in the HERA Group committees (Executive Committee, Remuneration Committee, Control and Risks Committee and Ethics and Sustainability Committee) decided to award these Directors a total sum of 20,000 euro gross per year.

The same Board of Directors decided, on June 28<sup>th</sup> 2017, to award the Vice Chairman a fixed annual sum of 85,000 euro for the duration of his office which includes the indemnity due as a director and any other fees for offices held in Group companies.

Vice Chairman	85,000 euro	85,000 euro
Member of the Board of Directors	40,000 euro	40,000 euro
Member of Hera Group committees and/or the Board of Directors of Group companies	20,000 euro	20,000 euro

Note that, in line with best practices and the instructions in the Corporate Governance Code, there are no provisions for a variable component in the payment of non-executive directors.

In line with best practices, they also receive D&O Liability insurance coverage against civil responsibility towards third parties as well as insurance coverage for professional and extra-professional accidental injury and death.

## 6.02 Executive Directors and the General Manager of Operations

With regard to the offices of Executive Chairman and Chief Executive Officer, a fixed annual salary of 380 thousand euros, gross, was confirmed for each of them, just as the previous year (as resolved by the Board of Directors on June 28<sup>th</sup> effective April 27<sup>th</sup> 2017, thus entailing a period of effectiveness for 2017 lasting less than the entire year), inclusive of the compensation established for the office, as well as for offices held in Group companies. This remuneration, valid for the entire duration of the term, was determined by taking into account their positioning with respect to the market and the benchmark levels reported for top positions in listed multi-utility companies.

The Chairman, CEO and General Manager of Operations come under the scope of the remuneration policies defined for the top management of the company, the methodology of which is based, as stated previously, on the method of weighting their positions, carrying out comparisons with the market, and applying an incentive scheme based on the BSC system.

As for the variable component of short-term compensation, a variable compensation linked to the achievement of the Group's performance objectives was confirmed for the Executive Chairman and Chief Executive Officer for 2018: a bonus equal to 40% of the fixed annual salary in relation to the achievement of 2018 target economic-financial results (PFN, EBITDA and net result) and the results of 2018 customer satisfaction survey (LCS), and in compliance with the weighting criteria already applied to the individual results achieved by the population of directors and executives included in the BSC system.

Calculation on having reached 2017 company targets

30%	EBITDA (mn€)	984.6	Exceeded	115%	34.5%
25%	Net income (mn€)	266.8	Exceeded	115%	28.75%
25%	PFN (mn€)	2,523	Exceeded	115%	28.75%
20%	Residential ICS	70	Reached	100%	20.0%
100%					112.0%

The variable short-term bonus for 2017 was therefore 44.8% (112.0% x 40%) of the fixed gross annual salary (as compared to the maximum theoretical bonus equal to 46% of the fixed gross annual salary).

The executive directors have no obligation to use their remuneration to invest in Hera shares.

As part of the tools for retaining executive management (at high market risk), a deferred variable remuneration was introduced for the CEO linked to the achievement of the economic-financial results of the Group in the years 2016, 2017 and 2018. The relative maximum economic value for the three-year reference period will be 100% of the RAL, with pay-out scheduled for the end of the 2018 financial year, upon approval of the associated financial statements by the Shareholders' Meeting, and on the condition that it is still in service for all intents and purposes in the Group companies as of that date.

The system for measuring the level of achievement of Group results involves a maximum bonus of 100% of the gross annual salary for the three-year period.

Furthermore, beginning in 2017, an incentive plan was introduced for the Chairman and CEO as well, linked to the achievement of the Group's corporate objectives, that involves paying out welfare quotas that can be spent on the services included among those of the existing corporate welfare plan, the form of which is comparable to that described above, in section 5.04.

The maximum value, on achieving 100% of plan objectives, is equal to 6% of the individual theoretical variable, specifically 6% of 40% of the total of fixed gross remuneration (equivalent to 2.4% of the total of fixed gross compensation).

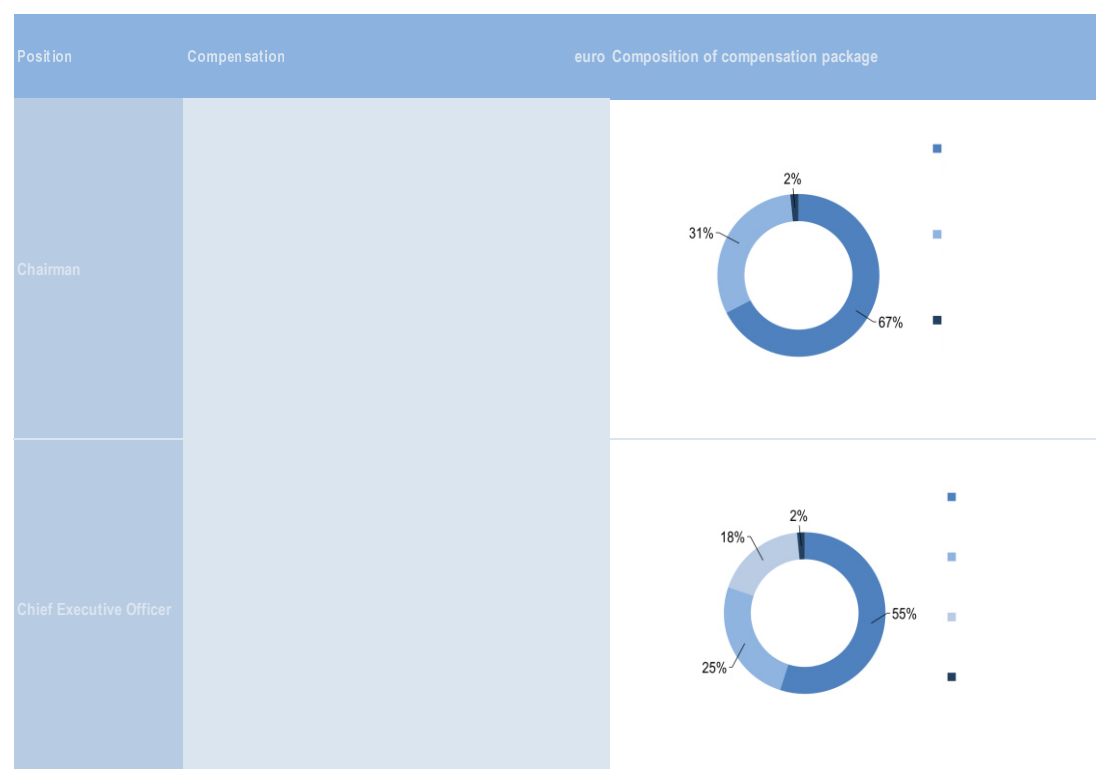
Finally, in keeping with the implementation of the Group welfare plan launched in 2016, the Chairman, by virtue of his position as a Group executive, is also granted access to a Flexible Benefit plan which entailed the allocation of a share of 385 euro in 2018.

With regard to the offices of Executive Chairman and Chief Executive Officer, the theoretical composition of the maximum remuneration package is summarized below:

Gross annual compensation	€ 380,000
Short-term variable compensation (max. 46% of the RAL)	€ 174,800
Social incentive plan (max. 2.4% of the RAL)	€ 9,120
<b>TOTAL</b>	<b>€ 563,920</b>

Gross annual compensation	€ 380,000
Short-term variable compensation (max. 46% of the RAL)	€ 174,800
Social incentive plan (max. 2.4% of the RAL)	€ 9,505
Deferred variable compensation (annual pro-quota max. 33% of the RAL)	€ 126,667
<b>TOTAL</b>	<b>€ 690,972</b>

The following table shows the weight of the various components of remuneration in relation to the total gross annual amount (the theoretical maximum remuneration if all corporate targets were to be exceeded):



For the General Manager of Operations, there is a variable annual compensation equal to 25% of the total fixed gross remuneration on having achieved 100% of the set objectives; The individual result is then weighted in relation to a company results profile that takes into account the performance recorded by the Group with reference to the current year. The weighting envisages a maximum growth of individual results equal to 15%, thus generating a maximum variable remuneration equal to 28.8% of the total fixed gross remuneration.

In relation to non-monetary benefits, in addition to the insurance policies outlined previously in point 6.01, a company car is available for business and personal use.

Furthermore, beginning in 2017, an incentive plan was introduced for the General Manager of Operations linked to the achievement of the Group's corporate objectives, that involves paying out welfare quotas that can be spent on the services included among those of the existing corporate welfare plan, the form of which is comparable to that described above, in section 5.04.

The maximum value, on achieving 100% of plan objectives, is equal to 6% of the individual theoretical variable, specifically 6% of 25% of the total of fixed gross remuneration (equivalent to 1.5% of the RAL).

Finally, in keeping with the implementation of the Group welfare plan launched in 2016, the General Manager of Operations, by virtue of his position as a Group executive, is also granted access to a Flexible Benefit plan which entailed the allocation of a share of 385 euro in 2018.

## 7 Compensation

### 7.01 Resignation, lay-off or termination of the employment relationship

With the renewal of the Board of Directors that took place as part of the Chareholders' Meeting held April 27<sup>th</sup> 2017, a clause was inserted for Executive Directors establishing that, in case of removal from office (except for cases of just cause), he or she will be paid an amount, as compensation for damages, comprehensive of any other claim, equal to the sum he or she would have received as remuneration, pursuant to art. 2389 of the Civil Code in the amount of 18 monthly salaries.

As far as executive directors are concerned, termination compensation includes the notice required by the national labor contract.

### 7.02 Claw-back clause

With the renewal of the Board of Directors that took place as part of the Chareholders' Meeting held April 27<sup>th</sup> 2017, the claw-back clause was inserted that establishes ex-post corrective mechanisms for the executive directors' remuneration system.

This clause entails the obligation to return already paid-out variable components of remuneration (or to withhold sums subject to deferral) determined on the basis of data that subsequently proved to be incorrect, and is effective from the date of appointment throughout the entire duration of the term; the request to return funds can be made once the relevant assessments have been completed, within three years of disbursement in relation to the year in which the instance occurred.

## Section II: Remuneration components

### Introduction

Section II of this report outlines the items that make up the remuneration of members of the administrative and control bodies, as well as General Manager, with the aim of highlighting the consistency with the General Policy described in Section I.

With reference to the policies for directors' remuneration, it should be noted that, with respect to the positions held by the directors (excluding the Chairman, Chief Executive Officer and Vice Chairman) in the Group companies, in the Remuneration Committee, Risks and Controls Committee and Ethics and Sustainability Committee, well as the Executive Committee, the directors involved are awarded a total salary of gross 20,000 euro per year to be added to the remuneration established by the Shareholders' Meeting in the amount of 40,000 euro.

The value of the bonus received in 2018 by each figure is also indicated, in relation to the degree of achievement of the targets set in the previous year.

### 8 Description of the compensation paid to directors and general managers

This section contains the details of payments made during 2018, with reference, as far as the variable part is concerned, to the accrual criterion.

#### 8.01 Chairman

The fixed compensation for Mr. Tomaso Tommasi di Vignano is composed exclusively of wages associated with his relationship as director. The aforementioned compensations also include all services and offices held in the Group's subsidiary and associate companies. Note that during 2018 he received a monetary bonus based on the results of the previous year, equal to 170,240 euro, following the achievement of an overall performance index of 112%. With reference to the 2017 Social Incentive Plan, he also accrued the right to an additional bonus of 7,296 euro that can be spent on the services included in the existing corporate welfare plan, following the achievement of an overall performance index equal to 80%.

#### 8.02 Chief Executive Officer

The fixed compensation paid to Mr. Stefano Venier is composed exclusively of gross annual salary as a Group executive and also includes all services/offices held in the Hera Group's subsidiary and associate companies.

Note that during 2018 he received a monetary bonus based on the results of the previous year, equal to 170,240 euro, following the achievement of an overall performance index of 112%. With reference to the 2017 Social Incentive Plan, he also accrued the right to an additional bonus of 7,296 euro that can be spent on the services included in the existing corporate welfare plan, following the achievement of an overall performance index equal to 80%, to be added to the 385 euro accrued under the corporate welfare plan by virtue of his position as a Group executive.

#### 8.03 Vice Chairman

For holding the office of Vice Chairman, Mr. Giovanni Basile was paid the fixed compensation of 85,000 euro established as compensation for this office.

#### 8.04 Non-executive Directors

Francesca Fiore, Giorgia Gagliardi, Massimo Giusti, Sara Lorenzon, Alessandro Melcarne, Stefano Manara, Danilo Manfredi, Erwin P.W. Rauhe, Duccio Regoli, Federica Seganti, Marina Vignola and

non-executive directors of the company, received fixed remuneration (equal to 40,000 euro) for holding the position of director and additional compensation for participating in committees or in the boards of subsidiary or associated companies, as laid out by the remuneration policy of the Group.

### 8.05 General Manager

The General Manager of Operations, Mr. Roberto Barilli, received compensation of 342,230 euro in the form of gross annual remuneration. Note that during 2018 he received a bonus with regard to the results of the previous year, equal to 92,649 euro, following the achievement of an individual performance index of 97.2% and a Group performance index of 112%.

With reference to the 2017 Social Incentive Plan, he also accrued the right to an additional bonus of 4,085 euro that can be spent on the services included in the existing corporate welfare plan, following the achievement of an overall performance index equal to 80%, to be added to the 385 euro accrued under the corporate welfare plan by virtue of his position as a Group executive.

He furthermore received a non-recurring allowance of gross 20,000 euro in 2018 (equal to 5.8% of the fixed gross annual salary).

### 8.06 Statutory Auditors

Members of the Board of Statutory Auditors received fixed compensation for their position as Statutory Auditors as determined by the Shareholders' Meeting.

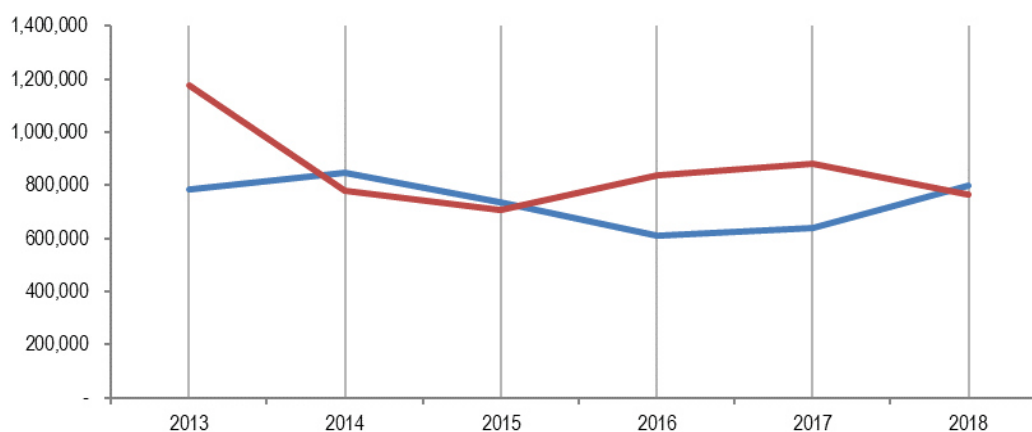
### 8.07 Compensation received in Group companies

Remuneration for the Executive Directors, Directors, General Manager of Operations and Executives for positions held in Group company structures and/or committees, are redirected in their entirety to Hera S.p.A.. The total redirected to the Parent Company for the year 2018 was approximately 800,763 euros.

The cost of the Board of Directors of Hera S.p.A. for the year 2018 was 764,237 euro, net of remuneration amounting to Euro 800,763 (for a gross total amount of Euro 1,565,000) received by Hera for the participation of directors/executives in the administrative bodies of its affiliates.

The reduction in the actual cost of the Board of Directors in 2018 is a result of the increase in fees collected by Hera for the participation of directors/executives in the corporate bodies of its affiliates, without prejudice to the compensation paid to the directors of the Parent Company.

### Cost of the Hera S.p.A. BoD






Bologna, March 27<sup>th</sup> 2019

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

**TABLE 1: Compensation paid to members of administrative and control bodies, General Managers and other management with strategic responsibilities.**

**Administrative body**

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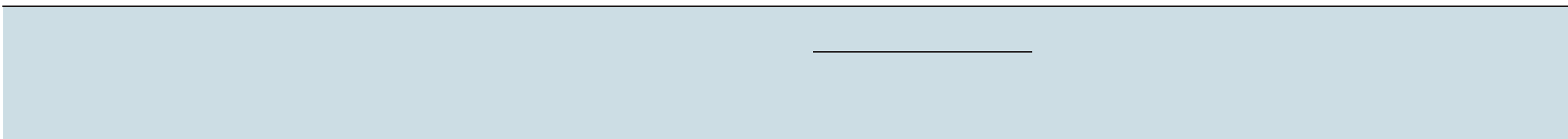


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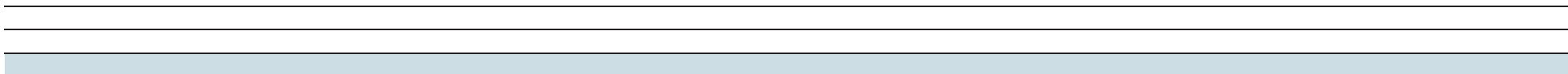


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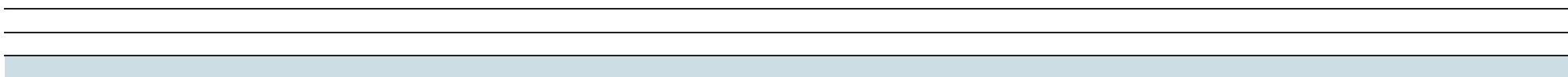
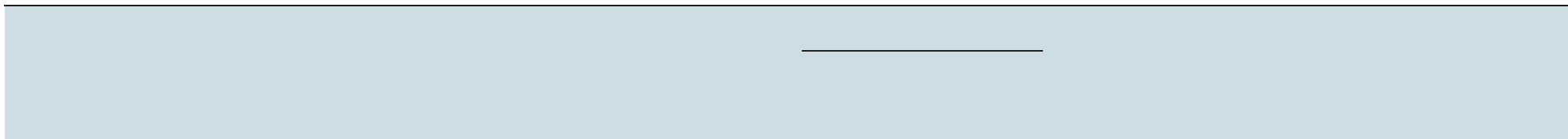
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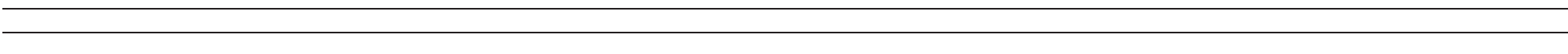
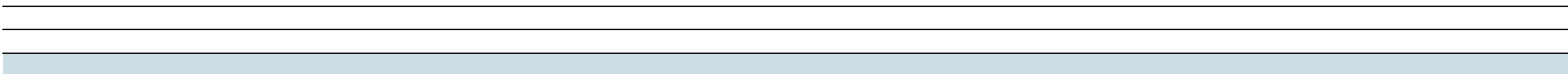
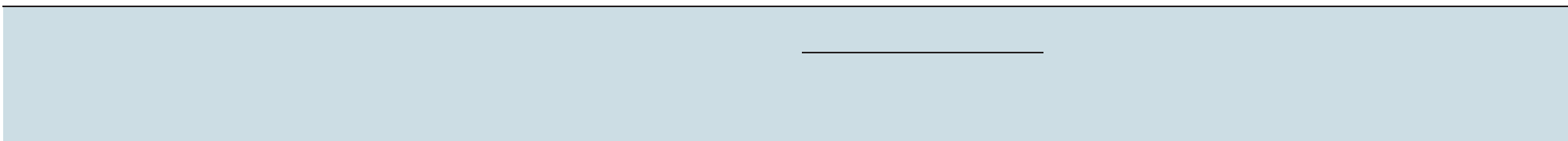
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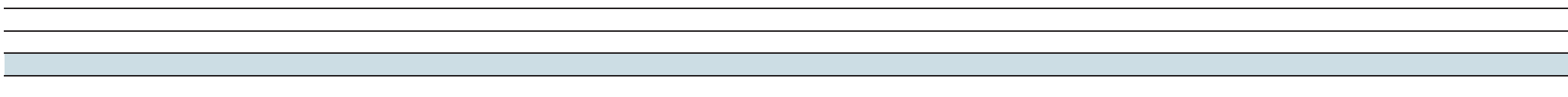
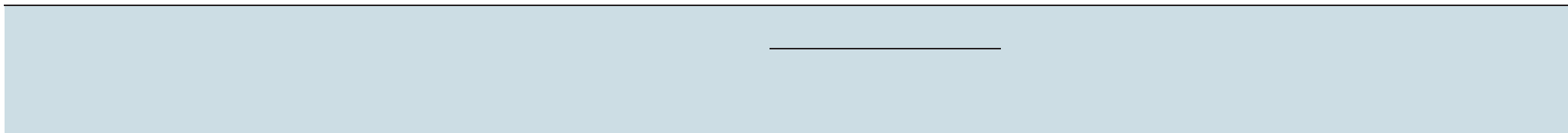
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**General Manager**

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**Table 3B: Monetary incentive plans for members of the administrative body, General Managers and other management with strategic responsibilities.**

		( A )	( B )	( C )	( A )	( B )	( C )
		Payable / Paid	Deferred	Deferment Period	No longer to be paid	Payable / Paid	Still deferred
Tommaso Tommasi di Vignano	Chairman						
Payments in the company preparing the financial statements	Balanced Scorecard system (related approval date)						
	Plan B (related approval date)						
	Plan C (related approval date)						
Payments from subsidiaries and associated companies	Plan A (related approval date)						
	Plan B (related approval date)						
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		( A )	( B )	( C )	( A )	( B )	( C )
		Payable / Paid	Deferred	Deferment Period	No longer to be paid	Payable / Paid	Still deferred
Payments in the company preparing the financial statements	Balanced Scorecard system (related approval date)						
	Plan B (related approval date)						
	Plan C (related approval date)						
Payments from subsidiaries and associated companies	Plan A (related approval date)						
	Plan B (related approval date)						



Roberto Barilli	General Manager of Operations	( A )	( B )	( C )	( A )	( B )	( C )
		Payable / Paid	Deferred	Deferment Period	No longer to be paid	Payable / Paid	Still deferred
Payments in the company preparing the financial statements	Balanced Scorecard system (related approval date)						
	Plan B (related approval date)						
	Plan C (related approval date)						
Payments from subsidiaries and associated companies	Plan A (related approval date)						
	Plan B (related approval date)						



## Proposed resolution

Dear Shareholders,

The Shareholders' Meeting is required to cast its vote on Section I of the remuneration report, which refers to your company's remuneration policies and the procedures used to adopt and implement this policy. This report has been prepared in accordance with applicable laws and regulations and the Corporate Governance Code for listed companies, to which Hera adheres.

If you agree with the contents indicated therein, we propose that you vote in favour of Section I of the remuneration report by adopting the following resolution:

“The shareholder's meeting of Hera S.p.A., pursuant to the limits established by Article 123-ter of the TUF, as well as to carry out the provisions of Article 84-quater of the Consob Issuers' Regulation:

having acknowledged the remuneration policies adopted by the Group;

and viewed the first section of the remuneration report;

**resolves**

to approve Section I of the Hera Group remuneration report”.

**Hera Spa**

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