

## 1.11

# Corporate governance report

## 1. 1. Issuer profile

The Hera Group was born in 2002 out of the integration of 11 Emilia-Romagna public service companies, and in the subsequent years continued its territorial growth in order to expand its core business.

Hera is one of the leading Italian multi-utilities in the waste management, water, gas and electricity businesses, with more than 8,800 employees, both with short and long-term contracts.

The Company, the majority of whose share capital is owned by the State, has been listed on the Mercato Telematico of Borsa Italiana S.p.A. since 26 June 2003 and operates mainly in the territories of Bologna, Ravenna, Rimini, Forlì, Cesena, Ferrara, Modena, Imola and Pesaro-Urbino, and since 1 January 2013, following the integration of AcegasAps, in the territories of Padua, Trieste and Gorizia as well. Following the aggregation with Amga Azienda Multiservizi., which was completed as of 1 July 2014, Hera extended its activities to include the Municipality of Udine and the Province of Udine as well.

Hera's goal is to become the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates, while respecting the local environment.

As early as 2003, Hera included corporate social responsibility as part of its strategy, as an effective tool for increasing competitiveness and as a key element for achieving sustainable development. The Mission and Values outline the guidelines for corporate behaviour already contained in the Code of Ethics and shape every action taken by and relationship maintained by the Group. Mission, values and shared conduct represent the strategic and cultural framework within which the industrial plan is formulated, results are reported transparently through the Sustainability Report, and economic planning is defined on an annual basis.

Hera grants special attention to dialoguing with its stakeholders and the local area in which it operates, consolidating positive results achieved in terms of creating value and demonstrating the Group's ability to grow despite the current complex economic conditions.

## 2. Information on the ownership structure (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Finance Act (TUF)) as at 27 March 2018.

### a) Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the TUF)

The share capital is Euro1,489,538,745, fully subscribed and paid-up, and consists of 1,489,538,745 ordinary shares with a par value of Euro1 each.

Share Capital Structure:

Type of shares	Number of shares	Type of shares	Listed	Rights and obligations
Ordinary shares	1,489,538,745	100%	Mta Borsa Italiana	Ordinary shares grant those holding them all property and administrative rights foreseen by law

### b) Restrictions on the transfer of securities (pursuant to Article 123-bis, paragraph 1, letter b) of the TUF)

Article 7 of Hera's Articles of Association stipulate that the majority of voting rights in the company be held by Municipalities, Provinces and Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000, or by other Public Authorities, or consortiums or joint-stock companies including Municipalities, Provinces or Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000, or other Public Authorities hold, even indirectly, the majority of

the share capital. 31 of Legislative Decree no. 267/2000, or by other Public Authorities, or consortiums or joint-stock companies including Municipalities, Provinces or Consortiums established in accordance with Article 31 of Legislative Decree no. 267/2000, or other Public Authorities hold, even indirectly, the majority of the share capital. Article 8.1 of the Articles of Association prohibits the holding of more than 5% of the company's share capital by any shareholder other than those indicated above.

**c) Significant equity interests (pursuant to Article 123-bis, paragraph 1, letter c) of the TUF)**

Declarer	Direct shareholder	% of the share capital	Percentage on voting capital
Municipality of Bologna	Municipality of Bologna	9.731%	9.731%
Municipality of Imola	Con.Ami	7.288%	7.288%
Municipality of Modena	Municipality of Modena	6.519%	6.519%
Municipality of Ravenna	Ravenna Holding Spa	5.319%	5.319%
Municipality of Trieste	Municipality of Trieste	4.234%	4.234%
Municipality of Padova	Municipality of Padova	3.097%	3.097%

**d) Shares that confer special rights (pursuant to Article 123-bis, paragraph 1, letter f) of the TUF)**

The shareholder's meeting of 28 April 2015 authorized, pursuant to the limits established by Article . 6 the institute's Articles of Association, an increased vote, whereby individuals who are registered for a continuous period of at least 24 months in the special list established beginning in 1 June 2015, will be entitled, for every share they hold, to two votes in shareholders deliberations regarding: i) the amendment of Articles 6.4 and/or 8 of the Articles of Association, ii) the appointment and / or revocation of the Board or its members, iii) the appointment and / or revocation of the Board of Statutory Auditors or its members.

On 13 May 2015, Hera's Board of Directors in order to define the criteria and procedures for keeping the special list, approved the special list regulations for eligibility for increased voting rights, in implementation of the provisions of applicable law and Hera's Articles of Association.

**e) Restrictions on voting rights (pursuant to Article 123-bis, paragraph 1, letter f) of the TUF)**

Article 8.6 of the Articles of Association stipulates that the voting rights of parties other than public authorities who hold more than 5% of the share capital will be limited to an overall maximum of 5%.

**f) Shareholder agreements (pursuant to Article 123-bis, paragraph 1, letter g) of the TUF)**

Pursuant to Article 122 of the TUF, there is a Voting Trust and Share Transfer Rules Agreement in existence between 118 public shareholders concerning procedures for the exercise of voting rights and the transfer of Hera shares held by the signatories. This agreement was signed on 23 June 2015 for a period of three years and is effective from 1 July 2015 to 30 June 2018.

Additionally, the following are in force:

A Voting Trust Agreement between 22 public shareholders from the Modena area concerning the definition of the procedures for the exercise of voting rights, the transfer of Hera shares held by the signatories and appointment of the members of the Board of Directors. This agreement was signed on 25 June 2015 and is effective beginning 1 July 2015 and expires 30 June 2018.

A Voting Trust Agreement between 33 public shareholders from the Bologna area concerning the definition of the procedures for the exercise of voting rights, the transfer of Hera shares held by the signatories and appointment of the members of the Board of Directors. This agreement was signed on 22 November 2017 and is effective until 30 June 2018.

**g) Mandates to increase share capital and authorisations to purchase treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the TUF)**

The shareholder's meeting of 27 April 2017 authorized, pursuant to the limits established by Article. 2357 of the Italian Civil Code, to purchase, within 18 months of the date of the resolution, on one or more occasions, up to a revolving maximum of 60 million ordinary Hera shares with a par value of Euro1 each, in accordance with the following conditions:

- I. unit purchase price not lower than the par value and not more than 10% higher than the reference price recorded on the stock-market trading day preceding each individual purchase;
- II. the purchases and all the deeds concerning the treasury shares may occur at a price that does not involve negative economic consequences for the company, and must occur in compliance with the laws, regulations and provisions established by the supervisory body and/or Borsa Italiana Spa, involving a maximum increase in investment of 180 million Euros;
- III. use of the treasury shares purchased within the scope of transactions representing investment opportunities or other transactions involving the allocation or disposal of treasury shares;

It is also stated that the number of treasury shares in the portfolio at the close of the 2017 financial year was 15,296,304.

### 3. Compliance (pursuant to Article 123-bis, paragraph 2, letter a) of the TUF)

Hera abides by the provisions of the Corporate Governance Code (hereinafter referred to as the "Code"), which contains a detailed series of recommendations concerning principles and rules for the management and control of listed companies, in order to increase the clarity and concreteness of persons and roles, particularly with regard to the independent directors and the internal committees of the Board of Directors.

Although adoption of the principles contained in the Code is not demanded by any legal obligation, the Company agreed to the principles of the Code, and to the modifications and integrations so as to reassure investors that a clear and well-defined organisational model exists within the company, with appropriate divisions of responsibility and powers and a correct balance between management and control, as an effective tool for enhancing and protecting the value of its shareholders' investment. The full text of the Code is available to the public on the Committee for Corporate Governance website: <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>

### 4. Board of Directors

Hera is equipped with an ordinary/traditional system of governance. The following sections outline the composition and functioning of the Board of Directors and the Board of Statutory Auditors.

#### a) Appointment and replacement (pursuant to Article 123-bis, paragraph 1, letter I) of the TUF)

The shareholder's meeting held 27 April 2017 appointed a Board of Directors for three terms, with a mandate lasting from now until the approval of the financial statement for the 2019 financial year and composed of 15 members, including:

11 members taken from the list that obtained the highest number of votes according to the rank order in which they were listed, of which at least 4 must be of the less-represented gender;

4 members taken from the lists that were not the one that obtained the highest number of votes and which were neither presented nor voted on by shareholders associated with the shareholders who presented or voted for the majority list, of which at least 1 must be of the less-represented gender;

This appointment was thus made on the basis of the list voting system, in order to ensure that at least 1/5 of the directors are appointed from the minority list in compliance with the provisions of Article 4 of Legislative Decree 332 of 31 May 1994, converted from Law no. 474 of July 30 1994. 4 del D.L..

Additionally, Article 17 of the Articles of Association stipulates that the lists, which must include at least two candidates satisfying the independence requirements established for the statutory auditors by Article 148, paragraph 3 of Legislative Decree no. 58/1998 and by the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana Spa, may be submitted by shareholders who represent at least 1% of shares with voting rights and must be filed at the registered offices at least 25 days prior to the date of the Shareholders' Meeting, together with the candidates' CVs, a declaration of the individual candidates stating that they accept the office and certifying the non-existence of any ineligibility and/or incompatibility provided by law, as well as the satisfaction of the requirements of integrity, and any applicable declaration of satisfaction of the independence requirements established for the statutory auditors by Article 148, paragraph 3 of the TUF and by the Code. .

These lists must be made available to the public at the registered offices and on the website [www.gruppohera.it](http://www.gruppohera.it), no less than 21 days prior to the date of the Shareholders' Meeting.

Pursuant to Article 17.10 of the Articles of Association, if one or more directors appointed on the basis of the list voting system should leave office during the course of the financial year, their places will be filled by means of the co-opting, pursuant to Article 2386 of the Italian Civil Code, of the first unelected candidates from the list to which the departing directors belonged who have not yet been members of the Board of Directors, respecting the principles of gender balance set forth by the law. If, for any reason, no candidates are available, the Board, in compliance with the principles of gender balance set forth by the law, and again pursuant to Article 2386 of the Italian Civil Code, will carry out the co-opting. The directors thus appointed will remain in office until the next Shareholders' Meeting, which will deliberate in accordance with the procedures established for the appointment.

There is a Voting Trust and Share Transfer Rules Agreement in existence between the local authority shareholders which governs the procedures for drawing up the majority list.

### **Plans of succession**

The Board of Directors, as regards executive director nomination procedures, that are determined by public shareholders and the evaluations that can be traced to the latter, does not consider it necessary to elaborate a plan of succession for the aforementioned directors. If the mandate of the directors were to end, the function of Chairman as legal representative, will be taken over by the Vice-Chairman. The Board of Directors will have the authority to co-opt new directors to replace those who stepped down and deliberate on the allocation of proxies. The first Meeting will act to supplement the Board of Directors.

### **b) Role of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)**

The Board of Directors is the central administrative body of the Company. In conformity with the recommendations of the Code, whereby the Board of Directors must meet on a regular basis, the Company's Articles of Association require the Board to meet at least every three months and whenever the Chairman considers necessary or when requested by at least one-third of its members or by the Board of Statutory Auditors. In addition, in conformity with the recommendations of the Code, which require the Board to be organised and to operate in such a way as to guarantee the effective and efficient performance of its duties, thereby ensuring the creation of value for shareholders and defining the nature and the level of risk compatible with the issuer's strategic objectives, the Company's Articles of Association provide that the Board of Directors be vested with the widest powers for the ordinary and extraordinary management of the Company without any limitations, with the power to carry out all acts considered necessary or appropriate for the pursuit of the corporate purpose, excluding only those which, by law or by virtue of the Articles of Association, are strictly reserved to the Shareholders' Meeting.

In particular, in accordance with the provisions of the Articles of Association, and in addition to the definition of the structure of the Group, deliberations on the following matters fall to the exclusive competence of the Board:

- I. appointment and/or removal of the Chairman and Vice Chairman;
- II. appointment and/or removal of the CEO and/or the General Manager;
- III. formation and composition of the Executive Committee, appointment and/or removal of the members of the Executive Committee;
- IV. determination of the powers delegated to the Chairman, the CEO and/or the General Manager and/or the Executive Committee, and modification of those powers;
- V. approval and modification of any long-term plans or business plans;
- VI. approval and modification of Group regulations, if adopted;
- VII. recruitment and/or appointment, on the proposal of the Group CEO, of the managers responsible for each departmental area;
- VIII. proposal to place on the agenda of the extraordinary Shareholders' Meeting the modification of Article 6.4 (Shares and increased voting rights), Article 7 (Public majority shareholding), Article 8 (Limits on shareholdings), Article 14 (Validity of Shareholders' Meetings and rights of veto) and Article 17 (Appointment of the Board of Directors) of the Articles of Association;
- IX. the acquisition and disposal of equity investments with a value exceeding Euro 500,000;
- X. purchase and/or sale of properties with a value exceeding Euro 500,000;
- XI. provision of sureties, liens and/or other real guarantees with a value exceeding Euro 500,000;
- XII. purchase and/or sale of companies and/or business units;
- XIII. appointment of directors of subsidiaries and/or affiliates;

**XIV.** participation in calls for tender and/or public procedures involving the assumption of contractual obligations exceeding Euro 25 million.

The Board of Directors, in conformity with the provisions of Article 23 of the Articles of Association and Article 150 of Legislative Decree no. 58/98, reports regularly to the Board of Statutory Auditors, at least every three months, normally during the meetings of the Board of Directors or even directly through a written memorandum sent to the Chairman of the Board of Statutory Auditors, on the activities carried out and on the most important economic, financial and asset-related operations carried out by the Company or its subsidiaries, as well as on the operations in which the directors have an interest, on their own behalf or that of third parties, or which are influenced by the party that exercises the activity of direction and coordination. Each director, pursuant to Article 2391 of the Italian Civil Code, informs the other directors and the Board of Statutory Auditors of any interest which, on his own account or that of third parties, he has in a given operation of the Company, indicating the nature, terms, origin and extent of that interest; if the director concerned is the Group CEO, he must refrain from carrying out the operation and entrust it to the Board.

The Board of Directors met on 10 occasions in 2017. All the directors took part in 4 of these meetings, while almost all of them took part in the other 6; all the statutory auditors took part in 8 of the meetings, while almost all of them took part in 2. The average length of the meetings of the Board of Directors was approximately two hours and thirty minutes.

The General director of Operations, invited to participate in the meetings of the Board of Directors, attended all of the meetings.

The Head of Legal and Corporate Affairs, in his capacity as Secretary of the Board of Directors, attended all of the meetings.

When so required, the managers responsible for the various departmental areas participated in the meetings of the Board of Directors, to refer on matters falling under their competence that are part of the agenda.

Regarding the current financial year, as of 27 March 2018, a total of three Board of Directors meetings have been held; All the directors and standing statutory auditors took part in 1 of these meetings, while the other meeting was attended by almost all of the current directors and all the standing statutory auditors. As of that date, 7 meetings of the Board of Directors had been planned for the remainder of the year.

#### **Transactions with Related Parties**

At its meeting of 10 October 2006, the Board of Directors of Hera S.p.A. approved, in compliance with the Corporate Governance Code then in force, the guidelines for significant transactions, transactions with related parties and transactions in which a director has an interest (Guidelines), in order to ensure that these transactions are conducted transparently and in conformity with the criteria of substantive and procedural correctness.

Subsequently, the Board of Directors of Hera Spa approved the new procedure for transactions with Related Parties (Procedure) in compliance with the provisions of the Consob Regulation adopted by virtue of Resolution no. 17221 of 12 March 2010 and subsequent amendments and integrations thereto (Consob Regulation), thereto subsequently updated on 21 December 2015 ("Consob Regulation").

The Procedure cancels and completely replaces the rules on transactions with Related Parties contained in the Guidelines, but there is no change to the existing rules set out in the Guidelines concerning significant transactions and transactions in which a director has an interest.

In the Procedure, the Board of Directors fully adopted the definitions of related parties and transactions with related parties, as well as all the directly associated definitions, contained in the Consob Regulation and its annexes.

In particular, the following were identified:

1. the types of transactions with Related Parties to which the Procedure applies:
  - transactions of major importance, or transactions in which at least one of the indices of importance determined by the Consob Regulation exceeds the threshold of 5%;
  - transactions of minor importance, or transactions with related parties that are neither of major importance nor of negligible amount;
  - Transactions with Related Parties;
  - ordinary transactions, or transactions which (a) fall within the ordinary conduct of the company's operating activities or associated financial activities; and (b) are carried out under conditions: (i) similar to those normally applied to unrelated parties for transactions of a comparable nature, scale and risk, (ii) based on regularly applied tariffs or established

- prices, or (iii) comparable with those applied to parties with whom the company is legally obliged to deal for a determined consideration;
  - transactions of negligible amount, or transactions for which the maximum foreseeable amount of the consideration or of the value of the service does not exceed, for each transaction, the sum of Euro1 million;
  - transactions with related parties carried out by subsidiaries.
2. the approval process for Transactions of Major and Minor Importance, depending on whether they involve:
- transactions of minor importance falling within the competence of the Board of Directors, which are approved by the Board of Directors after hearing the reasoned but non-binding opinion of the Committee for Operations with Related Parties (hereinafter referred to as "Committee") regarding the interest, appropriateness and substantive correctness of the transaction;
  - Transactions of Major Importance falling with the competence of the Board of Directors, in which the Committee must be involved in the negotiation and investigation phases and in which the transaction may be approved following the receipt of a reasoned favourable opinion from the Committee regarding the interest, appropriateness and substantive correctness of the transaction, that is, following a vote in favour by a majority of the independent directors;
  - transactions of minor and major importance falling with the competence of the Shareholders' Meeting, for which the proposals must follow the same procedure as that for transactions falling with the competence of the Board of Directors, as described in the previous two points, and which must in any event receive a favourable opinion from the Committee.

The Procedure provides that the Committee charged with guaranteeing, by issuing specific opinions, the substantive correctness of dealings with related parties, must be in agreement with the Internal Control and Risks Committee.

The Procedure also identifies the cases to which the Procedure does not apply, as well as governing the procedures for communication with the public on the transactions carried out.

Beginning May 2014, a specific Operational Guideline was applied by Hera and its subsidiaries and subsequently updated on 31 March 2016, in order to detail the information reported in the Procedure and outline the rules, roles and responsibilities, as well as operational activities, implemented by the company.

### **c) Composition of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the TUF)**

The Board of Directors, in conformity with the provisions of Article 1.C.1. letter g) of the Code, evaluates on an annual basis the size, composition and functioning of the Board itself and its committees.

This evaluation was carried out with the support of the external consultancy Spencer Stuart, governance experts and administrative body consultancy services, and is based on the following criteria:

- interviews with the members and chairman of the Board of Statutory Auditors;
- analyses of international best practices;
- an examination of company documents.

The interviews with the directors showed a very high overall level of appreciation for the way the Board operates: the responses, in keeping with the topics presented in the interview schedule, amounted to 96%.

The company Spencer Stuart, which supported the Board of Directors in this assessment, reported a very high level of appreciation overall, in comparison with other boards in Italy and abroad.

On 27 March 2018, the Board of Directors expressed a positive judgment with regards to the size, composition and functioning of the Board itself as well as its associated committees.

The table below shows the current composition of the Board of Directors. The personal and professional details of each director are available on the website [www.gruppohera.it](http://www.gruppohera.it)

Name and Surname	Office held	Qualification
Tomaso Tommasi di Vignano	Executive Chairman	Executive director
Stefano Venier	CEO	Executive director
Giovanni Basile	Vice Chairman	Non-executive director independent
Francesca Fiore	Director	Non-executive director independent
Giorgia Gagliardi	Director	Non-executive director independent
Massimo Giusti	Director	Non-executive director independent
Sara Lorenzon	Director	Non-executive director independent
Stefano Manara	Director	Non-executive director independent
Danilo Manfredi	Director	Non-executive director independent
Alessandro Melcarne	Director	Non-executive director independent
Erwin P.W. Rauhe	Director	Non-executive director independent
Duccio Regoli	Director	Non-executive director independent
Federica Seganti	Director	Non-executive director independent
Marina Vignola	Director	Non-executive director independent
Giovanni Xilo	Director	Non-executive director independent

### Diversity Policies

The appointment of the Board of Directors took place during the Shareholders' Meeting held on 27 April 2017, following the presentation of three lists, a majority and two minority lists, which additionally ensured that the body's composition complies with the regulatory provisions on gender balance (five members of the less represented gender out of a total of fifteen directors).

The advisers, who have an average age of approximately 50, are professionals in financial, economic and legal areas as well as in sustainability, social and environmental issues.

The Board of Directors has expressed a high level of appreciation regarding its composition, the characteristics of its components and its operation.

### Accumulation of positions in other companies

In a resolution dated 10 October 2006, the Board of Directors placed a limit of one on the maximum number of posts of director or statutory auditor in listed companies that can be regarded as compatible with the role of executive director, and a limit of two on the maximum number of posts of director or statutory auditor in listed companies that can be regarded as compatible with the role of non-executive director.

The Board of Directors ensures that its own members participate in initiatives aimed at increasing their own knowledge of Hera's sector of activities, its company dynamics and their developments, as well as the regulatory reference frame.

### d) Delegated bodies

In Hera Board of Directors includes two executive directors, the chairman and the CEO, to whom various business sectors report and to whom have been granted the following powers, as further explained below.

Neither of the two executive directors can be described as the principal supervisor for the management of the company (chief executive officer).

### Chairman of the Board of Directors

The Board of Directors passed a resolution to grant the following powers to the Chairman:

1. to chair and direct the Shareholders' Meetings;
2. to establish the agenda of the meetings of the Board of Directors, taking into account the proposals of the CEO;
3. to oversee the deliberations of the Company's administrative bodies, without neglecting the reports presented periodically by the Internal Auditing Department;
4. to represent the Company before third parties and in legal proceedings, with the power to appoint attorneys and lawyers;
5. in cases of urgency, in association with the CEO, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
6. in association with the CEO, to propose to the Board of Directors the appointment of Company representatives on the administrative and control bodies of affiliate companies;
7. to represent the company in relations with the shareholding Public Authorities;
8. to propose to the Board the candidates for membership of the Committees that the Board may decide to establish in compliance with the Stock Exchange regulations which the Company is obliged to observe, or that it intends to establish;
9. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
10. to supervise the Company's performance for the purposes of achieving the corporate goals and to draw up proposals relating to the management of the Company to be submitted to the Board of Directors;
11. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
12. to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
13. to supervise the management of the Company and, as far as his authority permits, of its subsidiaries, reporting each month to the Board of Directors;
14. to draw up the Long-term Plans to be submitted to the Board of Directors; to implement corporate and Group strategies, within the context of the directives established by the Board, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
15. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
16. to represent the Company in the shareholders' meetings of companies, associations, entities and bodies that do not constitute joint-stock companies, of which the Company is a member, with the power to issue special proxies;
17. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
18. to actively or passively represent the Company before public and private entities and offices, Chambers of Commerce, Stock Exchanges, the National Commission for Listed Companies and the Stock Exchange (Consob), the Ministry for Foreign Trade, and the Italian Exchange Office, and any other Public Administration or Authority; by way of example:
  1. a. to sign notices, including notices to the General Register of Shares and to Consob, and to fulfil the corporate obligations provided by law and regulations;
  2. to submit reports, motions and appeals, to apply for licences and authorisations;
19. to represent the Company in all active and passive lawsuits, in all degrees of civil and administrative proceedings, before arbitration boards, with the widest powers to:
  - a) to bring jurisdictional, conservative, restraining and executive actions, request summary judgments and seizures of property and oppose the same, enter civil proceedings, file motions and appeals;
  - b) request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;
20. to stipulate and sign contracts and deeds to take on or dispose of shares, to constitute companies, associations and consortiums with a value not exceeding Euro 500,000 for each transaction;



21. to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of Euro 300 thousand for each operation;
22. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
23. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate mission - including those relating to intellectual achievements, trademarks and patents - also in association with other companies, up to a limit of Euro 2 million for each transaction;
24. to provide for all the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:
  3. works and supplies necessary for the transformation and maintenance of properties and plants up to an amount of Euro 20 million for each individual operation;
  4. purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, up to an amount of Euro 10 million for each individual operation, as well as finance leases and rentals of such assets, with the cost limit referring to the annual rental;
  5. purchases, including those under usage licence with the cost limit referring to the annual premium, and job orders relating to EDP programmes;
  6. commercial information;
25. to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGEIs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;
26. to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international levels, both private and public, including those connected to state grants or calls for tenders, for awarding work projects or facility provision, including for turnkey contracts and/or study and/or research and/or services in general, from any national, EU or international body; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of Euro 25 million for each individual operation - in cases of urgency, the decision concerning amounts exceeding Euro 25 million will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, to sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
27. to take out, modify and cancel insurance policies, with the cost limit referring to the annual premium, including for surety policies, up to the value of Euro 500 thousand for each operation (this limit will not apply to transactions connected with participation in tenders);
28. to draw up, sign and implement deeds of sale, purchase, and expropriation of properties and to grant, modify or cancel the in rem rights associated with these properties, with the option of carrying out all the operations associated with and consequent to this, including paying and/or receiving, also in installments, the payment, and to pay out possible damages and waive statutory mortgages, up to a total of Euro 500 thousand for each operation;
29. to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and to initiate expropriation proceedings for properties, installations, equipment and plants serving these networks, as well as any other deed that might become necessary for fine-tuning the easements in question, with the authority to execute all the associated and consequent deeds, including paying and/or receiving, also in installments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of Euro 500 thousand for each operation;
30. to rent or let out properties under leases or subleases and stipulate, amend and terminate the relative contracts;

31. to deliberate the cancellation, reduction or restriction of mortgages or liens registered in favour of the Company, as well as subrogations in favour of third parties, where the aforesaid cancellations and waivers are requested further or subordinate to the full discharge of the credit;
32. to establish, register and renew mortgages and liens on the account of third parties and to the benefit of the Company; permit mortgage cancellations and limitations on the account of third parties and to the benefit of the Company for return and reduction of obligations; waive mortgages and mortgage subrogations, including those of a legal nature, and effect any other mortgage transaction, always on the account of third parties and to the benefit of the Company, and therefore receivable, exonerating the competent property registrars from each and every responsibility;
33. to appoint lawyers and attorneys for dispute proceedings of any judicial degree; conclude transactions up to a maximum of Euro 5 million for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
34. to define the functional structures of the Company and its subsidiaries, within the framework of the general organisation guidelines established by the Board, specify the criteria for personnel hiring and management in compliance with the annual budget; propose the engagement of directors for each department to the Board of Directors, in consultation with the Executive Committee; engage, appoint and dismiss personnel in accordance with the provisions contained in the annual budgets; promote disciplinary sanctions, dismissals and any other measure in relation to personnel;
35. to represent the Company in all lawsuits pertaining to labour law, including the power to:
  7. settle individual labour disputes concerning the categories of officers, clerical workers, assistants and auxiliaries;
  8. request and oppose any evidence, undergo free or formal examination, elect domicile, appoint lawyers, attorneys and arbitrators, and perform whatever else may be necessary for the positive outcome of the lawsuits at issue;
36. to represent the Company before Social Security and Welfare offices and entities for the settlement of issues relating to employees of the Company, and also before Trade Unions in negotiations for contracts, agreements and labour disputes, with the power to sign the related documents;
37. to grant and revoke powers of attorney within the scope of the aforesaid powers, for individual deeds or categories of deeds, to both employees of the Company and to third parties including legal entities;
38. as far as his authority permits, to decide the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than Euro300 thousand for each operation;
39. the Chairman is assigned the powers and responsibilities set forth in Legislative Decree no. 196 of 30 June 2003 concerning the protection of individuals and other parties with regard to the processing of personal data, with the power of delegation;
40. the Chairman, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is charged, as far as his authority permit, with the establishment and maintenance of the Internal Control and Risk Management Systems. To this end, as far as his authority permits, he:
  - a) ensures that the Risk Committee identifies the main business risks, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors;
  - b) implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their overall appropriateness, effectiveness and efficiency;
  - c) and ensuring that the System is suited to the dynamics of the operating conditions and of the legislative and regulatory context;
  - d) may ask the Internal Auditing Structure to perform checks on specific operational areas, and on compliance with internal rules and procedures in carrying out corporate operations,
  - e) promptly informs the Control and Risks Committee (or the Board of Directors) regarding problem areas or issues that emerge in carrying out his activities or of which he has been informed, in order that the Committee (or Board) may take appropriate actions.

In relation to the powers listed above, and in conformity with Article 2 of the Code, it is noted that the Board of Directors has granted management authority to the Chairman due to the organisational complexity of the Hera Group and for the purposes of a more efficient achievement of the company's business and strategies.

## CEO

The Board of Directors passed a resolution to vest the Group CEO with the following powers:

1. to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
2. in cases of urgency, in association with the Chairman, to make any decision falling within the competence of the Board of Directors, informing the Board of Directors accordingly at its next meeting;
3. to implement corporate and Group strategies, within the context of the directives established by the Board of Directors, and to exercise the delegated powers, particularly those listed here, in accordance with the said strategies and directives;
4. to propose to the Board any initiatives that he may deem useful to the interests of the Company and the Group, and to draw up proposals on matters reserved to the competence of the Board;
5. to draw up the annual budget to be submitted to the Board of Directors;
6. to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
7. to make monthly reports to the Board of Directors, as far as his authority permits, as regards the specified subsidiary companies;
8. to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
9. to stipulate, amend and terminate agreements concerning lines of credit or loans of any type and duration involving a cost commitment of up to Euro1 million for each individual transaction;
10. to open and close current accounts with banks and credit institutions, withdraw sums from the accounts held in the Company's name, issuing for this purpose the relative cheques or equivalent credit documents, and order transfers utilising available funds or lines of current account credit;
11. to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
12. to draw bills on customers, endorse also for discount promissory notes, bills and drafts, as well as cheques of any kind, and effect any consequential transaction;
13. to grant credit and accept credit transfers from suppliers (reverse factoring and/or indirect factoring contracts) on behalf of the Company, with and/or without recourse, up to a maximum amount of Euro 250 million for each individual transaction, and to work with factoring companies and institutions, signing all related deeds;
14. to actively and passively represent the Company before the Tax Authorities and Commissions of any nature and rank, as well as before the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, and Post and Telegraphic Offices; by way of example:
  - a) to sign tax and VAT returns and to fulfil any other tax-related obligations;
  - b) to submit reports, motions and appeals, to apply for licences and authorisations;
  - c) to issue receipts, in particular for payment orders in relation to credits subject to factoring operations;
  - d) to perform any transaction at the Cassa Depositi Prestiti, the Bank of Italy, Customs Offices, Post and Telegraphic Offices for the shipment, deposit, clearance and collection of goods, credit instruments, parcels and packages or registered and insured letters, issuing receipts for the same;
15. to issue guarantees and grant loans, and sign bank surety agreements up to the value of Euro500 thousand for each transaction; this limit shall not apply to transactions relating to participation in tenders; issue, accept and endorse credit instruments;
16. to participate, as far as his authority permits, in the capacity of representative of the Company, as Parent Company or as principal company, in the formation of joint ventures, TACs (Temporary Associations of Companies), EGELs (European Groups of Economic Interest), consortiums and other entities, issuing and receiving the relative mandates, for the purpose of participating in tenders for the awarding of works, services and supplies;

17. to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGEIs (European Group of Economic Interest), consortiums and other entities, in tenders for contracts or concessions, auctions, private invitations to tender, private negotiations, calls for bids and other public auctions at national, EU and international levels, both private and public, including those connected to state grants or calls for tenders, for awarding work projects or facility provision, including for turnkey contracts and/or study and/or research and/or services in general, from any national, EU or international body; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of Euro 25 million for each individual operation - in cases of urgency, the decision concerning amounts exceeding Euro 25 million will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, to sign the relevant documents, contracts and commitments, including the issue of guarantees and/or the establishment of guarantee deposits, with the widest powers to negotiate, settle and/or complete all the clauses that he may deem necessary and/or appropriate and/or useful;
18. as far as his authority permits, to stipulate, amend and terminate commercial and service agreements of any nature with companies and entities;
19. as far as his authority permits, to stipulate, with all the appropriate clauses, assign and terminate contracts and agreements pertaining in any manner to the corporate mission - including those relating to intellectual achievements, trademarks and patents - also in association with other companies, up to a limit of Euro 2 million for each transaction;
20. to establish, in the Company's interests, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, all within the limits of Euro 300 thousand for each operation;
21. to conclude transactions up to an amount of Euro 5 million for each individual operation, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
22. to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and to initiate expropriation proceedings for properties, installations, equipment and plants serving these networks, as well as any other deed that might become necessary for fine-tuning the easements in question, with the authority to execute all the associated and consequent deeds, including paying and/or receiving, also in installments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of Euro 500 thousand for each operation;
23. to grant and revoke powers of attorney within the scope of the aforesaid powers, for individual deeds or categories of deeds, to both employees of the Company and to third parties including legal entities;
24. as far as his authority permits, to decide the Company's subscription to bodies, associations and entities of a scientific or technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the entity concerned and where participation in the same does not involve an outlay of more than Euro 300 thousand for each operation;
25. the CEO is assigned the role of employer pursuant to and for the purposes of Article 2 of Legislative Decree 81 of 9 April 2008 and subsequent amendments and integrations, with the duties provided for therein and with the power to delegate, as far as is permitted by said decree, the performance of any activity useful and/or necessary for ensuring compliance with the provisions of the law, with the exception of the following Sectors/Structures, for which the role of Employer is attributed as indicated below:
  - a) Mr. Marcello Guerrini, as Corporate Systems Central Director.
  - b) Mr. Roberto Barilli, as General Operations Director and in particular for the regulated services planning and coordination department and as director of the Environmental Services department (for the latter office, beginning in 2018 the role of employer will be filled by the new Environmental Services director).
  - c) Mr. Salvatore Molè, as Innovation Central Director;
  - d) Mr. Franco Fogacci, as Director of Water;
  - e) Mr. Cristian Fabbri, as Director of the Central Market Department (especially for activities regarding district heating, the Imola cogenerator productive unit and all the plants and activities falling under this authority).
26. the CEO is responsible for managing activities relating to the Register of Freight Carriers, with the power of delegation;

27. the CEO, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, is charged, as far as his authority permits, with the establishment and maintenance of the Internal Control and Risk Management Systems. To this end, as far as his authority permits, he:
- a) ensures that the Risk Committee identifies the main business risks, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, and periodically presents those risks for examination by the Board of Directors,
  - b) implements the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their overall appropriateness, effectiveness and efficiency,
  - c) and ensuring that the System is suited to the dynamics of the operating conditions and of the legislative and regulatory context,
  - d) may ask the Internal Auditing Structure to perform checks on specific operational areas, and on compliance with internal rules and procedures in carrying out corporate operations,
  - e) promptly informs the Control and Risks Committee (or the Board of Directors) regarding problem areas or issues that emerge in carrying out his activities or of which he has been informed, in order that the Committee (or Board) may take appropriate actions.

#### Information to the Board

In conformity with the recommendations of the Code, the delegated bodies report to the Board of Directors and to the Board of Statutory Auditors, at least every three months, on the activities carried out in exercising the powers delegated to them.

The Chairman, so as to guarantee the timeliness and completeness of pre-council briefing, ensures that each director and statutory auditor has at their disposal all of the information and documentation necessary for discussing the items on the agenda of the meetings of the Board of Directors at least three days before the meeting, with the exception of cases of necessity and urgency.

Lastly, the Chairman and the CEO ensure that the Board of Directors is also informed on the most important changes in legislation and regulations relating to the Company and the corporate bodies.

#### e) Executive Committee

The Board of Directors, appointed during the Shareholders' Meeting of 27 April 2017, in office until the natural expiration of the administrative body's term, and therefore until the approval of the financial statements as of 31 December 2019, as provided for by Article 23.3 of the Articles of Association, at its meeting of 10 May 2017, appointed the Executive Committee consisting of the following members:

Tomaso Tommasi di Vignano	Chairman of the Executive Committee
Giovanni Basile	Vice Chairman of the Executive Committee;
Stefano Venier	member of the Executive Committee;
Federica Seganti	member of the Executive Committee.

With regard to the annual definition of the Group business plan and the budget and to the proposals for the appointment of first level senior executives for each departmental area, the Committee has the task of expressing an opinion prior to presentation to the Board of Directors, and also of deciding:

1. as to contracts and agreements in any way pertaining to the corporate purpose with a value exceeding Euro2 million for each individual contract;
2. in the interests of the Company, consultancy relationships with external experts and professional consultants, specifying the terms and conditions of payment, with a value exceeding Euro 300 thousand and up to Euro 1 million for each operation;
3. as to the Company's subscription to bodies, associations and entities of a scientific and technical nature or pertaining to studies and research within the Company's field of interest, where the related subscription fees do not represent an interest in the equity of the said entity and where participation in the same involves an outlay of more than Euro 300 thousand and up to Euro 1 million for each operation;
4. to settle disputes and/or waive credits of an amount exceeding Euro 5 million;
5. as to the activation, amendment and termination of contracts for the opening of lines of credit or loans of any type and duration involving a cost commitment of more than Euro1 million and up to Euro5 million for each operation;
6. as to issuing calls for tender and/or the stipulation, amendment and termination of contracts for investments relating to:

- works and supplies necessary for the transformation and maintenance of properties and plants for an amount exceeding Euro 20 million for each operation;
- purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, with a value exceeding Euro 10 million for each operation.

Furthermore, the Committee has the task of:

7. examining Audit Reports on a three-monthly basis
8. supervising, in conformity with the system of delegations defined within the Company, the implementation of the action plans arising from the audit reports;
9. examining the reports for the mapping and monitoring of financial risks on a three-monthly basis.

The Board of Directors met on 4 occasions in 2017, and all of the meetings were attended by all members. The average duration of the meetings of the Executive Committee was approximately one hour and forty minutes.

#### **f) Independent directors**

There are currently 13 directors qualifying as non-executive independent members of the Board; Giovanni Basile, Francesca Fiore, Giorgia Gagliardi, Massimo Giusti, Sara Lorenzon, Stefano Manara, Danilo Manfredi, Alessandro Melcarne, Erwin P.W. Rauhe, Duccio Regoli, Federica Seganti, Marina Vignola e Giovanni Xilo satisfy the requirements of independence established by the Code of Self-Discipline and article 148, paragraph 3 of the TUF.

The Board of Directors assessed the independence of the aforementioned directors was assessed, at the time of their appointment and announced the outcome through a press release issued to the market

The following circumstances do not invalidate the requirements of independence of a director: the appointment of the director by the shareholders or group of shareholders controlling the Company; the holding of the office of director of a subsidiary of the Company and receiving the related remuneration; the holding of the office of member of one of the advisory Committees cited below.

Although none of the current directors has a office lasting over nine years, the Board of Directors, in keeping with what occurred in previous financial periods, reserves the right to gauge the independence of its members, as far as the duration of their position is concerned, on a case by case basis, prioritising substance over form.

The Board of Statutory Auditors, in conformity with the provisions contained in Article 3 of the Code, has checked the correct application of the criteria and assessment procedures adopted by the Board of Directors for ascertaining the independence of its members.

#### **Lead independent director**

The appointment of the Lead independent director has not occurred, in the absence of the requirements established by the Corporate Self-Discipline Code, and in the absence of a specific request to that effect by independent directors.

#### **Induction**

As occurred in the past, steps were taken to organise several training events, both specific and as part of the Board's meeting, intensifying this activity in order to ensure that the directors acquire adequate knowledge of the main issues related to the company as quickly as possible.

After the specific induction sessions carried out in 2017 to provide the board members with an appropriate understanding of the main sectors of activity (networks, energy and environment), several training events were organized, as part of the Board of Directors' meetings, regarding business issues, investments, organization, market scenario, regulatory developments, next calls for tenders and risk management.

Further studies were carried out during the strategy day, which gave the opportunity to develop a number of key topics in relation to the future of society.

## **5. Handling of corporate information**

For the purposes of governing the communication to the sector Authorities and to the public of notices, data and privileged information pertaining to the management and activities carried out, whose dissemination might have an impact on the processes used for valuing the Company's shares, and

consequently on the levels of demand and supply of those shares, the Board of Directors updated the specific Group procedure, coming into effect beginning July 3, 2016, adopting the new legislation introduced by the European regulation on Market Abuse Regulation (Mar) (EU regulation 596/2014, directive 2014/57/EU, EU Execution regulation 2016/347 and 2016/1055).

This procedure aims at:

- I. identifying privileged and confidential information;
- II. defining procedures for authorization and management within the Group;
- III. governing the procedures for external communication in terms of documentation, notices issued, interviews given, statements made and meetings conducted.

Consequently, in application of the new procedure with regard to internal dealing updated by Hera Spa on July 3, 2016 of the Mar (EU regulation 596/2014, directive 2014/57/EU, EU Execution regulation 2016/523 and 2016/522) the following individuals have been identified as significant parties obliged to inform Consob of the transactions they have carried out on Hera S.p.A.'s financial instruments, the members of the Board of Directors, the Statutory Auditors and the Executive Director as well as the holders of shares, calculated in keeping with article 118 of the Consob Issuers' Regulation, equal to at least 10% of the Company share capital, comprising shares with voting rights as well as the individuals directly associated with the latter.

This procedure governs the timescales and modes for communicating the operations carried out by the significant parties. Hera Spa has identified the Legal and Corporate Affairs Department as the entity responsible for receiving, managing and disseminating this type of information to the market.

The responsible entity will utilize the External Relations Department for disseminating the information to the market.

With effect beginning 3 July 2016, Hera Spa also updated the procedures for drafting and maintaining, as well as the content of the list of people with access to confidential information in compliance with the provisions introduced by Mar (EU Regulation 596/2014, Directive 2014/57 / EU, EU implementation Regulation 2016/347), which, in particular, expanded the concept of privileged information, establishing that it is an information with a precise nature which has not been made public, relating, directly or indirectly, one or more issuers or one or more financial instruments and which, if made public, could have a significant effect on the prices of such financial instruments or associated derivative financial instruments, and introducing the concept of privileged information gradually developing.

## 6. Internal Committees of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the Tuf)

The internal committees, established pursuant to the Borsa Italiana Spa's Code of Conduct, represent an internal organ of the Board of Directors with the role of consulting and making proposals; their composition is available on the [www.gruppohera.it](http://www.gruppohera.it) website.

These committees work on the basis of internal regulations and / or communicational rules towards the Board of Directors designed to guarantee correct and efficient operation.

The Board of Directors, renewed on 27 April 2017, redefined the composition of the afore-mentioned committees at its meeting of 10 May 2017.

### a) Appointments Committee

It was decided that the Board of Directors would fulfil the functions of the Appointments Committee, also in view of the fact that the appointment of Board of Directors members is carried out by shareholders through list voting at the Shareholders' meeting.

### b) Remuneration Committee

The remuneration committee regularly evaluates the adequateness, overall consistency and concrete application of the policy adopted for the remuneration of Executive Directors and the Managers carrying out strategic tasks, on the basis of the information disclosed by the CEOs; the committee also reports suggestions for improvement to the Board of Directors .

The Committee additionally submits to the Board of Directors suggestions or expresses opinions on the remuneration of the executive directors and other directors holding particular offices as well as on setting performance targets related to the variable component of remuneration; it also monitors the actual achievement of the performance targets.

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 4 November 2002 and most recently renewed, in its latest format, on 10 May 2017, comprises the following non-executive, independent directors: Giovanni Basile acting as Chairman, Francesca Fiore, Massimo Giusti and Stefano Manara.

Note that the Chairman Giovanni Basile as well as the member Massimo Giusti have experience in accounting and financial matters, judged adequate by the Board of Directors at the time of the appointment. At the express invitation of the Chairman of the Committee, the Chairman of the Board of Directors and the Group CEO can attend the Committee's meetings.

The Executive Committee met on 3 occasions in 2017. All the members took part in 2 of these meetings, while almost all of them took part in the remaining 1. The meetings of the Remuneration Committee lasted, on average, of one hour and thirty minutes.

In 2017, the Remuneration Committee handled matters relating to remuneration policies, subject to approval by the Board of Directors at the time of the 2017 financial statements.

The Remuneration Committee proposed the introduction, after the renewal of the Board of Directors which will take place during the Shareholders' Meeting scheduled for 27 April 2017, of a claw-back clause for executive directors, as well as the introduction of a clause providing, in case of resignation, dismissal or termination of the position, a claim for compensation in the amount of 18 monthly salaries. For additional information, please see the Remuneration Report pursuant to Art.123-ter Tuf.

### **c) Controls and Risks Committee**

#### **Composition and functioning of the Controls and Risks Committee (pursuant to Article 123-bis, paragraph 2, letter d) of the Tuf)**

As established by the Code, the Board of Directors, at its meeting of 4 November 2002, passed a resolution to establish the Internal Controls Committee: Subsequently, during the course of the Company's Board of Directors meeting that took place 17 December 2012, in application of updates to the Code of Self-Discipline, the Internal Control Committee took on the additional function of Risk Management Committee in order to manage the Company's risks and support the administrative body in associated assessments and decisions. This Committee, which was renewed on 27 April 2017, comprises the directors Giovanni Basile as Chairman, Erwin Paul Walter Rauhe, Duccio Regoli and Sara Lorenzon. Note that the Chairman Giovanni Basile as well as the member Massimo Giusti have experience in accounting and financial matters, judged adequate by the Board of Directors at the time of the appointment.

The Board of Directors met on 7 occasions in 2017, and all of the meetings, in which the minutes were regularly taken, were attended by all members. The average length of the meetings of the Internal Controls Committee was approximately one hour and thirty minutes.

#### **Functions assigned to the Controls and Risks Committee**

The control and risk Committee is responsible for supervising the functionality of the internal control system, the efficiency of business processes, the reliability of the information provided to the corporate bodies and the market, as well as compliance with laws and regulations and on protection of company assets.

The Controls and Risks Committee is tasked with supporting the decisions and assessments of the Board of Directors in relation to the internal control and risk management system and concerning the approval of periodic financial reports through adequate surveying and evaluative activities.

In carrying out its supportive role in relation to the Board of Directors, the Committee therefore expresses its judgment concerning:

- a) the definition of the guidelines of the internal control and risk management system in such a way that the primary risks faced by HERA and its subsidiaries are identified correctly and properly measured, managed and monitored, determining moreover the compatibility criteria of such risks with healthy and proper corporate management;
- b) at least on a bi-annual basis, the adequacy and effectiveness of the internal control and risk management system in relation to the characteristics of the enterprise and the risk profile it has assumed;
- c) at least on an annual basis, the work plan drafted by the Supervisor of the Internal Auditing Structure in consultation with the Board of Statutory Auditors and the Directors in charge of the internal control and risk management system.



In addition, in order to aid the Board of Directors, the Committee specifically:

- d) together with the Appointed Manager in charge of drafting corporate financial documents and in consultation with the legal auditor and Board of Statutory Auditors, evaluates the proper use of accounting principles and their homogeneity in relation to drafting balance sheets and financial statements more generally;
- e) expresses its judgment regarding specific aspects of the identification of primary corporate risks;
- f) analyses periodic reports concerning the assessment of the internal control and risk management system as well as those drafted on at least a bi-annual basis by the Supervisor of the Internal Auditing Structure;
- g) communicates to the Board of Directors its preventative judgment regarding the proposals developed by the Directors in charge of the internal control and risk management system in relation to measures regarding the appointment and dismissal of the Supervisor of the Internal Auditing Structure, allotting this figure adequate resources for the completion of his or her responsibilities as well as establishing appropriate remuneration in keeping with corporate policies;
- h) monitors the autonomy, effectiveness and efficiency of the Internal Auditing Structure;
- i) evaluates the findings of the Internal Auditing Structure Supervisor's reports, of statements from the Board of Statutory Auditors and each of its individual members, of reports and any possible management letters from Independent Auditors, and of surveys and investigations carried out by other committees of the company and third parties;
- j) may ask the Internal Auditing Structure to perform checks on specific operational areas, contextually communicating the results to the president of the Board of Statutory Auditors;
- k) communicates to the Board of Directors about the activities performed by and the adequacy of the internal control and risk management system at least on the occasion of the annual and bi-annual approval of the financial statement.

During the course of the meetings held during 2017 financial year, which were duly recorded, the following measures were carried out:

assessment and approval of periodic reports;  
 assignment of the Controls and Risks Committee;  
 update of ongoing and completed audits;  
 illustrating the new Erm map.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the Chairman and, at the express invitation of the Chairman of the Committee, the Chairman of the Board of Directors and the Group CEO, attend the Committee's meetings.

In the performance of its functions, the Controls and Risks Committee had access to the information and business functions necessary for carrying out its duties.

In relation to the 2017 financial year and following the quarterly reports released by the Controls and Risks Committee, the Board of Directors has approved the adequacy, efficacy and effective functioning of the internal control and risk management system in relation to the features of the company and the type of risks it takes on.

#### **d) Ethics Committee**

##### **Composition and functioning**

During its meeting of 12 September 2007, the Board of Directors of Hera Spa established the text of the mission and values and working principles of the Group, and consequently approved the updated version of the Code of Ethics that constitutes a social responsibility tool for the Company in implementing ethical principles inspired by good practices and aimed at the pursuit of the Company's mission.

Consequently, in application of Article 60 of the aforementioned Code, the Board of Directors, at its meeting of 8 October 2007, set up a suitable Committee, in compliance with what is set forth in article 66 of the code requiring that the Ethics committee be composed of at least 3 members, including at least one director of the company as well as two experts in social responsibility and the topics dealt with in legislative decree 231/01, additionally specifying that at least one member must be external.

This Committee comprises a director of Hera Spa in the person of Massimo Giusti, Mario Viviani, and a manager with expertise in matters of social responsibility.

In the 15 February 2017 meeting, Hera Spa's Board of Directors decided that the code had to be updated again in its fourth edition, in keeping with a process of sharing with the social partners, as well as benchmarking of similar companies and a forum involving executives and directors of the Company. The Ethics Committee met on 7 occasions in 2017, and all of the meetings were attended by all members. The average duration of the meetings of the Ethics Committee was approximately two hours.

#### **Functions of the Ethics Committee**

The Ethics Committee is responsible for monitoring the dissemination and implementation of as well as compliance with the principles of the code of ethics. Since 2008, the year the Code of Ethics came into effect, an ethics committee was established for which Whistleblowing policies are in effect, designed to provide a confidential and direct channel of communication with the committee for all the stakeholders interested in reporting any possible conduct in violation of the code and the values promoted by the Group.

In the meetings held during the course of the financial year the Committee closely examined the notices and related preliminary inquiries carried out with the relevant departments.

## **7. Internal Control and Risk Management System**

The Internal Control and Risk Management System is integrated into the broader organizational and corporate governance structures adopted by Hera and duly considers the recommendations of the Corporate Governance Code for Borsa Italiana Spa listed companies, reference models and best practices at national and international levels.

#### **The corporate governance of risks in Hera**

Hera has adopted an organizational structure to manage properly the risk exposures originating from the Group's business, through an integrated approach designed to preserve the effectiveness and profitability of the management across the entire value chain.

The system of corporate governance for risk management implemented in Hera enables a unified and coherent approach of the management strategies (Enterprise Risk Management). According to this system:

The Board of Directors has a role of guiding and assessing the effectiveness of the internal control and risk management system;

The Chairman and CEO oversee, within their scope of responsibility, the functionality of the internal control and risk management system;

The vice Chairman oversees the coordination between the Risk Committee and the Controls and Risks Committee;

The Controls and Risks Committee supports the Board of Directors in defining the guidelines of the internal control and risk management system;

The Risk Committee represents the main body in charge of guiding, monitoring and providing information about strategies of risk management, identifies the general guidelines for the process of risk management, carries out the mapping and monitoring of corporate risks, defines the risk policy and information protocols toward the Controls and risks committee, the Internal Audit Department and Board of Statutory Auditors.

Within Hera there is an appropriate separation between the role of control and risk management, assigned to risk owners in the various organizational parts and the role of assessing the adequacy of the risk management processes.

Specifically, monitoring the correct and effective functioning of the internal control and risk management system is centralized and carried out through a mandate by the Internal Auditing Department, reporting directly to the Vice chairman.

The additional corporate body in charge of overseeing the risks is described below.

#### **Risks Committee**

The Risk Committee, appointed by the Board of Directors on April 28, 2014, comprises the Chairman, the Vice Chairman and the CEO of Hera Spa, the Central Director of Administration, Finance and Control, the Central Market Manager and the Enterprise risk manager. Additionally, in relation to specific domains of responsibility, the Central Legal and Corporate Director, the Central Corporate

Services Director, the Central Innovation Director and the General Director of Hera Trading Srl may also participate.

The Risk Committee represents the main body in charge of guiding, monitoring and providing information about strategies of risk management and is responsible for:

defining the general guidelines for the Risk Management process;  
 providing for the mapping and monitoring of corporate risks;  
 ensuring the definition of the risk policies, risk profile and risk limitations to be submitted for approval by the Hera Spa Board of Directors;  
 ensuring a bi-annual reporting concerning risk trends and management;  
 defining and ensuring information protocols directed to the Controls and Risks Committee, the Internal Auditing Management and the Board of Statutory Auditors.

Relevant risks handled by the Risk Committee pertain to the following areas: strategic, energy, finance, credit, insurance, information and communication, technology, safety and the environment, and business continuity.

In 2017 the Risk Committee met four times and provided information on risk management to the Board of Directors during its meetings on 15 February and 26 July 2017.

### **The Group's risk management structure**

In the overall design of the risk management process, Hera has adopted a structured approach, in line with the industry best practices, through the introduction of the Enterprise Risk Management (ErM). This move is aimed at defining a systematic and consistent approach to their control and management, creating an effective model for guiding, monitoring and representing, aimed at rendering management processes more efficient and consistent with the objectives of top management.

In particular, this approach is intended to provide the Board of Directors with the elements useful to the assessment of the nature and level of business risk, particularly in the medium to long term, in order to enable the definition of a risk profile compatible with the strategic objectives of the group. The definition of such profile is made explicit through the approval of the Group risk management policy and the risk limits set out therein by the Board of Directors. More specifically, the policy defines the Group's direction on risk issues by identifying the risk management framework, expressed through three fundamental elements:

The risk model, which identifies the scope for the risk management analyses carried out by the Group. It defines the universe of risks, or the different types of risk which the Group is potentially exposed to, subject to periodic revision depending on the evolution of the Group's mission, strategic objectives and business perimeter, as well as the socio-economic context.

The Group's risk propensity, which defines the acceptable level of risk coherently with the risk management strategy. It is defined through the identification of:

- the key risk dimensions, that is of the most significant risk factors in relation to which the Group intends to make explicit its own risk propensity;
- risk metrics, which are necessary for the measurement of the exposure arising from a specific risk factor;
- limits associated with each key risk dimension, outlining the maximum risk level tolerated by the Group in achieving its goals;
- monitoring, escalation and update processes aimed at ensuring the timely identification of possible instances in which the defined risk limits were exceeded, the identification and implementation of corrective actions, the correct monitoring of all areas of significant risks and the alignment of the limits to group risk propensity.

risk management activities, expressed

- in enterprise risk management, aimed at analyzing the evolution of the Group's overall risk profile, providing results that constitute the tool supporting the conscious assumption of risk and the definition of strategic objectives;
- in the management of risk in ongoing operations, which involves specific sectoral management of specific risks in ongoing operation entrusted to dedicated risk specialist/risk owner, according to ad hoc processes and developed methodologies and formalized as part of the relevant risk policies that guarantee an effectively oversee the entire universe of the main risks to which the Group is potentially exposed, as well as the

overall management of the exposure of the Group in keeping with the views expressed in the risk propensity of the Group and the industrial plan objectives.

On January 20, 2016 the Board of Directors was presented with the first Erm report containing the mapping of the Group risks, accompanied by the appropriate evaluation measures for each risk and consolidated risk (impact, probability, severity, levels of control) and in that occasion, the Board of Directors approved the Group risk Management Policy and risk limits for the year 2016.

On 15 February, 2017 the Board of Directors was presented with the second Erm report containing the enlargement of the scope, the risk universe to be assessed and the types of risk and in that occasion, the Board of Directors approved the limits for 2017 and updated the Group risk Management Policy..

On 27 September 2017, a report was submitted to the Board of Directors regarding risk management activities within the Group.

In particular, the following were identified:

the lines of defense of risks and the structure of governance;

compliance with law 262/2005 and compliance with legislative decree 231/2001, outlining the role of the appointed Manager and the Supervisory Body in the respective reports to the Board of Directors;

the risk management governance, explaining the role of the Risk Committee, in particular in communicating information to the Board of Directors, the Board of Statutory Auditors, the Control and Risk Committee and Internal Auditing, and the governance system implemented through the adoption of the ERM by assigning the strategic role to the Board of Directors, which is responsible for the decision on the Group's risk profile and the approval of the Hera Group Guideline "Group risk management policy".

On 10 January, 2018 the Board of Directors was presented with the third Erm report containing the enlargement of the scope, the risk universe to be assessed and the types of risk and in that occasion as well as the Erm maps differentiated by business branch; in the same date, the Board of Directors approved the risk limits for 2018 and updated the Hera Group Guideline "Group risk Management Policy".

#### **a) The risk management and internal control system in relation to the financial information process**

##### **Introduction**

The internal control and risk management system specific to financial reporting is designed to ensure the reliability, accuracy and timeliness of company information on financial statements and the ability of the relevant business processes to produce such information in accordance with the Group's accounting principles.

The internal control and risk management system in relation to Hera's financial information process is inspired by the Coso Framework (issued by the Committee of Sponsoring Organizations of the Treadway Commission), an internationally recognized model.

The definition of the internal control and risk management system was established in keeping with applicable norms and regulations:

Legislative decree. Legislative Decree no. 58 of 24 February 1998 (Tuf) - article 154-bis of the TUF;

Law 262 of 28 December 2005 (and subsequent modifications, including Legislative Decree to assimilate the so called directive 2004/109/EC on the harmonization of transparency requirements regarding the information on listed companies, approved on 30 October 2007) regarding the drafting of corporate financial documents;

Consob Issuers' Regulation of 4 May 2007 Statement of the Appointed Manager in charge of drafting corporate financial documents and of the designated administrative authorities in relation to financial and consolidated financial statements as well as to the biannual report, in compliance with article 154-bis of the Tuf;

Consob Issuers' Regulation of 6 April 2009, Assimilation of the Transparency Directive 2004/109/CE concerning the harmonization of transparency requirements in relation to information about the issuers whose movable value are permitted to enter negotiations in a regulated market, modifying directive 2001/34/EC;

the Civil Code, which extends responsibility to the Appointed Managers in charge of drafting corporate financial documents (Article 2434 c.c.) for corporate management, for disloyalty crime originating from conferred or promised utility (Article 2635 c.c.) and for the crime of obstructing the functions of public and surveillance authorities (Article 2638 c.c.);

Legislative decree. 231/2001 that references the above-mentioned regulations of the Civil Code and the administrative responsibility of legal subjects for crimes committed against the Public Administration and includes the Appointed Manager in charge of drafting corporate financial documents among the Apical Subjects.

Moreover, in the implementation of the system, the Group has taken under consideration the recommendations provided by some authorities in the sector (Andaf, AIIA and Confindustria) concerning the activities of the Appointed Manager.

#### **Description of the primary features of the internal control and risk management system in relation to the financial information process**

As part of the internal control and risk management system pertaining to the financial information process, the Appointed Manager has set up an administrative and financial control Model - Regulation of the Appointed Manager for drafting corporate financial documents (hereafter also "The Model") approved by the Hera spa Board of Directors in the meeting held 27 March 2018, outlining the adopted method and associated roles and responsibilities in relation to defining, implementing, monitoring and updating the financial-administrative procedural system over time and in assessing its adequacy and effectiveness.

Hera's administrative and financial control Model defines a methodological approach for the internal control and risk management system in relation to financial information processes that is structured through the following steps:

- Risk assessment for the identification and evaluation of risks regarding company information;
- identifying controls and updates for the financial-administrative procedures in view of the identified risks;
- Evaluation of the identified risks.

#### **Step 1: Risk Assessment**

Represents the process of identifying the risks connected to the financial statement (risks of unintentional errors or fraud) that might have an effect on the financial statement, and is carried out under the supervision of the Appointed Manager, at least on an annual basis.

This process aims at identifying the set of objectives that the system seeks to pursue in order to ensure a truthful and accurate representation. Risk Assessments, carried out according to a top-down approach, concentrates on those areas of the financial statement wherein potential effects on financial information have been located in relation to the failure to achieve these control objectives.

As part of the process of Risk Assessment, the following tasks are carried out:

- identifying the Group companies considered relevant in view of the proper functioning of the Group's control system for corporate reporting;
- identifying the list of corporate processes that have been identified as relevant in view of the proper functioning of the Group's financial and administrative control system;
- a review of the overall adequacy of the current Financial and Administrative Control Model.

The process for determining the scope of the Companies and relevant processes in terms of their potential impact on the financial statement is aimed at identifying the Subsidiary Companies, the accounts and processes associated with them, and any other financial information considered to be relevant. The evaluations are carried out using both quantitative standards and qualitative parameters.

#### **Step 2: Identifying controls and updates for the financial-administrative procedures**

An identification of the necessary checks for mitigating the risks that were identified in the previous step is carried out taking into consideration the control objectives associated with the financial statement.

Based on the above, Hera Spa has established an internal control system under which the directors of corporate functions verify the design and operating effectiveness of control activities on an annual basis, each for the areas under his or her jurisdiction.

The results of periodical updates applied to procedures and associated controls are communicated to the Appointed Manager by the directors of corporate departments. The directors of corporate departments provide for updating/modifying the financial-administrative procedures in relation to the areas under their managerial responsibility on a regular basis.

**Step 3: Periodic evaluation of financial-administrative procedures and the controls they contain**

The identified controls are periodically assessed in terms of their adequacy and actual effectiveness through specific testing activities according to the best practices established for the area in question.

In the course of these activities, the Appointed Manager evaluates at each given time what degree of involvement, of the directors of corporate departments and of contact persons within the Subsidiary Companies, is necessary for carrying out assessment activities.

On a bi-annual basis, the Hera Spa Appointed Manager and CEO receive specific internal statements from Hera Group subsidiary companies and relevant connected companies in reference to the completeness and reliability of information flows for the purposes of financial reporting.

On a bi-annual basis, the Appointed Manager will define a series of reports synthesizing the results of the assessments of controls in relation to the risks previously identified on the basis of the outcomes of the monitoring activities performed.

After having been shared with the CEO, the prepared Executive Summary is communicated to Hera Spa's Board of Statutory Auditors, the Controls and Risks Committee and the Board of Directors.

**Roles and functions involved**

The internal control and risk management system concerning financial reporting is governed by the Appointed Manager in charge of drafting corporate financial documents who, in agreement with the CEO, is responsible for planning, implementing, monitoring, and updating the financial and administrative control Model over time.

In performing his or her activities, the Appointed Manager:

is supported by a specific function called Compliance 262, part of the staff of the Administration, Finance and Control Group Director, established by SO no.49 of 30 October 2013 and taking effect beginning 1 November 2013;

is supported by the directors of corporate departments who, within their areas of responsibility, ensure the completeness and reliability of information flows directed toward the Appointed Manager for the purposes of preparing the financial reporting documents;

coordinates the activities of the Administrative Managers of the relevant subsidiaries who are tasked with implementing, within their companies, and together with the delegated bodies, an adequate financial control system to safeguard the administrative-financial processes;

initiates a reciprocal information exchange with the Controls and Risks Committee and the Board of Directors, communicating about the activities performed and the adequacy of the financial and administrative control system.

Lastly, the Board of Statutory Auditors and Supervisory Board are informed about the adequacy and reliability of the financial-administrative system.

**b) Administrator in charge of the internal control and risk management system**

Most recently with the resolution of 27 April 2017, the Board of Directors has set forth that, within the scope and limits of the respective delegations and reporting lines of the various corporate structures, the Chairman and CEO are charged, as far as their authority permits, with establishing and maintaining the Internal Control and Risk Management Systems.

The Chairman and CEO, in keeping with their mandates:

ensure that the Risk Committee identifies the main business risks, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, and periodically present those risks for examination by the Board of Directors;

implement the guidelines defined by the Board of Directors, ensuring that the responsible business structures design, create and manage the Internal Control and Risk Management Systems, constantly checking their appropriateness, effectiveness and efficiency.

The corporate heads may request that the Internal Auditing Manager carry out operations concerning risk assessment on specific operational areas and compliance with internal rules and procedures in carrying out corporate operations.

**c) Internal auditing department manager**

Over the course of 2017, steps were therefore taken to appoint, waiting to define the final organizational structure and in order to ensure proper operation of the internal control and risk management system, a new Internal Auditing director who reports to the Vice Chairman.

The Internal Auditing Department provides a report on his or her activities, every three months or whenever he or she considers it necessary, to the CEO, the Chairman of the Board of Directors, the Internal Controls and Risk Management Committee and the Board of Statutory Auditors. It is hierarchically independent of the heads of operational divisions and may have direct access to all information necessary for the performance of his or her duties.

Through the establishment of an adequate Risk Assessment and three-yearly Audit Plan:

provides a synthetic and comparative assessment of the primary risk areas and associated control systems, performing updates through the meetings that take place with management;

according to the varying level of risk of corporate processes, prioritizes the duties of the Internal Auditing department.

**d) Organisational model pursuant to Legislative Decree no. 231/2001 .**

Legislative Decree 231/2001 introduced into Italian legislation the administrative responsibility of legal entities, companies and associations. Legislative Decree no. 231/2001 introduced into Italian legislation the administrative responsibility of legal entities, companies and associations. In particular, the law introduced the criminal liability of entities for certain offences committed in the interest or to the advantage of those entities by persons fulfilling roles of representation, administration or management of the entity or of one of its organisational units with financial and operational independence, or by persons who exercise management and control thereof, including on a de facto basis, and lastly, by persons subject to the direction or supervision of one of the above-mentioned parties. Significant offences are those committed against Public Administration and corporate offences committed in the interest of the companies. Significant offences are those committed against Public Administration and corporate offences committed in the interest of the companies.

However, Articles 6 and 7 of Legislative Decree no. 231/2001 provide for a form of exoneration from liability where (i) the entity proves that it adopted and efficiently implemented, prior to the commission of the act, appropriate organisational, management and control models for preventing the perpetration of the offences considered by the said decree; and (ii) the duty of supervising the functioning of and compliance with the models, as well as providing for their updating, is entrusted to a body of the entity that is vested with autonomous powers of initiative and control.

To this end, on 16 February 2004, the Board of Directors of Hera Spa approved and subsequently updated, also in the light of the provisions introduced by Law no. 81/2008 and Legislative Decree no. 97/2016, the organisational, management and control model pursuant to Legislative Decree no. 231/2001, with the aim of creating a structured and organic system of control procedures and activities to prevent commission of the offences referred to in the aforementioned decree, by identifying the activities exposed to a risk of offence and implementing suitable procedures for those activities.

As of today, the organizational, managerial and control model pursuant to Legislative Decree 231/2001 includes 22 protocols, implemented over time and associated to the individual sensitive areas.

The risk factors and critical points are identified and weighed through the risk assessment against the business areas of the Group and the processes of infrastructure. The specific risks concerning the issues of 231 are defined by the supervisory body in an annual audit plan that takes into account risk assessments, coverage of new processes, regulatory changes and the extension of the business scope of the Group's companies.

An integral part of the model is the six-month review by the supervisory body of information flows regarding risk activities.

Every three years, the risk analysis document with its audit plan is drawn up for the entire Group, the last of which covers the period 2016-2018.

The organisational, management and control model pursuant to Legislative Decree no. 231/2001 has also been adopted by subsidiaries with strategic importance.

The Board of Directors also sets the surveillance body, by approving the relevant regulation.

This body, which today comprises an external member with the role of Chairman, Hera Spa's Legal and Corporate Central Director and the director of Internal Auditing of Hera Spa as Chairman, specifically has the task of periodically reporting to the corporate bodies of the parent company on the implementation of said model, as pursuant to Legislative Decree 231/2001 and its mandate will

continue until the date of the next Shareholders' meeting for the approval of the financial statement as of 31 December 2019.

The supervisory board met on 7 occasions in 2017 and all these meetings were attended by all the members.

The average length of the meetings of the supervisory board was approximately one hour and thirty minutes.

The Supervisory Body approved and updated the 231 protocols comprising the organizational model, examined the system of information flows that allow it to supervise the functioning of and compliance with the models, as well as examining the reports that followed from the audits and examining legislative developments pursuant to Legislative Decree 231/2001 and planning further activities.

In order to carry out the checks and controls, the Supervisory Body drew up a schedule of measures for verifying compliance with the protocols adopted.

#### **e). Independent Auditors**

The Hera Spa Shareholder's meeting of 23 April 2014 appointed Deloitte&Touche Spa to the role of independent auditor for the 2015-2023 financial years.

#### **f) Appointed Manager in charge of drafting corporate financial reports and other corporate roles and functions.**

In compliance with the provisions of the Tuf and the Company's Articles of Association, in consultation with the Board of Statutory Auditors, the Board of Directors resolved on 1 October 2014 to appoint Luca Moroni to the role of Finance and Control Administration Central Director, in the post of Appointed Manager in charge of drafting corporate financial reports. He is in possession of the professional qualifications set forth in Article 29 of the Company's Articles of Association, in compliance with the Tuf (Article 154-bis, paragraph 1).

The Appointed Manager is additionally responsible for establishing adequate financial-administrative procedures for the creation of the financial statement and consolidated financial statement as well as any other financial communication. To this end, the Appointed Manager will have access to a dedicated budget approved by the Board of Directors and an adequate organizational structure (in terms of quantity and quality of resources) dedicated to the preparation/updating of financial-administrative procedures and periodical assessment activities concerning the suitability and actual application of financial-administrative rules and procedures. If the internal resources prove to be insufficient for the suitable management of these activities, the Appointed Manager is permitted to exercise the power of expenditure granted to him or her.

The Board of Directors verify that the Appointed Manager has access to adequate powers and means to carry out the tasks entrusted to him or her by Article. 154-bis, and also monitor that financial and administrative procedures are being followed.

The Appointed Manager communicates and exchanges information with all the administrative and control bodies of the Company and of the Group's subsidiaries, including but not limited to:

- Board of Directors;
- Control and Risk Committee;
- Directors in charge of the internal control and risk management system;
- Board of Statutory Auditors;
- Independent Auditor;
- Supervisory Board pursuant to Legislative Decree no. 231/01;
- Internal Auditing Manager;
- Investor Relations Manager.

#### **g) Coordination among the subjects involved in the internal control and risk management system.**

The Issuer has established the following systematic coordination modes for the various subjects involved in the internal control and risk management system:

- periodic coordination meetings focused in particular on the process of drafting financial information and the activities of assessing, monitoring and containing (economic-financial, operational and compliance) risks;

- information flows among the subjects involved in the internal control and risk management system;

- periodic reports to the Board of Directors;



establishment of a Risk Committee with the aim of outlining guidelines for monitoring and informing about risk management strategies.

In particular, the following types of coordination meeting are specified:  
 the Board of Statutory Auditors with the Controls and Risks Committee, the Independent Auditor, the Appointed Manager in charge of drafting corporate financial reports, and the Internal Auditing Manager;  
 the Board of Internal Auditors with the Supervisory Board pursuant to Legislative Decree no. 231/01;  
 the Directors in charge of the internal control and risk management system with the Chairman of the Controls and Risks Committee.

## 8. Appointment of the Statutory Auditors

The Statutory Auditors are appointed by the Shareholders meeting using the list voting mechanism established by article 26 of the Articles of Association. Specifically, (i) municipalities, provinces, consortia established pursuant to article 31 of legislative decree no. 267/2000 or other entities or public authorities, as well as consortia or joint-stock companies controlled, directly or indirectly, by these may present a single list and (ii) the shareholders not indicated in (i) may submit lists provided that they represent at least 1% of the shares with voting rights or the percentage established by current regulation and indicated in the notice concerning the meeting.

The composition of the Board of Statutory Auditors, beginning from the first renewal of this board following the effective date of Law 120/2012, and therefore with effect beginning from the shareholders' meeting called to approve the Financial Statement as at 31 December 2013, and with reference to its first three consecutive terms, complies with current regulations relating to gender balance.

The lists must be delivered to the registered office at least 25 days before the date set for the meeting, together with the curriculum vitae of the candidates and a declaration from each individual candidates stating that he or she accepts the office and certifying that there are no causes of ineligibility, incompatibility or revocation as established by law, and the existence of the requirements of integrity and professionalism required by law for members of the Board of Statutory Auditors. The lists must also be accompanied by a statement certifying that there are no agreements or connections of any kind with other shareholders who have presented other lists, and a list of the administrative and control positions held by the candidates in other companies. These lists must be made available to the public at the registered offices and on the website [www.gruppohera.it](http://www.gruppohera.it), no less than 21 days prior to the date of the Shareholders' Meeting.

In the event of the replacement of a sitting Statutory Auditor, he or she will be succeeded by the alternate Auditor belonging to the same list as the Auditor to be replaced, respecting the principles of minority representation and gender balance.

For the purposes of the provisions of legislation in force concerning the requirements of professionalism for members of the Board of Statutory Auditors of listed companies, "business matters and sectors strictly pertaining to the activities performed by the Company" means the business matters and sectors associated with or pertaining to the activity performed by the Company and cited in Article 4 of the Articles of Association.

The office of Statutory Auditor is incompatible with the offices of councillor or alderman in regional public authorities, as well as with that of Statutory Auditor in more than three listed companies other than subsidiaries of the Company pursuant to Article 2359 of the Italian Civil Code and Article 93 of Legislative Decree no. 58/98. 58/98. In the latter case, a Statutory Auditor who subsequently exceeds this limit will automatically forfeit the office of Statutory Auditor of the Company.

### **Composition and functioning of the Board of Statutory Auditors (pursuant to Article 123-bis, paragraph 2, letter d) of the Tuf)**

The shareholder's meeting held 27 April 2017 appointed a Board of Directors comprising three standing members and two alternates, with a mandate lasting from now until the approval of the financial statement for the 2016 financial year.

The Board of Statutory Auditors, in conformity with the provisions contained in Article 8 of the Code, has checked the correct application of the criteria and assessment procedures adopted for ascertaining the independence of its members including for the purposes of Article 144-novies of the Issuer's Regulation. 144-novies of the Issuers Regulation.

Table 2 below shows the current composition of the Board of Statutory Auditors, noting that the personal and professional details of each member are available on the website [www.gruppohera.it](http://www.gruppohera.it)

The Board of Directors met on 19 occasions in 2017, and all of the meetings were attended by all members. The average duration of the meetings of the Board of Statutory Auditors was approximately two hours.

There is a voting trust and share transfer rules agreement in place between the public shareholders which governs the procedures for drawing up the list for the appointment of two statutory members and one alternate member of the Board of Statutory Auditors.

In carrying out its activities, the Board of Statutory Auditors coordinates with the Statutory Audit Department and the Controls and Risks Committee.

### **Diversity Policies;**

The appointment of the Board of Directors took place during the Shareholders' Meeting held on 27 April 2017, following the presentation of three lists, a majority and two minority lists, which additionally ensured that the body's composition complies with the regulatory provisions on gender balance (five members of the less represented gender out of a total of five members).

The members of the Board of Statutory Auditors, with an average age of approximately 47, possess the requisites of eligibility, independence, integrity and professionalism as established by current legislation, also in relation to the sectors of activity connected or inherent to the activities of Companies referred to in art. 4 of the Articles of Association.

## **9. Relations with shareholders**

To enable shareholders to understand the Company more fully, the Company has established a suitable department dedicated to relations with investors, headed by and entrusted to Jens Klint Hansen (the investor relator can be contacted by telephone on +39 051 287737 or by email at [ir@gruppohera.it](mailto:ir@gruppohera.it)).

## **10. Shareholders' meetings (pursuant to Article 123-bis, paragraph 2, letter c) of the Tuf)**

Ordinary and extraordinary shareholders' meetings are called in the circumstances and manner provided for by law. They are held at the registered offices or elsewhere in Italy.

The right to take part in shareholders' meetings is enjoyed by shareholders with legitimate entitlement under the rules applicable at any given moment.

Ordinary and extraordinary shareholders' meetings and the related resolutions are valid if the quorum and majority conditions established by law are satisfied.

The resolutions of extraordinary shareholders' meetings concerning the modification of Article 6.4 ("Shares and increased voting rights"), Article 7 ("Public majority shareholding"), Article 8 ("Limits on shareholdings"), Article 14 ("Validity of Shareholders' Meetings and rights of veto") and Article 17 ("Appointment of the Board of Directors") of the Articles of Association will be valid if they are passed on the basis of a vote in favour by attending shareholders representing at least three-quarters (rounded if necessary) of those with voting rights.

The shareholders' meeting of 29 April 2003 approved the text of the meeting regulations, the updated version of which is published on the Company's website [www.gruppohera.it](http://www.gruppohera.it), which indicates the procedures to be followed in order to permit the orderly and proper functioning of meetings, without prejudice to the right of each shareholder to express his or her opinion on the matters under discussion.

During the 2017 financial year, one shareholders' meeting was held on 27 April, which was attended by 9 directors.

## **11. Observations concerning the letter of 13 December 2017 of the President of the Committee for Corporate Governance.**

The Board of Directors assessed the observations of the President of the Committee for Corporate Governance of 13 December 2017, and specifically:

The Chairman, so as to guarantee the timeliness and completeness of pre-council briefing, ensured that each director and statutory auditor has at their disposal all of the information and documentation necessary for discussing the items on the agenda of the meetings of the Board of Directors at least three days before the meeting, with the exception of cases of necessity and urgency. Both the members of the Board of Directors, in carrying out self-evaluation, and the company Spencer Stuart, which aided the board in carrying out such process, expressed positive opinion about the timeliness of making this document available;

guaranteed that the remuneration policies include variable, long-term components and introduced a claw-back clause that provides for correction mechanism ex-post for the remuneration of the executive directors, as well as a clause providing, in case of resignation, dismissal or termination of the position, a claim for compensation in the amount of 18 monthly salaries.

evaluated the independence of its members in compliance with the requirements established by the self-regulatory code and current legislation, reserving the right to verify on a case-by-case basis, where necessary, the duration of the mandate, to follow the principle of the prevalence of substance over form;

expressed a positive opinion about its size, composition and functioning, specifically about the definition of strategic plans and the monitoring of the activities performed by and the adequacy of the internal control and risk management system at least on the occasion of the annual and bi-annual approval of the financial statement.

Table 1: structure of the Board of Directors and committees

Board of Directors														Control and risk committee			MGMT Remuneration committee		Appointments Committee		Executive Committee		Ethics Committee	
Office held	Members	Year of birth	Date of first nomination *	In office since	In office until	List **	Exec.	Non exec.	Indep. Code	Indep. Tuf	N. other offices ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)				
Chairman	Tomaso Tommasi di Vignano	1947	04-nov-02	27-apr-17	Appr. F.S. 2019	M	X				-	10/10						4/4	P					
CEO	Stefano Venier	1963	23-apr-14	27-apr-17	Appr. F.S. 2019	M	X				-	10/10						4/4	M					
Vice Chairman	Giovanni Basile	1965	23-apr-14	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	9/10	7/7	P	3/3	P		4/4	M					
Director	Francesca Fiore	1967	27-apr-17	27-apr-17	Appr. F.S. 2019	m		X	X	X	-	7/7			1/1	M								
Director	Giorgia Gagliardi	1982	23-apr-14	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	10/10												
Director	Massimo Giusti	1967	23-apr-14	27-apr-17	Appr. F.S. 2019	m		X	X	X	2	10/10	2/2	M	1/1	M				7/7	P			
Director	Sara Lorenzon	1981	27-apr-17	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	7/7	5/5	M										
Director	Stefano Manara	1968	28-ago-13	27-apr-17	Appr. F.S. 2019	M		X	X	X	2	10/10	2/2	M	1/1	M	Not present							
Director	Danilo Manfredi	1969	23-apr-14	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	10/10	2/2	M										
Director	Alessandro Melcarne	1984	08-nov-17	08-nov-17	Next Assembly	M		X	X	X	-	2/2												
Director	Erwin P.W Rauhe	1955	27-apr-17	27-apr-17	Appr. F.S. 2019	m		X	X	X	-	7/7	5/5	M										
Director	Duccio Regoli	1961	27-apr-17	27-apr-17	Appr. F.S. 2019	m		X	X	X	-	7/7	5/5	M										
Director	Federica Seganti	1966	27-apr-17	27-apr-17	Appr. F.S. 2019	M		X	X	X	1	6/7						3/3	M					
Director	Marina Vignola	1970	27-apr-17	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	7/7												
Director	Giovanni Xilo	1962	27-apr-17	27-apr-17	Appr. F.S. 2019	M		X	X	X	-	7/7												
<b>Member of the BoD no longer in office during the year in question</b>																								
Director	Aldo Luciano	1951	27-apr-17	27-apr-17	05-ott-17	M		X	X	X	-	3/5												
Director	Mara Bernardini	1957	01-gen-06	23-apr-14	27-apr-17	m		X	X	X	1	3/3			2/2	M	Not present							
Director	Fortè Clò	1951	23-apr-14	23-apr-14	27-apr-17	M		X	X	X	-	3/3												
Director	Riccardo Illy	1955	23-apr-14	23-apr-14	27-apr-17	M		X	X	X	2	3/3						1/1	M					
Director	Luca Mandrioli	1967	29-apr-11	23-apr-14	27-apr-17	M		X	X	X	4	3/3			1/2	M	Not present							
Director	Cesare Pillon	1953	01-gen-13	23-apr-14	27-apr-17	M		X		X	1	3/3			2/2	M	Not present							
Director	Tiziana Primori	1959	23-apr-14	23-apr-14	27-apr-17	M		X	X	X	-	1/3												
Director	Bruno Tani	1949	27-apr-06	23-apr-14	27-apr-17	m		X	X	X	-	3/3												
<b>Indicate the quorum required to present lists for the last appointment : the lists can be presented by shareholders who hold at least 1 % of the voting shares in the ordinary shareholders' meeting (art 17.5 of the Corporate By-laws).</b>																								
Number of meetings held during the year in question										CRC: 8			RC: 2		Cn: /			EC: 6		Ethics C:7				

\* The date of first appointment of each director refers to the date on which the director was appointed for the first time (ever) to the company's Board of Directors.

\*\* This column shows the list from which each director was taken ("M": the majority list; "m" minority list; "CdA": the list submitted by the Board of Directors).

\*\*\* This column indicates the number of offices as director or statutory auditor held by the person concerned in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large enterprises. For the list of these companies, with reference at each director, see Table 3.

(\*) This column indicates the percentage of attendance by directors at the meetings of the Board of Directors and of the Committees (indicate the number of attended meetings as compared the total number of meetings that he or she could have attended, e.g.. 6/8; 8/8 etc..).

(\*\*) This column indicates the role played by the director on the Board: "P": Chairman, "M": member.

**Table 2: structure of the Board of Statutory Auditors**

Board of Statutory Auditors										
Office held	Members	Year of birth	Date of first nomination <sup>*</sup>	In office since	In office until	List <sup>**</sup>	Indep. Code	*** (%)	N. other offices <sup>****</sup>	
Chairman	Myriam Amato	1974	27-apr-17	27-apr-17	Appr. F.S. 2019	m	X	12/12	-	
Standing statutory auditor	Girolomini Marianna	1970	23-apr-14	27-apr-17	Appr. F.S. 2019	M	X	19/19	-	
Standing statutory auditor	Gaiari Antonio	1965	23-apr-14	27-apr-17	Appr. F.S. 2019	M	X	19/19	-	
Alternate statutory auditor	Gnocchi Stefano	1974	27-apr-17	27-apr-17	Appr. F.S. 2019	m	X	-	-	
Alternate statutory auditor	Bortolotti Valeria	1950	23-apr-14	27-apr-17	Appr. F.S. 2019	M	X	-	-	
Auditors no longer in office during the year in question										
Chairman	Santi Sergio	1943	16-ott-03	23-apr-14	27-apr-17	m	X	7/7	-	
Alternate statutory auditor	Frasnedi Violetta	1972	23-apr-14	23-apr-14	27-apr-17	m	X	-	-	
Indicate the quorum required to present lists for the last appointment : the lists can be presented by shareholders who hold at least 1 % of the voting shares in the ordinary shareholders' meeting (art 26.2 of the Corporate By-laws).										
Number of meetings held during the year in question: 19										

\* The date of first appointment of each statutory auditor refers to the date on which he or she was appointed for the first time (ever) to the company's Board of Statutory Auditors.

\*\* This column shows the list from which each auditor was taken ("M": the majority list; "m" minority list).

(\*\*\*) This column indicates the degree of participation of the auditor in meetings of the Board of Statutory Auditors.

\*\*\*\* This column indicates the number of offices as director or statutory auditor held by the person concerned pursuant to Article 148 bis of the TUF and associated implementation regulations contained in the Consob Issuers' Regulation. The full list of offices is published by Consob on its website pursuant to Article 144-quinquiesdecies of the Consob Issuers' Regulation. .

**Table 3: offices held by the directors in other companies.**

Name and Surname	Office held	Other offices (*)
Tomaso Tommasi di Vignano	Executive Chairman	
Stefano Venier	CEO	
Giovanni Basile	Vice Chairman	
Francesca Fiore	Director	
Giorgia Gagliardi	Director	
Massimo Giusti	Director	Member of the BoD of Cassa di Risparmio di Rimini Vice chairman of Nadia Spa Società Imm.re (Bper Banca Spa Group)
Sara Lorenzon	Director	
Stefano Manara	Director	Chairman of Con.Ami BoD Chairman of Rest Srl BoD
Danilo Manfredi	Director	
Alessandro Melcarne	Director	
Erwin P.W. Rauhe	Director	
Duccio Regoli	Director	
Federica Seganti	Director	Independent member of the BoD of Eurizon Capital Sgr Spa
Marina Vignola	Director	
Giovanni Xilo	Director	

\*\*\* The list outlines the offices as director or statutory auditor held by each director in other companies listed on regulated markets, including foreign markets, in financial, banking or insurance companies or in large enterprises.