



HERA S.P.A.

Registered office in Bologna, Viale Carlo Berti Pichat n. 2/4

Share capital Euro 1,489,538,745.00

Bologna Business Registry

Registration number 04245520376

EXPLANATORY ADMINISTRATORS' REPORT

FOR ITEMS 4, 5, 6 and 7 ON THE AGENDA

Ordinary Shareholders Meeting of HERA S.p.A.

convened on 27 April 2017 at 10:00 in a single calling

Dear Shareholders,

HERA S.p.A.'s Board of Directors has convened an Ordinary Shareholders Meeting to be held at the Company's Registered Office – *Viale Berti Pichat n. 2/4, Bologna, "Spazio Hera" area* – on 27 April 2017 at 10:00 in a single calling, to discuss and endorse the following:

agenda

1. Financial statements for the year ended 31 December 2016, management report, profit allotment proposal and Board of Statutory Auditors and Independent Auditors report: related and consequent resolutions. Presentation of the consolidated financial statements as at 31 December 2016.
2. Presentation of the corporate governance report and non-binding resolutions pertaining to remuneration policies.
3. Renewal of authorisation to purchase treasury shares and procedures for arrangement of the same: related and consequent resolutions.
4. Appointment of the members of the Board of Directors: related and consequent resolutions.
5. Quantification of compensation for members of the Board of Directors: related and consequent resolutions.
6. Appointment of the members and the Chairman of the Board of Statutory Auditors: related and consequent resolutions.
7. Quantification of compensation for members of the Board of Statutory Auditors: related and consequent resolutions.

Article. 125-ter of Legislative Decree no. 58 of 24 February 1998 mandates that if not already required under the terms of other legal provisions, by the date of publication of the notice calling the shareholders, the board of directors shall make a report on each of the items on the agenda available to the public at the company's registered office, on the company website and by other means envisaged by Consob regulation.

Fourth item on the agenda.

Appointment of members of the Board of Directors: related and consequent resolutions.

The Board of Directors of HERA S.p.A. was appointed by the Shareholders Meeting of 23 April

2014 and their mandate expires on the date of the Meeting convened to approve the financial statements for the year 2016.

Before proceeding, attendees are asked to note the amendments to the Articles of Association resolved by the Shareholders Meeting convened on 28 April 2015, which inserted *inter alia* a Transitional Provision intended to introduce, effective as of the date of the Meeting called to approve the financial statements for 2016, certain amendments to paragraphs 16.1, 17.1 and 17.2 of the Articles of Association.

In particular, the amendment to Article 16.1 concerns an increase of the current number of members of the Board of Directors from 14 to 15 members; the amendment to Article 17.2 regulates the increase from 3 to 4 of the number of members of the Board of Directors taken from lists presented by minority shareholders; the amendment to article 17.1 is intended to coordinate the text of the Provision with the new text of Article 17.2.

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Article 17 of the Articles mandates that members of the Board of Directors shall be appointed on the basis of lists, which can be presented by shareholders representing at least 1% of the share capital in an ordinary Shareholders Meeting, who are authorized to submit lists intended to appoint fifteen members of the Board of Directors.

Each list must contain a number of candidates not exceeding the number of members to be elected, and the candidates must be identified by progressive numbers. Each list must contain a number of candidates of the least represented gender that ensures compliance with the principle of balance between the sexes at least to the extent required by current legislation.

The lists must be filed at the registered office, under penalty of cancellation, at least twenty-five days before the meeting and shall be made available to the public at the registered office and on the Company's website at least twenty-one days before the meeting. Each list submitted must be accompanied by an indication of the identity of the shareholders presenting it and the overall percentage of equity held. An intermediary's certification attesting to ownership of the equity held at the date the list is filed may be submitted at a later time, provided it occurs by the deadline for the publication of the list, at least twenty-one days before the meeting.

Together with the lists, presenters must also file a description of the candidates' professional curriculum, the irrevocable acceptance of the office on the part of the candidates (in the event they are appointed), certification that no grounds subsist for ineligibility and/or forfeiture, certification that they possess the requisites of honour as mandated by article 147-quinquies of Italian

Legislative Decree no. 58/1998, as well as, if necessary, a declaration stating they have the independence requisites established by article 147-ter, paragraph 4 of Legislative Decree no. 58/1998 and those provided for by the Code of Conduct drawn up by Borsa Italiana S.p.A.'s Corporate Governance Committee.

The first two candidates on each list must be in possession of the above-mentioned requirements of independence.

Any lists for which the above provisions are not observed or which do not include candidates of different genders in conformity with the provisions of current regulations, shall be considered as not presented.

The members of the Board of Directors will be appointed as follows: from the list obtaining the highest number of votes, in the sequential order with which they were listed, eleven members of the Board of Directors will be chosen, containing at least four candidates of the least represented gender. For the appointment of the remaining four members, the votes obtained by each of the lists other than the most-voted list, and which were neither presented nor voted for by shareholders associated – in accordance with the regulations currently in force – with the shareholders who presented or voted for this list, are divided subsequently by one, two, three and four. The resulting figures are assigned progressively to the candidates of each list, in the order set forth in the lists. The candidates are then placed in a single list, organized according to the number of votes assigned to each candidate, in decreasing order. The candidates elected are those obtaining the majority of votes up to the number of members to be elected, at least one of which must be of the least-represented gender. In the case of an equal number of votes received by candidates on different lists, for the last director elected, preference will be given to the candidate from the list that obtained the most votes or, in the case of a subsequent tie, the oldest candidate, in compliance with the principles of gender balance set forth in existing legislation.

If the minimum number of directors belonging to the least-represented gender is not elected, the candidate of the most-represented gender located in last place in the ranking of candidates elected from most-voted list will be replaced by the candidate of the least-represented gender located in first place among non-elected candidates from the same list, and so on until reaching the minimum number of directors belonging to the least-represented gender. If, despite the application of this criterion, the minimum number of directors belonging to the least-represented gender still has not been reached, the replacement scheme indicated above will be applied to the minority lists, starting with the one which received the most votes.

In the event that the candidate elected cannot or does not intend to assume the office, the first non-elected person on the list to which that candidate belonged shall take his or her place, in compliance with the principles of balance between the sexes as provided for by current legislation. Should only one list of candidates be presented, the members of the Board of Directors will be elected in relation to that list, again in compliance with the principles of balance between the sexes as provided for by current legislation.

Shareholders of HERA S.p.A. are thus invited to vote for one and only one of the lists presented and made public in accordance with the statutory and legal regulations indicated above.

The Directors' term lasts for three years and shall end on the date of the shareholders' meeting called to approve the financial statements for the last year of their term.

Current directors may be re-elected.

Fifth item on the agenda.

Quantification of compensation for members of the Board of Directors: related and consequent resolutions.

The Shareholders Meeting is convened to discuss and resolve on the quantification of compensation for the members of the Board of Directors, who the present meeting has been called to appoint in the separate and previous agenda item.

Note that compensation for the members of the Board of Directors whose term is to expire was set by the Ordinary Shareholders Meeting of 23 April 2014 at € 40,000 gross each per annum, in addition to reimbursement of expenses incurred in the performance of their duties according to the criteria set by the ACI tables for the reimbursement of automotive expenses and official documentation (train tickets, invoices, etc..) for other expenses incurred.

The Board of Directors shall refrain from making specific proposals on this agenda item and therefore invites attendees to decide the matter on the basis of proposals that may be submitted by Shareholders during the course of the Meeting itself.

Sixth item on the agenda.

Appointment of members and Chairman of the Board of Statutory Auditors: related and consequent resolutions.

The Board of Statutory Auditors of HERA S.p.A. was appointed by the Shareholders Meeting held on 23 April 2014 and their term expires on the date of the Shareholders Meeting convened to

approve the financial statements for the year 2016.

In the light of the provisions of article 26 of the HERA SpA Articles of Association, to ensure that auditors are elected from the minority list as well, the appointment of Auditors is made on the basis of lists presented by the shareholders through the procedure described below, in order to ensure that minority shareholders appoint one Standing Auditor and one Alternate Auditor. In particular, Municipalities, Provinces and Consortia established pursuant to article 31 of Legislative Decree no. 267/2000, or other Public bodies or Authorities as well as consortia or limited companies controlled directly or indirectly by the latter may present one single list until such time as the company is no longer primarily government-owned, as per article 7 of the Articles of Association.

The composition of the Board of Statutory Auditors must ensure compliance with existing laws and regulations concerning gender balance.

The lists contain a number of candidates no greater than the number of members to be elected, ranked according to a progressive number. Each candidate may be presented in only one list at the risk of being deemed ineligible. Each list must contain a number of candidates of the least-represented gender that ensures compliance with the principle of balance between the sexes at least to the extent required by current legislation. Lists presenting fewer than 3 (three) candidates are exempt from compliance with this requirement.

Shareholders who, alone or together with other Shareholders, represent at least 1% of the share capital of the ordinary shareholders meeting have the right to present lists.

Each shareholder may present, or take part in presenting, one list only. In case of violation of this rule, no account is taken of the vote of the shareholder for any of the lists presented.

The lists, signed by the Board of Directors and the shareholders who presented them, must be filed, under penalty of cancellation, together with a declaration stating there are no agreements or connections of any kind with other shareholders who have presented other lists, at the registered office at least twenty-five days prior to the date set for the shareholders' meeting. The lists will be made public at the registered office and on the Company's website at least twenty-one days before the meeting.

The lists filed must be accompanied by a thorough statement regarding the candidates' personal and professional characteristics, declarations in which the individual candidates accept their candidacies and, under their own responsibility, declare that causes of ineligibility, forfeiture and incompatibility provided by the law do not exist and that they meet the requisites of integrity and professionalism required by law for the members of the Board of Statutory Auditors, and provide a

list of the administrative and control offices they hold in other companies.

Every list filed must also be accompanied by an indication of the identity of the Shareholders presenting it and the overall percentage of equity held. The certification attesting to ownership of the equity held may be submitted after the list is filed, provided this occurs by the deadline for the publication of the list, at least twenty-one days before the meeting.

Any lists for which the above provisions are not observed or which do not include candidates of different genders in conformity with the provisions of existing regulations shall be considered as not presented.

Pursuant to article 144-sexies p. 5 of the Regulations adopted with Consob resolution no. 11971 of 14 May 1999, as later amended and integrated, if by the deadline for the submission of lists only one list for the appointment of Statutory Auditors has been filed, or only lists displaying links with other lists have been filed, the filing can be made up to the third day following that deadline and the percentage of shares held required for submission reduced to 0.5% of the share capital.

Each party entitled to vote may vote for one list only.

Two Standing Auditors and one Alternate Auditor shall be taken from the list obtaining the highest number of shareholders' votes, in the sequential order with which they are ranked on the list. Of these, at least one must be a Standing Auditor of the least-represented gender.

The third Standing Auditor and the other Alternate Auditor will be taken from the other lists, electing the first and second candidate, respectively, of the list that has the second-highest number of votes, which must include the Alternate Auditor of the least-represented gender. In case of an equal number of votes between two or more lists, the oldest candidate will be elected, in compliance with the principles of balance between the sexes as provided for by current legislation.

In the event that the minimum number of Standing and Alternate Auditors belonging to the least-represented gender are not elected, the candidate of the most-represented gender located in last place in the ranking of candidates elected from the most-voted list will be replaced by the candidate of the least-represented gender located in first place among non-elected candidates from the same list, and so on until reaching the minimum number of auditors belonging to the least-represented gender. If, despite the application of this criterion, the minimum number of auditors belonging to the least-represented gender still has not been reached, the replacement scheme indicated above will be applied to minority lists, starting with the most-voted one.

The position of Chairman of the Board of Statutory Auditors will be given to the first-ranked candidate from the list that has the second-highest number of votes. In case of an equal number of

votes between two or more lists, the oldest candidate will be elected Chairman, in compliance with the principles of balance between the sexes as provided for by current legislation.

Shareholders of HERA S.p.A. are thus invited to vote for one and only one of the lists presented and made public in accordance with statutory regulations.

The Auditors' term lasts for three years and shall end on the date of the Shareholders Meeting convened to approve the financial statements for the last year of their term.

Seventh item on the agenda.

Quantification of compensation for the members of the Board of Statutory Auditors: related and consequent resolutions.

The Shareholders Meeting is convened to discuss and resolve on the quantification of compensation for the members of the Board of Statutory Auditors, pursuant to article 26 of the current Articles of Association, whom the present meeting has been called to appoint in the separate and previous agenda item.

Note that compensation for the members of the Board of Statutory Auditors whose term is about to expire was set by the Ordinary Shareholders Meeting of 23 April 2014 at € 280,000, in one lump sum per annum, of which € 120,000 for the Chairman and € 80,000 for each of the standing members, in addition to the reimbursement of documented and legal expenses, with the above-cited compensation to be understood as including the level of compensation for the members of the Board of Statutory Auditors who also sit on the Boards of Statutory Auditors in companies whose share capital is wholly held by Hera S.p.A.

The Board of Directors shall refrain from making specific proposals on this agenda item and therefore invites attendees to decide the matter on the basis of proposals that may be submitted by shareholders during the course of the meeting itself.

Bologna, 15 February 2017

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