

HERA S.P.A.

Registered Office in Bologna at V.le Carlo Berti Pichat 2/4

Share capital Euro 1,489,538,745.00

Registered with the Bologna Register of Companies

Registration number 04245520376

DIRECTORS' REPORT

ITEM 5 ON THE AGENDA

ORDINARY PART

of the Ordinary and Extraordinary Shareholders' Meeting of HERA S.P.A.

called in a single call on 28 April 2022 at 10 a.m.

Dear Shareholders,

The Board of Directors of HERA S.p.A., has asked you to attend the single call of this Ordinary and Extraordinary Shareholders' Meeting at the Company's Head Office - *Viale Berti Pichat 2/4, Bologna* - on 28 April 2022 at 10.00am to discuss and decide on the items on the following:

agenda

Extraordinary Part of the Shareholders' Meeting

1. Amendment of article 17 of the Articles of Association in compliance with the new provisions contained in the Corporate Governance Code: related and consequent resolutions.

Ordinary Part of the Shareholders' Meeting

1. Financial statements as at 31 December 2021 of Hera S.p.A.: related and consequent resolutions. Presentation of the consolidated financial statements as at 31 December 2021 Reports of the Board of Directors, the Board of Statutory Auditors and the Independent Auditors.

Presentation of the Sustainability Report – the Non-Financial Consolidated Statement prepared pursuant to Legislative Decree no. 254/2016.

2. Proposed allocation of profit for the period: related and consequent resolutions.
3. Report on the remuneration policy and fees paid: resolutions relating to Section I – Remuneration policy.
4. Report on the remuneration policy and fees paid: resolutions relating to Section II – Fees paid.
5. Conferral of the mandate for the legal audit of the accounts for the financial years 2024 – 2032: related and consequent resolutions.
6. Renewal of the authorisation to purchase treasury shares and disposal procedure thereof: related and consequent resolutions.

Fifth item on the agenda of the Ordinary Part of the Shareholders' Meeting.

Conferral of the mandate for the legal audit of the accounts for the financial years 2024 – 2032: related and consequent resolutions.

Dear Shareholders,

with the approval of the financial statements as at 31 December 2023 of Hera S.p.A., the mandate for the legal audit of the accounts conferred by the Shareholders' Meeting of 23 April 2014, for the financial years 2015 – 2023, to Deloitte & Touche S.p.A. will expire.

The Board of Directors accordingly submits for your approval the following reasoned proposal made by the Board of Statutory Auditors pursuant to article 13, paragraph 1 of Legislative Decree no. 39 of 27 January 2010 for the conferral to KPMG S.p.A. of the mandate for the independent audit of the accounts of Hera S.p.A. for the period 2024 - 2032.

“Dear Shareholders,

as you know, with the approval of the financial statements for the year 2023, the mandate conferred to Deloitte & Touche S.p.A. for the independent audit of the accounts of Hera S.p.A. and the companies of the Hera Group will expire, given that the term of nine financial years provided by article 17, paragraph 1 of Legislative Decree no. 39 of 27 January 2010 (hereinafter “Legislative Decree 39/2010”), ends in 2023.

It follows therefore that, after the financial year 2023, this mandate cannot be renewed again and it will therefore be necessary to confer a mandate for the independent audit of the accounts for the period 2024-2032 to another company.

Given the size and complexity of Hera Group, the Board of Statutory Auditors of Hera S.p.A. considered it necessary to start the procedure for the selection of the new audit company for the years 2024-2032 two years in advance, in order to submit the proposal for the conferral of the new mandate to the Shareholders' Meeting of 28 April 2022.

It should be noted that conferral of the mandate two years in advance is indeed a common practice of leading listed companies and allows, on one hand, to ensure that the Group companies are able to align the conferral of the mandate to the new auditor and, on the other hand, allows the new auditors to organize their activities in good time, and get to know more about the Group.

It should be noted that the conferral of the mandate in advance was also necessary in order to comply with the cooling-in-period rule, introduced by article 5 of Regulation EU/2014.

To this end, a tender was published in which the most qualified audit firm took part and during which all the most significant technical and economic parameters were assessed, under the supervision of the Board of Statutory Auditors — the body which, pursuant to article 13, paragraph 1 of Legislative Decree no. 39/2010, is responsible for submitting the reasoned proposal to the Shareholders' Meeting - as detailed hereunder.

In particular, the Board of Statutory Auditors, in line with the supervisory duties conferred thereto by applicable laws, coordinated and monitored the activities of the competent company departments of Hera S.p.A. with respect to the tender procedure published to select the company to which the mandate for the following duties would be conferred:

- *statutory audit of the Separate Financial Statements of Hera Spa and the Consolidated Financial Statements of Hera Group (article 14, paragraph 1, (a) of Legislative Decree no. 39/2010 and article 10 of Regulation (EU) no. 537/2014);*
- *statutory audit of the financial statements of the Subsidiaries that are required to audit their accounts (article 13 of Legislative Decree no. 39/2010);*
- *limited-scope review of the consolidated interim financial report of Hera Group (Consob Communication no. 97001574 of 20 February 1997 Consob Resolution 10867 of 31 July 1997);*
- *verification that proper records are kept of the company accounts and management-related events are entered correctly in the accounting records for all the companies included in the scope of the tender (article 14, paragraph 1, (b) of Decree no. 39/2010);*
- *checks related to the signing of tax returns;*
- *examination of conformity of the separate annual financial statements, drawn up pursuant to the TIUC Integrated Unbundling Accounting Text (Arera resolution 137/2016/R/co), for the Companies specifically identified;*

- other tasks, as described hereunder, strictly related to audits, that are not the prohibited services specified by article 5 of Regulation (EU) no. 537/2014, that are assigned on the basis of the obligations provided by laws, regulations and practices and previously agreed with the requesting Company as detailed in the table below:

Other tasks (details of cases currently present in Hera Group):	Company
Limited-scope review of the non-financial statement of Hera Group	Hera Spa
Limited-scope review of Hera Group's shared value creation report	Hera Spa
Limited-scope review of the sustainability report of Marche Multiservizi Spa	Marche Multiservizi Spa
Comfort letter on the annual renewals of the EMTN programme and bonds	Hera Spa
Certificates required by the Regulatory Authority for Energy, Networks and the Environment (ARERA): - Report on late payment charges for the 2012 seismic event - Report of EE compensatory mechanism for non payment - Report of the default last resort service of the natural gas Sector - Report of the last resort service (FUI) of the natural gas sector - Report relating to default providers for supplies to EE priority services customers - Reporting of system charges - EE Sector	Hera Comm Spa
Approval of payables/receivables Partner Municipalities pursuant to Legislative Decree no. 118/2011	Hera Spa, Marche Multiservizi Spa and Marche Multiservizi Falconara Srl
Certification of tax credits	Hera Spa, Inrete Distribuzione Energia Spa

In this regard, it should be noted that the Board of Statutory Auditors carried out its work in compliance with the law, in line with the clarifications of Assonime in circular no. 16/2010 (commenting on Legislative Decree 39/2010), where it is stated that in formulating the proposal, "the control body must assess the technical eligibility of the independent auditor, its independence, and that the audit plan and organisation of the company are complete with respect to the scope and complexity of the mandate conferred". The Board of Statutory Auditors discussed the issue in question and carried out the activities within its remit during 3 meetings, held on 12 October 2021, 3 November 2021 and 1 March 2022.

In particular, on 16 November 2021, a market survey notice was published on the institutional website of Hera Group, establishing the qualifications and requirements potential competitors were asked to demonstrate they held in order to be invited to the tender procedure for the appointment of the new Statutory Auditor of the HERA Group. The deadline for submitting applications was set as 7 December 2021. The following companies submitted applications:

- Ernst & Young S.p.A.
- Kpmg S.p.A.
- PWC S.p.A.

On 12 January 2022, a letter of invitation was sent to the above companies containing all the necessary information, qualifications and requirements necessary to submit the offer.

Substantially, the letter of invitation contained detailed references mainly to the following aspects:

- a) **subject matter of the tender:** consisting of the following activities:
- statutory audit of the Separate Financial Statements of Hera Spa and the Consolidated Financial Statements of Hera Group (article 14, paragraph 1, (a) of Legislative Decree no. 39/2010 and article 10 of Regulation (EU) no. 537/2014);
 - statutory audit of the financial statements of the Subsidiaries that are required to audit their accounts (article 13 of Legislative Decree no. 39/2010);
 - limited-scope review of the consolidated interim financial report of Hera Group (Consob Communication no. 97001574 of 20 February 1997 Consob Resolution 10867 of 31 July 1997);
 - verification that proper records are kept of the company accounts and management-related events are entered correctly in the accounting records for all the companies included in the scope of the tender (article 14, paragraph 1, (b) of Legislative Decree no. 39/2010);
 - checks related to the signing of tax returns;
 - examination of conformity of the separate annual financial statements, drawn up pursuant to the TIUC Integrated Unbundling Accounting Text (Arera resolution 137/2016/R/co), for the Companies specifically identified;
 - other Mandates, as described hereunder, strictly related to audits, that are not the prohibited services specified by article 5 of Regulation (EU) no. 537/2014, that are assigned on the basis of the obligations provided by laws, regulations and practices and previously agreed with the requesting Company.
- b) **submission of the offer** - the letter of invitation stated that the offer documents should be submitted through the SRM online platform using the e-procurement portal of Hera Group, following the instructions indicated in said the letter of invitation;
- c) **documents that competitors are required to submit** - the companies invited were asked to submit the administrative, technical and economic documents described in the above letter of invitation;
- d) **procedure for submitting requests for explanations regarding the tender by the competing audit firms** - the letter of invitation also allowed the companies invited to tender to send requests for explanations about the tender documents no later than 28 January 2022;
- e) **description of the tender procedure and submission of tenders:** the letter of invitation stated that the offers would be opened and the documents examined in a private session before the Tender Commission specifically appointed by the principal, according to the so-called “reverse procedure” principle, firstly examining the the administrative documents, then the technical and finally the economic offer documents; upon completion of the evaluation of the tenders the final ranking would be drawn up.
Pursuant to article 30 of the “Special tender specifications for the professional auditing services of financial statements”, the members of the Working Group used by the audit firm, must include the following experts on the working group in the minimum percentages indicated below:

QUALITA' DEL TEAM MINIMO	% MINIMA DEL TEAM
Partner	7%
Manager	17%
Senior	35%
Assistant	41%
	100%

The criterion followed for the award of the tender was that of the most economically advantageous tender, established with only downward offers and on the basis of the following criteria. The offers submitted were evaluated by a special Tender Commission appointed on 7 February 2022, after the submission of the bids by the competing firms and consisting of:

- Simone Guzzoni (chairman), Head of Purchasing Market, Staff, Services and Information Systems
- Francesca Giuliani, Market Purchases, Staff and ITC
- Gloria Mascellani, Market Purchases, Staff and ITC
- Luca Moroni, CFO of the Group
- Dario Farina, Administrative Director of Hera spa

The evaluation criteria of the offers were the following:

- (i) "technical value" (total points 80);
- (ii) "price" (total points 20).

Particularly as regards the "technical value" criterion, specific criteria were established, and a specific score allocated to each of these, in particular:

- Percentage improvement of Effort - 25 Points
- Methodology and technical tools - 20 Points
- Professional experience and quality of the team - 25 Points
- Inclusion policies - 10 Points

The Board of Statutory Auditors examined the above technical criteria and recognised that they were appropriate to evaluate the offers of competitors on the basis of analytical and objective judgements, thus sharing the contents thereof as drawn up by the relevant structure.

As regards the evaluation of the price, the award procedure, as described in the letter of invitation, stated that only downward offers were permitted, with a discount percentage offered above zero and where the score assigned was calculated with the following formula:

$$Pi = 20 \times \frac{\text{Offer Discount in question}}{\text{Best Discount Offered}}$$

The Board of Statutory Auditors also shared the procedures for drawing up the final ranking of the tender.

It was decided that the tender would be awarded to the competitor that had scored the highest overall score, compared to the other competitors, calculating this score as the sum of the scores obtained for each item of the technical and economic evaluation.

The Board of Statutory Auditors ensured compliance with the requirements for participation in the tender (such as the date and time of receipt of tenders), ensuring that the documentation sent by each competitor (namely, "administrative documentation", "technical documentation" and "economic documentation") had been correctly uploaded into the e-procurement system used, as indicated in the letter of invitation.

The Board of Statutory Auditors advised that on 25 January 2022 a written communication was received from EY S.p.A. stating it would not participate in the tender due to the fact that the EY group is already an IT service provider with multi-year contracts that could not be terminated early.

The electronic envelopes containing the "administrative documentation" were opened first, and examined by the Tender Commission to ensure that the contents were complete. The electronic envelopes containing the technical documentation were then opened and evaluated by the Tender Commission.

The Tender Commission then examined the "economic documentation" after which it proposed that the mandate for the audit of the accounts of Hera S.p.A. for the period 2024-2032 (including all the other covered by the tender) should be awarded to the auditing firm KPMG S.p.A., which ranked first on the basis of the overall score allocated.

The Board of Statutory Auditors summarizes the results obtained from the tender in the table below:

	PUNTEGGIO TECNICO	PUNTEGGIO ECONOMICO	TOTALE
KPMG	80	18,28*	98,28
PWC	72,62	20*	92,69
* KPMG PWC	% Ribasso ottenuto 27,42% 30%		

The Board of Statutory Auditors shared the technical and economic evaluation of the offers, the explanatory report presented by the Tender Commission and the scores awarded by the latter to the competitors.

The Board of Statutory Auditors, whereas;

- article 16, paragraph 2, section 2 of Regulation (EU) no. 537/2014 provides that the reasoned proposal of the Board of Statutory Auditors to the Shareholders' Meeting should contain at least two award alternatives;
- the same article 16, paragraph 2, paragraph 2 of Regulation (EU) no. 537/2014 requires the Board of Statutory Auditors should express a duly justified preference for one of the two alternatives;

at the meeting of 1 March 2022, in the light of the technical and economic evaluations carried out during the tender procedure, in expressing its appreciation to the corporate structures mentioned for their work, in turn finally established that the best overall offer, was that submitted by the auditing firm Kpmg S.p.A., pointing out that:

1. the audit plan of the financial statements of Hera S.p.A. and the companies of Hera Group presented in KPMG S.p.A.'s proposal is consistent with the reference criteria contained in the letter of invitation;
2. the estimate of the number of hours and members of the audit teams provided by KPMG S.p.A. for the above activities should be considered as fully adequate;
3. the total fees requested by KPMG S.p.A. were adequate and guarantee the quality and reliability of the works as well as the independence of the auditor;
4. Mr. Renato Naschi was identified as the partner responsible for the mandate pursuant to Legislative Decree 39/2010, for Hera S.p.A..

Taking into account the results of the tender procedure, the Board of Statutory Auditors therefore resolved to propose to the Ordinary Shareholders' Meeting of Hera S.p.A. to award the above audit mandate to the company KPMG S.p.A. on the understanding that the relevant contract would be signed subject to the delivery of a specific declaration by the company in question attesting its independence.

Given the above, the Board of Statutory Auditors proposes to the Ordinary Shareholders' Meeting of Hera S.p.A. to award to the auditing firm KPMG S.p.A., pursuant to article 13 of Legislative Decree 39/2010, the mandate for the audit of the accounts of Hera S.p.A. for the financial years from 2024 to 2032 for the following activities:

- statutory audit of the Separate Financial Statements of Hera Spa and the Consolidated Financial Statements of Hera Group (article 14, paragraph 1, (a) of Legislative Decree no. 39/2010 and article 10 of Regulation (EU) no. 537/2014);
- statutory audit of the financial statements of the Subsidiaries that are required to audit their accounts (article 13 of Legislative Decree no. 39/2010);
- limited-scope review of the consolidated interim financial report of Hera Group (Consob Communication no. 97001574 of 20 February 1997 Consob Resolution 10867 of 31 July 1997);
- verification that proper records are kept of the company accounts and management-related events are entered correctly in the accounting records for all the companies included in the scope of the tender (article 14, paragraph 1, (b) of Legislative Decree no. 39/2010);
- checks related to the signing of tax returns;

- examination of conformity of the separate annual financial statements, drawn up pursuant to the TIUC Integrated Unbundling Accounting Text (Arera resolution 137/2016/R/co), for the Companies specifically identified;
- other tasks, as described hereunder, strictly related to audits, that are not the prohibited services specified by article 5 of Regulation (EU) no. 537/2014, that are assigned on the basis of the obligations provided by laws, regulations and practices and previously agreed with the requesting Company as detailed in the table below:

Other tasks (details of cases currently present in Hera Group):	COMPANY
Limited-scope review of the non-financial statement of Hera Group	HERA SPA
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Certification of tax credits	Hera Spa, Inrete Distribuzione Energia Spa

For the above services, the auditing firm KPMG S.p.A. requested a total fee, for all the financial years 2024-2032, of EUR 6,697,754 (for the entire nine-year period), as shown in the economic offer hereunder.

	Revisione legale e unbundling	Altri incarichi	Totale
1° anno	667.741	232.256	899.997
2° anno	667.741	232.256	899.997
3° anno	467.424	232.256	699.680
4° anno	467.424	232.256	699.680
5° anno	467.424	232.256	699.680
6° anno	467.424	232.256	699.680
7° anno	467.424	232.256	699.680
8° anno	467.424	232.256	699.680
9° anno	467.424	232.256	699.680
Totale	4.607.450	2.090.304	6.697.754

The fees were determined in accordance with the criteria set out in Consob Communication no. 96003556 of 18 April 1996 and, at the express request of the auditing firm, may be adjusted on the basis of variations of the ISTAT index (consumer price index for families of blue and white collar workers) relating to the cost of living. In particular, with respect to said adjustment, as from the second contract year and on an annual basis, on 1 July of each year, the variation of the above index will be verified with respect to the month of July of the previous year; if the variation is greater than 3%, the fees will be adjusted, by 65% of the variation recorded by the index that is higher than the starting threshold of 3%.

The auditing firm KPMG S.p.A. will also perform the activities provided by article 14, paragraph 6 of Legislative Decree 39/2010 in the manner provided by document no. 600 of the Auditing Principles; this implies that KPMG S.p.A. will assume full responsibility for any work that may be carried out on the financial statements of the companies whose accounts are audited by any other auditors. Pursuant to this, KPMG S.p.A., in its audit report to the consolidated financial statements of the Hera Group, will assume the role and responsibility for the main audit of the Group.

The proposal of KPMG S.p.A. as a whole concerns, not only Hera S.p.A., but even the companies, identified on the basis of the operations of Hera Group, as per the table attached as doc. 1 in line with the provisions of article 33 of the C.S.A., and said operations may also be extended to newly acquired companies by the Hera Group in the nine-year period of validity of the contract.

Annexes: as above

Bologna, 1 March 2022

Board of Statutory Auditors

Amato Myriam (Chairperson)

Girolomini Marianna (Member)

Gaiani Antonio (Member)"

Bologna, 23 March 2022

The Executive Chairman of the Board of Directors

(Mr. Tomaso Tommasi di Vignano)

ANNEX 1

PERIMETRO DI GARA	ATTIVITA' OGGETTO DI AFFIDAMENTO		
	Revisione legale (*)	Unbundling (**)	Altri incarichi (***)
Hera Spa	S	S	S
Hera Spa Consolidato	S	NO	S
Acantho Spa	S	S	NO
AcegasApsAmga Servizi Energetici Spa	S	NO	NO
AcegasApsAmga Spa	S	S	NO
AcegasApsAmga Spa Consolidato	S	NO	NO
Allplas: beria SL	NO	NO	NO
Allplas: Polska SP O.O.	NO	NO	NO
Allplas: Spa	S	NO	NO
Allplas: France Recyclage Srl	S	NO	NO
Amgas Blu Srl	S	S	NO
Aresenergy Eood	NO	NO	NO
AresGas EAD	S	NO	NO
Ares Trading Eood	NO	NO	NO
ASA Spa	S	NO	NO
Ascopiave Energie Spa	S	S	NO
Ascotrade Spa	S	S	NO
Atlas Utilities EAD	S	NO	NO
Biorg Srl	S	NO	NO
Black Sea Gas Company Eood	S	NO	NO
Blue Meca Spa	S	S	NO
Eco Gas srl	S	S	NO
Est:Energy Spa	S	S	NO
Est:Energy Spa revisione reporting package consolidato Gruppo Est:energy	S	NO	NO
Etra Energia Srl	S	NO	NO
Feronia Srl	NO	NO	NO
Frullo Energia Ambiente Srl	S	S	NO
Green Factory Srl	NO	NO	NO
Hera Comm Marche Srl	S	S	NO
Hera Comm Spa	S	S	S
Hera Luce Srl	S	NO	NO
Hera Servizi Energia Srl	S	NO	NO
Hera Trading Srl	S	S	NO
Herambiente Servizi Industriali Srl	S	NO	NO
Herambiente Spa	S	S	NO
Herambiente Spa Consolidato	S	NO	NO
HERAtech Srl	S	S	NO
Hest:Ambiente Srl	S	S	NO
Hydro Mud Srl	NO	NO	NO
INRETE Distribuzione Energia Spa	S	S	NO
Marche Multiservizi Falconara Srl	NO	NO	NO
Marche Multiservizi Spa	S	S	S
Marche Multiservizi Spa Consolidato	S	NO	NO
Primagas AD	S	NO	NO
Recyda Spa	S	NO	NO
Tri-Generazione Scarl	S	NO	NO
Uniflotte Srl	S	S	NO
Vallorigara Angelo Srl	S	NO	NO
Vallorigara Servizi Ambientali Spa	S	NO	NO
Vegri Scarl	NO	NO	NO
Wolmann Spa	S	S	NO

