

## 1.11 CORPORATE GOVERNANCE REPORT

### 1 Issuer profile

The Hera Group's entrepreneurial and organizational model, unique in this sector, makes it possible to combine strong territorial roots with the need to grow in size, in order to offer increasingly efficient services while remaining open to new partners.

Since its inception, Hera has developed a trajectory of growth both organic and along external lines. Its development strategy entails actions to support organic growth in the businesses already served, but also consolidation and acquisition operations to expand the current perimeter of operations, maintaining the Group's solid financial structure in the context of a shared industrial vision.

On the internal front, Hera addresses all possible opportunities for developing activities in its businesses, leveraging innovation, efficiency and excellence.

The strategy for external lines of growth is based on three cornerstones:

- mergers and consolidation with other multi-utility companies, activities in which the Group has a long and successful track record;
- the acquisition of companies in the individual supply chains it serves, with the aim of accelerating the growth of its customer base and supplementing its facilities-industrial structure;
- participation in tenders for awarding concessions for the provision of regulated services.

Over the years, the Hera Group has, however, implemented a plan to rationalise its shareholdings, reducing their number significantly and more effectively merging the various companies by business area and geographical contiguity.

Hera is also committed to acting every day to enhance the experience and develop the skills of its employees, and to promote cooperation and the exchange of knowledge, so that work is a source of satisfaction and pride for people as well as an important factor for the success of the company.

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 in its strategy, a concept which has since evolved into the broader perspective of shared value, regarding this as an effective tool for increasing competitiveness and a key factor 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 March 27<sup>th</sup> 2019.

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

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

#### Share Capital Structure

Type of share	no. of shares	% of share capital	Listed	Rights and Obligations
Ordinary shares	1,489,538,745	100%	Mta Borsa Italiana	Ordinary shares grant their holders the property and administrative rights established 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 to 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 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 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)**

The parties that directly or indirectly hold more than 3% of the share capital of the Company represented by shares with voting rights, are as follows, based on communications made pursuant to article 120 of the TUF, as well as any other data in the possession of the Company.

**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 of 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.

Declarant	Direct shareholder	share % of s.c.	share % of c.s. with voting rights
Municipality of Bologna	Municipality of Bologna	9.530%	9.530%
Municipality of Imola	Con.Ami	7.293%	7.293%
Municipality of Modena	Municipality of Modena	6.519%	6.519%
Municipality of Ravenna	Ravenna Holding Spa	5.151%	5.151%
Municipality of Trieste	Municipality of Trieste	3.731%	3.731%
Municipality of Padua	Municipality of Padova	3.097%	3.097%

**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)**

In accordance with Article 14 of the Articles of Association, 122 of the TUF, the following shareholders' agreement are in effect:

- First-level Shareholders' Agreement, between 111 public shareholders, concerning the procedures for exercising voting rights and the transfer of the shareholdings held in Hera by members, signed on June 26<sup>th</sup> 2018, with a duration of three years, from July 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2021;
- Second level Shareholders' Agreement between 32 public shareholders of Hera belonging to the Bologna area, concerning the rules governing the exercise of voting rights, the transfer of the shares held in Hera by members, as well as the appointment of the members of the Board of Directors, stipulated on June 26<sup>th</sup> 2018, whose effects start on July 1<sup>st</sup> 2018, and last until June 30<sup>th</sup> 2021;
- Second level Shareholders' Agreement between 20 public shareholders of Hera belonging to the Modena area, concerning the rules governing the exercise of voting rights, the transfer of the shares held in Hera by members, as well as the appointment of the members of the Board of Directors, stipulated on June 26<sup>th</sup> 2018, whose effects begin on July 1<sup>st</sup> 2018, and last until June 30<sup>th</sup> 2021;
- Sub-agreement between the municipalities of Padua and Trieste, having as its object the constitution of a consultation and voting syndicate functional for the realization of some provisions regarding the corporate governance of Hera in implementation of the provisions of the first level Shareholders' Agreement, stipulated on June 26<sup>th</sup> 2018 and with a duration of three years starting from the signing date.

The main identifying elements of the aforementioned Agreements, which can be found in the Corporate Governance section of the company's website at [www.gruppohera.it](http://www.gruppohera.it), are provided below.

### 1) First-level Shareholders' Agreement

The Agreement concerns 710,008,407 shares conferred to the voting trust, corresponding to 47.66633% of the share capital of Hera, 1,402,598,242 voting rights conferred to the voting trust, corresponding to 61.73837% of the total voting rights making up the share capital and 572,267,488 blocked shares corresponding to 38.41911% of the share capital.

#### Content and bodies of the Agreement

##### Voting trust

In order to realize the decisions of the voting trust, the Parties have established a voting trust deliberative body (the "Voting Trust Committee") composed as follows: a member designated by the Municipality of Bologna, to whom seven votes are assigned, a member designated by the minor shareholders of the Bologna area, to whom two votes are assigned, a member designated by Holding Ferrara Servizi Srl, to whom one vote is assigned, a member designated by Ravenna Holding S.p.A., to whom five votes are assigned, a member designated by CON.AMI, to whom six votes are assigned, one member designated by Rimini Holding S.p.A., to whom one vote is assigned, one member designated by the Municipality of Cesena, to whom one vote is assigned, one member designated by the shareholders of Modena, to whom six votes are assigned, one member designated by the Municipality of Padua, to whom three votes are assigned, one member designated by the Municipality of Trieste, to whom three votes are assigned, and one member designated by the Municipality of Udine, to whom two votes are assigned.

For the duration of the Agreement, the number of votes assigned to each principal shareholder through its committee member is allocated on the basis of one vote for each 1% of blocked shares held, rounded down if the surplus was less than 0.50%, or up if the surplus was equal to or greater than 0.50%, of the blocked shares. The percentage of blocked shares is calculated as follows:

$$\% \text{ shares} = \frac{\text{Number of shares blocked by main shareholder}}{\text{Hera share capital}} \times 100$$

The number of votes cast by each of the main members was verified at the opening of the first meeting of the Committee and definitively ascertained by the Chairman of the Committee.

The Voting Trust Committee remains in office until the end of the Agreement.

Decisions will be made through a yes-vote by at least 65% of the total votes assigned to the members of the Voting Trust Committee present at that meeting, except for decisions for which the Agreement requires a different majority.

The Voting Trust Committee will meet at least one day prior to:

any meeting of the shareholders that includes any of the following items on its agenda:

- 1) liquidation of the Company;
- 2) merger or division of the Company;
- 3) changes in Article 6 ("Shares and Increased voting rights"), 7 ("Public majority shareholding"), 8 ("Limits on shareholdings"), 14 ("Validity of Shareholders' Meetings and rights of veto") 17 ("Appointment of the Board of Directors"), 21 (Validity of resolutions), and 23.4 (Exercise of powers - matters falling within the exclusive competence of the Board of Directors) of the Articles of Association.

The Parties undertake to ensure that their vote at the Shareholders' Meeting conforms to the resolutions adopted by the Voting Trust Committee and indicated in this section (i). In the event that a vote in favour of the resolution to be adopted pursuant to this Paragraph (i) is not reached in the Voting Trust Committee, every Party to the Agreement shall express a vote in the Shareholders' Meeting against the adoption of that resolution.

any meeting of the Board of Directors that includes any of the following items on its agenda:

- 1) the establishment of the Hera Executive Committee, whose powers will be determined by the Board of Directors. The Executive Committee will be composed of the Chairman, the CEO, the Vice-Chairman and a Director appointed jointly by the Municipality of Padua and the Municipality of Trieste;
- 2) within the limits of the law and the Articles of Association, the appointment (i) of the Chairman of the Board of Directors, who will be appointed on recommendation by the Shareholders of the Romagna Territorial Area; (ii) of the Chief Executive Officer, who will be appointed on recommendation by the Shareholders of Bologna. The Shareholders of the Romagna Territorial Area and the Shareholders of Bologna will consult each other before proceeding to appoint the Chairman and the Chief Executive Officer; (iii) the Vice Chairman of the Board of Directors will be appointed - within the limits of the law and the Articles of Association - from among the members indicated by the Municipality of Modena;

the deadline for the submission of the List of Directors and the List of Statutory Auditors.

The Voting Trust Committee shall meet: (i) at least once a year, by the date of the Hera Shareholders' Meeting convoked to approve the financial statements, in order to verify any plans for the sale of Hera Shares not subject to the voting trust blocking provided for by each Party; (ii) whenever one or more members of the same make a written request to the Chairman of the Voting Trust Committee.

In addition, the Voting Trust Committee will be responsible for:

- a) the collation and formation of the List of Directors. The number of members to be included in the List of Directors indicated by each group of contracting parties is allocated on the basis of one member designated for each 3% of shares blocked by that group of contracting parties, and therefore, the list of Directors will be composed as follows: three members designated by the Shareholders of Bologna and Municipality of Ferrara, also in the interest of the Shareholders of Ferrara; four members designated by the Shareholders of the Romagna Territorial Area; two members designated by the Municipality of Modena, also in the interest of the Shareholders of Modena; one member designated by the Municipality of Padua; and one member designated by the Municipality of Trieste;
- b) the collation and formation of the List of Statutory Auditors. The List of Statutory Auditors shall indicate as many candidates as there are members of the Board of Statutory Auditors, to be elected by the majority, and shall be determined according to the following procedures: a) the Shareholders of Bologna and the Municipality of Ferrara, also in the interest of the Shareholders of Ferrara, shall have the right to designate the candidates to be included in the second and third places on the list (one Statutory Auditor and one Alternate Auditor); b) the Shareholders of Romagna Territorial Area shall have the right to designate the candidate to be included in the first place on the list (one Statutory Auditor);
- c) the resolution to request the penalty by paid by the defaulting Party; the main shareholder accused of such a default will not be allowed to participate in the discussion and will not have the right to vote on the respective resolution;
- d) resolutions concerning the coordination and execution of plans to sell the shares as well as the related preparatory and consequent acts, with all the widest powers to implement them, also invested in the person of the Chairman individually or jointly with other members of the Voting Trust Committee, including, among other things, the power to carry out in the name and on behalf of the Selling Parties procedures for the selection of consultants, placement agents, trust companies and to identify, negotiate, sign and, if necessary, modify the relative contracts, commitments and mandates in the name and on behalf of the Selling Parties, as well as to implement them.

### **Stock Blocking Syndicate**

The Parties undertake and agree, for the entire duration of the Agreement, to not transfer the shares allocated to the Blocking Syndicate (the "blocked shares"). Under the terms of the Agreement, "Transfer" or "to transfer" refers to any legal transaction, even free of charge (including sale, donation, exchange, contribution to a company, forced sale, block sale, merger, demerger) that has the direct or indirect result of transferring to third parties ownership or bare ownership of the shares or investing third parties with real rights (pledge and usufruct) on the Shares in the event that the voting right belongs to the pledgee or usufructuary.

The Parties undertake to maintain on the list established by Hera in accordance with Article 6.4 of the Hera Articles of Association (the "Special List") the number of blocked shares determined in each instance pursuant to the Agreement. The Parties may also register in the Special List a greater number of shares than the number of blocked shares.

The Agreement identifies the number of shares blocked for the entire duration of the Agreement with respect to each Party.

The Parties have agreed that, in any event, the total number of blocked shares may not be less than 38% of the share capital of Hera until the expiration of the Agreement. If the total number of blocked shares does not comply with the above mentioned indefectible condition, the Parties, for this purpose, grant the Chairman of the Committee a mandate to adjust, without delay and on the basis of a principle of proportionality, the number of blocked shares. If the above condition is not satisfied due to the non-performance of a Party, the provisions relating to non-performance and penalties shall apply.

The contracting Parties will be free to transfer blocked shares to public shareholders (Municipalities, Consortiums established in accordance with Article 31 of Legislative Decree 267/2000, or to other Public Authorities, or consortiums or joint-stock companies of which Municipalities or Consortiums established in accordance with Article 31 of Legislative Decree 267/2000 or other Public Bodies or Authorities hold, even indirectly, the majority of their share capital), including the other Parties, or to consortia formed between public bodies or to companies with share capital, also in consortium form, controlled by a Party to the Agreement, also jointly with other Parties to the Agreement, on the condition that the aforesaid company, at the time of the transfer made in its favour, has adhered to the Agreement. The Parties will be free to transfer, even to third parties, the option rights on the blocked shares. Transfers of blocked shares will be permitted only on the condition that the transferring entity,

by the date of the Transfer made to it, has entered into the Agreement by accepting it in writing and allocating the transferred shares to the Blocking Syndicate.

Each Party undertakes to inform the Chairman of the Syndicate Committee in writing, in a timely manner and in any case no later than the fifth day following the transfer, of any change in the blocked shares held by that Party.

The non-transferability constraint applies only to blocked shares. In any case, the Parties undertake to sell, in an orderly manner, shares other than blocked shares which they intend to transfer in order to allow for the orderly conduct of trading, in particular: a) each Party that intends to sell shares on the market (without prejudice to the prohibition on the sale of blocked shares), in a total amount greater than 3 million shares in each calendar year, undertakes to coordinate in advance with the Committee, and its Chairman on its behalf, during the annual meeting and, where appropriate, also to request further meetings, and to implement a method of sale completed through a single transaction; b) if at the annual meeting: (i) the total number of shares to be offered for sale, even individually, is greater than 10 million, the sale will be carried out in a coordinated manner; (ii) the total number of shares to be put up for sale does not exceed 10 million, each Party may proceed with the sale independently, without prejudice to the provisions of point a) above.

The annual meeting will also be aimed at verifying whether the intentions of each Party to sell shares are lower than the number of shares held by that Party not subject to the Blocking Syndicate. In this case, extra shares not already subject to the Blocking Syndicate may be subjected to the Blocking Syndicate and the shares of other parties to the Agreement that need to be disposed of may be unblocked. Coordination will be carried out by the Committee on the basis of the principle of proportionality. Once shared, changes to the number of shares subjected to the Blocking Syndicate will be incorporated into the Agreement, it being understood that the total number of blocked shares may not be changed except as provided for in the preceding sections.

Each Party has the right to transfer, for any reason whatsoever, its shares to any joint-stock company, even in consortium form, controlled by itself or jointly with other Parties, provided that the aforesaid company, at the time of the transfer made in its favour, has adhered to the Agreement. In this case, all the rights and obligations of the Parties will be placed in the hands of the transferee company, without prejudice to the obligation of the Party to the Agreement that made the transfer to then repurchase a number of shares equal to those transferred, if the company (i) is no longer controlled by the transferor, or (ii) the controlled company is subject to bankruptcy proceedings of any kind, or (iii) in the event of a merger, demerger or any other form of transformation of the controlled company.

For the entire duration of the Contract, the Parties undertake not to set up, directly or indirectly, including through third parties or through subsidiaries and/or connected parties or with third parties acting in concert with them, as defined in article 109 of the TUF, acts and/or facts and/or transactions, including transfers, which involve or may involve the obligation to make a mandatory public offer for the purchase of Hera shares ("OPA"). The defaulting Party shall take all necessary and appropriate actions to remedy the occurrence of OPA and, where possible, benefit from the exemptions provided for by applicable legislation, for example it shall undertake to transfer the shares to unrelated parties, or reduce the excess voting rights within twelve months and not to exercise these rights pursuant to letter e) of Article 5(1) 49, paragraph 1) of the Issuers' Regulations and/or it must waive the allocation of the increased voting rights pursuant to and within the terms of applicable legislation.

### **Bodies of the Agreement**

In addition to the Voting Trust Committee, the bodies of the Agreement are the "Chairman" and "Secretary".

#### **Chairman**

The Voting Trust Committee is presided over by the Committee Chairman or, in his/her absence, the oldest individual among its members. The Chairman is assisted by the Secretary. In its first meeting, the Voting Trust Committee will appoint the Chairman, to be the person who, among the members of the Committee, has obtained the highest number of overall votes assigned to the members of the Committee present at that meeting. The Chairman performs the following tasks: a) convenes and chairs the Committee, preparing the agenda; b) carries out all the activities entrusted to him by the Committee and by the Agreement; and c) adjusts the Agreement and its Annexes by removing from the text the names of persons who may not have signed the Pact, and making any further changes that follow from this.

#### **Secretary**

In its first meeting, the Voting Trust Committee will appoint a Secretary, whether or not he/she is a member of the Voting Trust Committee who, unless the position is revoked or resigned, will remain in office for the entire duration of the Agreement. The Secretary is responsible for the following tasks: a) preparing the minutes of the meetings of the Voting Trust Committee; b) keeping the minutes of the meetings of the Voting Trust Committee; c) performing all the operational and executive functions

necessary for the proper functioning of the Agreement, in support of the activities of the Voting Trust Committee and the Chairman, entrusted to him/her by the Chairman.

### **Nature of the Agreement and persons exercising control over the Company through the Agreement**

In view of the above, it is considered that the Agreement is material pursuant to article 122, paragraph 5, letters a) and b) of the TUF.

In view of the nature of the Agreement and by virtue of its provisions, no person is in a position to exercise control over Hera.

### **Penalties**

The Party that is in breach of certain provisions of the Agreement shall be liable to pay a penalty of (a) 5 million euro or (b) the lesser value to be calculated as follows: number of shares held by the Party that is in breach at the time of the breach, multiplied by three times the value of the share resulting from the arithmetic mean of the official stock exchange prices of the security during the 15 trading days prior to the date of the breach. The amount referred to in this paragraph, point (b), may not be less than 3 million euro and, therefore, if application of the above calculation results in less than this amount, the penalty will be 3 million euro. This is without prejudice to the right of each of the non-defaulting parties to bring a lawsuit for damages. The penalty shall be requested and collected, upon a resolution by the Voting Trust Committee made without the vote of the defaulting party, by the Chairman of the Voting Trust Committee in the name and on behalf of the non-defaulting parties, and shall be paid to the non-defaulting parties in proportion to the shares held by each of them.

If, as a result of breaches of the provisions of the Agreement, one or more Parties, individually or jointly, become obliged to launch a takeover bid, the defaulting party(s) shall indemnify and hold harmless the other Parties from all costs, expenses, charges, liabilities and damages related to or otherwise arising from such conduct, including those relating to the mandatory public tender offer for the Company's shares and related payment obligations. In addition, in such a case, the amount of the applicable penalty referred to in points (a) to (b) shall be applied in duplicate, except in the case of greater damages. This penalty will be applied, for the entire duration of the Agreement, in the event of a breach of the prohibition on the transfer of blocked shares resulting in a reduction in the total number of blocked shares below 38% of the share capital of Hera.

Any Party that does not default may automatically terminate the Agreement in relation to the defaulting Party in accordance with Article 1456 of the Italian Civil Code and with retroactive effect, and, where necessary, request that the Arbitration Board, in accordance with the procedure established therein, pronounce the Agreement terminated by right against the defaulting Party, without prejudice to the application of the rules on penalties for non-performance.

### **Agreement duration and modifications**

The Pact shall take effect on July 1<sup>st</sup> 2018 and shall remain in force until June 30<sup>th</sup> 2021. In view of the expiry of the Agreement, the parties undertake, in accordance with the principles of good faith, to do everything in their power, and in compliance with current legislation, to renegotiate new shareholders' agreements in accordance with the spirit of the Agreement. From the date of effectiveness of this Agreement, any previous shareholders' agreement between the same parties concerning the shares and signed by the same parties will cease to be effective.

The Agreement may be amended with the written agreement of the Parties which together hold at least 65% of the shares subject to the Blocking Syndicate. Changes to the Agreement shall be communicated to all Parties at least 30 days prior to the date such changes come into effect. In this case, the dissenting Parties shall have the right to withdraw immediately by means of a notice sent no later than the fifteenth day prior to the date on which the modifications to the Agreement come into effect.

### **2) Second-level Shareholders' Agreement, Bologna area**

The Agreement concerns 182,969,676 ordinary Hera shares conferred to the voting trust, with a nominal value of 1 euro, corresponding to 12.28365% of the share capital of Hera, held by a total of 32 public shareholders, and 357,087,568 voting rights, equal to 15.71798% of the total voting rights that make up the share capital.

### **Content of the Agreement**

#### **Voting trust**

In order to take on the decisions made by the Voting Syndicate, the Parties have established a deliberative body of the Voting Syndicate (the "Agreement Assembly") composed of the pro-tempore legal representatives of each Party or their delegates.

The Agreement Assembly meets:

- (i) at least three days before each meeting of the Voting Trust Committee, as per the Voting Trust Agreement;

- (ii) at least five days before each meeting of the Hera S.p.A. shareholders that includes any items on its agenda different from that covered by the Voting Trust Committee as outlined in point i) above;
- (iii) at least 30 days before each meeting of the Hera S.p.A. shareholders that includes on its agenda the nomination of components of the Board of Directors and/or Board of Statutory Auditors;
- (iv) Any time the Municipality of Bologna, or 14 Parties other than the Municipality of Bologna make a written request to the Chairman of the Agreement Assembly.

The decisions of the Agreement Assembly are validly made by a majority of those present, provided that a yes vote has been expressed by the Municipality of Bologna and at least eight other Parties. The Parties to the Agreement undertake to ensure that their vote at the Shareholders' Meeting conforms to the resolutions adopted by the Agreement Assembly.

#### **Identification of the members of the Hera Board of Directors**

With reference to the process of drawing up the majority list for appointing the Board of Directors of Hera S.p.A., the Parties themselves undertake to define and approve, as follows, with due regard for the balance between genders, the list containing the names of directors:

- maximum two components - in accordance with the agreements that may be entered into with the Municipality of Ferrara, also in the interest of the shareholders of the Ferrara area - indicated by the Mayor of the Municipality of Bologna;
- one component indicated by the Parties, excluding the Municipality of Bologna, in the Agreement Assembly.

Finally, the Parties undertake to ensure that the Directors appointed by them, at the first meeting of the Board of Directors of Hera S.p.A., proceed with appointing the office of Chief Executive Officer, it being understood that they will consult each other before the name of the candidate is formalized.

Before the name of the candidate for Chief Executive Officer of the Board of Directors of Hera S.p.A. is formalised, the Mayor of the Municipality of Bologna or a person appointed by him, in the interest of the Parties, will consult with the common representative of the shareholders of the Romagna Territorial area and will inform the Chairman of the Voting Trust Committee.

#### **Rules for transfers of blocked shares**

For the duration of the Agreement, the parties to the Agreement undertake not to transfer the Hera S.p.A. shares subject to the Blocking Syndicate ("blocked shares") referred to in the first-level Shareholders' Agreement.

#### **Rules for non-blocked Hera shares**

The Party that intends to sell Syndicated shares that are not blocked shares, and therefore not subject to the non-transferability restriction, for total amount of less than 3 million shares during each calendar year, must pre-emptively offer the Shares to be sold in advance to all the other Parties, under the same conditions, in proportion to the shareholding held by each Party in Hera, without prejudice to the right of growth of each Party.

In the event of non-compliance with the above provision, the acts of disposal of the shares shall be null and void and shall be unenforceable in relation to the Parties and Hera S.p.A.

#### **Penalties**

The Party in breach of the provisions of the Agreement will be required to pay a penalty, for each individual, confirmed violation, of 500 thousand euro, without prejudice to compensation for any potential additional damage.

#### **Agreement duration**

The Pact shall take effect on July 1<sup>st</sup> 2018 and shall remain in force until June 30<sup>th</sup> 2021.

In view of the expiry of the Agreement and if the Voting Trust Agreement is in turn renewed, the parties undertake, in accordance with the principles of good faith, to do everything in their power, and in compliance with current legislation, to renegotiate new shareholders' agreements.

#### **Nature of the Agreement and persons exercising control over the Company through the Agreement**

In view of the above, it is considered that the Agreement is material pursuant to article 122, paragraph 5, letters a) and b) of the TUF.

In view of the nature of the Agreement and by virtue of its provisions, no person is in a position to exercise control over Hera.

#### **3) Second-level Shareholders' Agreement, Modena area**

The total number of voting rights conferred on the voting syndicate is 235,626,166 and the relative percentage of the total voting rights that make up the share capital of Hera is approximately 10.37159%.

## Content of the Agreement

### Voting trust

In order to take on the decisions made by the Voting Syndicate, the Parties have established a deliberative body of the Voting Syndicate (the "Shareholders' meeting of the Voting Trust") composed of the pro-tempore legal representatives of each Party or their delegates.

The Shareholders' meeting of the Voting Trust meets:

- (i) at least one day before each meeting of the Voting Trust Committee, in accordance with the Hera Agreement, that includes on its agenda one of the resolutions and activities referred to in Article 4.3 of the Hera Pact;
- (ii) at least one day before each meeting of the Hera S.p.A. shareholders that includes any items on its agenda different from that covered by the Committee as outlined in point i) above;

With reference to the process of drawing up the majority list for appointing the Board of Directors of Hera S.p.A., if under the Hera Pact:

- (i) only one member of the majority list for the Board of Directors elections is reserved for the parties to the Modena pact, the Shareholders' meeting of the Voting Trust shall arrange for it;
- (ii) the parties to the Modena agreement are assigned the right to designate two members of the majority list for the Board of Directors election, the Municipality of Modena will be in charge of designating who will be proposed as vice chairman of the Board of Directors, while the second member will be designated by the Shareholders' meeting of the Voting Trust;
- (iii) more than two members of the majority list for the election of the Board of Directors are to be appointed by the Parties to the Modena agreement; the Municipality of Modena will be responsible for appointing two thirds of the members, rounded up to the nearest whole number, including the one who will be proposed as vice president, while the other members will be appointed by the Shareholders' meeting of the Voting Trust.

The Shareholders' Meeting of the Voting Trust shall resolve on the basis of the number of Hera shares blocked under the Hera Pact held by each Party, with reference to the total number of Hera shares blocked under the Hera Pact held by the Parties as a whole: for resolutions to be valid, there must be present a number of Parties holding at least 4/5 of the blocked shares and a yes vote by a number of Parties holding at least 4/5 of the blocked shares in relation to those held by the Parties present.

### Rules for blocked Hera shares

The Modena agreement does not provide for a specific Blocking Syndicate; rather, it refers to the Hera pact for the regulation of the blocked shares covered by it.

### Rules for non-blocked Hera shares

The Modena agreement refers to the Hera pact for the regulation of the transfer of non-blocked shares. It also states that the Parties undertake to define, in advance and jointly, at the Shareholders' Meeting, the number of shares to be transferred.

### Agreement duration

The Modena Agreement, in effect beginning July 1<sup>st</sup> 2018, shall remain in force until June 30<sup>th</sup> 2021. The parties have undertaken to renegotiate the Agreement in good faith, with due respect for the spirit of the Agreement and with a view to its expiry.

### Nature of the Agreement and persons exercising control over the Company through the Agreement

In view of the above, it is considered that the Agreement is material pursuant to article 122, paragraph 5, letters a) and b) of the TUF.

In view of the nature of the Modena Agreement and by virtue of its provisions, no person is in a position to exercise control over Hera.

### Penalties

The Party that is in breach of the provisions of the Agreement shall be liable to pay a penalty equal to five per cent of the value of the Hera shares held at the time of the breach, calculated as the arithmetic mean of the official stock market prices of the Hera share during the 15 trading days prior to the date of the breach.

### 4) Sub-agreement between the Municipalities of Padua and Trieste

The sub-agreement concerns 103,096,159 ordinary Hera shares, equal to 6.92135% of the current share capital of Hera, held in total by the two participating municipalities, and 204,792,318 voting rights, equal to 9.01437% of the total voting rights that make up the share capital.



**Content of the Sub-agreement**

The purpose of the Sub-agreement is to establish a consultation and voting syndicate that will be instrumental to ensuring the realization of certain provisions regarding Hera's corporate governance in implementation of the Agreement.

Specifically, the Sub-agreement regulates the procedures for the joint appointment of a member of the Hera Executive Committee, providing that the Parties confirm their mutual commitment to consulting in good faith in order to identify and agree which of the two directors elected to the Company's Board of Directors, upon their appointment, should be the director to be appointed as member of the Hera Executive Committee.

As provisionally agreed to by the Parties, with effect from November 2018 and until the natural expiry of the Board of Directors of Hera, the director designated by the Municipality of Padua has assumed the position of member of the Executive Committee in place of the member representing the Municipality of Trieste, previously in office.

**Duration of the Sub-agreement**

The Sub-agreement has a duration of three years from the date of its signing (June 26<sup>th</sup> 2018).

In view of the expiry of the Sub-agreement, the parties undertake, in accordance with the principles of good faith, to do everything in their power, and in compliance with current legislation, to renegotiate new shareholders' agreements in accordance with the spirit of this Sub-agreement.

**Nature of the Agreement and persons exercising control over Hera S.p.A. through the Sub-agreement**

In view of the above, it is considered that the Agreement is material pursuant to article 122, paragraph 5, letter a) of the TUF.

In view of the nature of the Agreement and by virtue of its provisions, no person is in a position to exercise control over Hera.

**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 28 April 2018 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 1 euro each, equal to approximately 4.03% of the ordinary shares making up the share capital, in accordance with the following conditions:

- (i) 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 S.p.A., involving a maximum increase in investment of 180 million euro.
- (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 should be noted that the buy-back authorisation only concerns the purchase of ordinary shares, thus excluding the possibility of purchasing derivative financial instruments, and that the number of treasury shares in portfolio at the end of the 2018 financial year was 23,584,475.

**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, at: <https://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2018clean.pdf>

## 4 Board of Directors;

Hera has an ordinary/traditional system of governance. The following paragraphs describe 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 l) of the TUF)

#### List voting

The appointment of the Board of Directors is subject to the "list voting" mechanism, in order to guarantee that the Board of Directors includes Directors designated by minority shareholders, in compliance with current legislation on gender balance.

Specifically, Articles 16 and 17 of the Articles of Association govern the terms and conditions for filing and publishing lists, as well as the related documentation, in compliance with current regulations.

The lists presented by shareholders must include at least two candidates satisfying the independence requirements established for the statutory auditors by Article 148, paragraph 3 of Legislative Decree 58/1998 and by the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A., 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 and any applicable declaration of satisfaction of the independence requirements established for statutory auditors by Article 148, paragraph 3 of the TUF and those established by the Civil Code.

The lists must be filed, in accordance with article 17.5 of the Articles of Association, at the registered office at least 25 days before the Shareholders' Meeting, and made available to the public at the registered office and on the website [www.gruppohera.it](http://www.gruppohera.it) at least 21 days before the meeting.

The terms and conditions for the filing of lists are indicated by the Company in the Shareholders' Meeting notice of call. Each shareholder may submit or participate in the submission and voting of only one list. Subscriptions and votes cast in violation of this prohibition shall not be attributed to any list.

#### Eligibility to submit lists and their composition

Lists for the appointment of members of the Board of Directors may be submitted by shareholders representing at least 1% of the share capital with voting rights at the Ordinary Shareholders' Meeting, unless otherwise provided for by current legislation, to be indicated in the notice of call.

In this regard, it should be noted that, on the occasion of the last renewal of the administrative body which took place at the Shareholders' Meeting of April 27<sup>th</sup> 2017, the shareholding required for presenting lists of candidates for the election of the sitting administrative body was identified by Consob (through Resolution No. 19856 of January 25<sup>th</sup> 2017) to be 1%, equal to the percentage provided for in Article 17.4 of the current Articles of Association.

In order to demonstrate ownership of the number of shares necessary for presenting lists, shareholders must file the appropriate certification proving ownership of the number of shares represented at the registered office within the deadline set by the Company for posting the lists.

In addition, in order to ensure the election of the minimum number of independent directors, pursuant to article 17.3 of the Articles of Association, at least two candidates on each list must meet the independence requirements established for Statutory Auditors by article 148, paragraph 3 of Legislative Decree 58/1998 and by the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A.

It is also required, in accordance with Law 120/2011, and Article 17 of the current Articles of Association, that:

- lists with less than three candidates must include at least one candidate of the less-represented gender;
- lists with three or more candidates must include a number of candidates of the less-represented gender that equals not less than one third of the number of candidates.

If the list voting system does not ensure the minimum gender quota required by law, the candidate of the most represented gender positioned last on the list of candidates elected from the list with the highest number of votes shall be replaced by the candidate of the less-represented gender who was positioned first among the non-elected candidates on the same list and so on, up to the minimum number of directors belonging to the less-represented gender. If the minimum number of directors belonging to the less represented gender still has not been reached even after applying this criterion, the replacement criterion indicated will be applied to the minority lists, starting from the list that received the highest number of votes.

#### Appointment mechanism

The members of the Board of Directors are appointed in accordance with the provisions of Articles 16 and 17 of the Articles of Association, and therefore:

the company is managed by a Board of Directors composed of 15 members;

The members of the Board of Directors are appointed on the basis of lists in which the candidates are marked with a progressive number and, in any case, number no more than the number of members to be elected:

- 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;
- for the appointment of the remaining four members, the votes obtained by each of the lists other than the majority list, and which have not been presented or voted for by shareholders connected to the shareholders who presented or voted for the same majority list in accordance with the regulations in force at the time, are subsequently divided by one, two, three and four; The quotients deriving from this division are progressively assigned to the candidates on each list, in the order provided for by the list. Candidates are then arranged in a single descending ranking, according to the quotients assigned to each candidate. The candidates elected shall be those who the highest quotients, in relation to the remaining members to be elected, of which at least one must be of the less-represented gender.

#### Replacement of directors

In accordance with Article 14 of the Articles of Association, 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.

#### 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 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.

#### b) Composition (pursuant to Article 123-bis, paragraph 2, letter d) and d-bis, of the TUF)

The shareholder's meeting held 27 April 2017 has appointed for three financial years a Board of Directors, whose mandate lasts from now until the approval of the financial statement for the 2019 financial year, 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 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 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 Decree-Law 332 of May 31<sup>st</sup> 1994, converted from Law no. 474 of July 30<sup>th</sup> 1994.

At the Shareholders' Meeting of April 27<sup>th</sup> 2017 mentioned above, three lists of candidates were presented, listed below along with an indication of their proposing Shareholders:

**List no. 1**, presented by the shareholders Municipality of Bologna, Municipality of Casalecchio di Reno, Municipality of Cesena, Municipality of Modena, Municipality of Padova, Municipality of Trieste, Municipality of Udine, Con.Ami, Holding Ferrara Servizi Srl, Ravenna Holding S.p.A. and Rimini Holding S.p.A., who, together with 107 other public shareholders, were at the time parties to the "Shareholders' Agreement on Voting and Share Transfer Rules" of June 23<sup>rd</sup> 2015, and who together hold 666,023,417 Hera shares, corresponding to 44.71% of the voting shares of Hera S.p.A., a list that was voted for by 61.327607% of the share capital present, containing the names, in ranked order, of the following candidates:

1. Tomaso Tommasi di Vignano
2. Stefano Venier
3. Giovanni Basile
4. Giorgia Gagliardi
5. Stefano Manara
6. Danilo Manfredi
7. Giovanni Xilo
8. Sara Lorenzon
9. Marina Vignola
10. Aldo Luciano

## 11. Federica Seganti

**List no. 2**, presented by the shareholders Arca Fondi S.G.R. S.p.A., manager of the Arca Azioni Italia fund ; Eurizon Capital SGR S.p.A. manager of the following funds: Eurizon Progetto Italia 40, Eurizon Progetto Italia 20, Eurizon Azioni Italia, Eurizon Azioni PMI Italia and Eurizon Progetto Italia 70; Eurizon Capital SA manager of the following funds: Equity Italy, Equity Small Mid Cap Italy and Equity Italy Smart Volatility; Fideuram Asset Management (Ireland) manager of the following funds: Fideuram Fund Equity Italy and Fonditalia Equity Italy; Fideuram Investimenti S.p.A., manager of the Fideuram Italia fund; Interfund Sicav Interfund Equity Italy; Legal & General Assurance (Pensions Management) Limited; Mediolanum Gestione Fondi SGR S.p.A., manager of: Mediolanum Flessibile Italia and Mediolanum Flessibile Sviluppo Italia funds; Mediolanum International Funds - challenge fund - challenge fund Italian Equity; Pioneer Investment Management SGRpa, manager of the Pioneer Azionario Crescita fund; Pioneer Asset Management SA, manager of the PF Italian Equity and PF European Potential funds, together holders of 19,140,764 Hera shares, corresponding to 1.285% of the voting shares of Hera S.p.A., a list that was voted for by 23.625290% of the share capital present, containing the names, in ranked order, of the following candidates:

1. Erwin P.W. Rauhe
2. Francesca Fiore
3. Duccio Regoli
4. Sofia Bianchi
5. Silvia Muzi

**List no. 3**, presented by the shareholder Gruppo Società Gas Rimini S.p.A., owner of 30,771,269 Hera shares, corresponding to 2.065825% of the voting shares of Hera S.p.A., a list that was voted for by 14.642686% of the share capital present, containing the names, in ranked order, of the following candidates:

1. Massimo Giusti
2. Bruno Tani
3. Fabio Bacchilega
4. Valeria Falce

Following the Shareholders' Meeting vote, as well as the subsequent meeting of the Board of Directors held on the same date for the appointment of Chairman, Corporate Executive Officer and Vice Chairman, the administrative body is composed as follows:

1. Tomaso Tommasi di Vignano (Chairman);
2. Stefano Venier (Chief Executive Officer);
3. Giovanni Basile (Vice Chairman);
4. Giorgia Gagliardi;
5. Stefano Manara;
6. Danilo Manfredi;
7. Giovanni Xilo;
8. Sara Lorenzon;
9. Marina Vignola;
10. Aldo Luciano;
11. Federica Seganti;
12. Erwin Paul Walter Rauhe;
13. Massimo Giusti;
14. Francesca Fiore;
15. Duccio Regoli.

It should also be noted that, following his appointment, and more specifically with effect from October 5<sup>th</sup> 2017, Director Aldo Luciano resigned from office; the Board of Directors of Hera S.p.A., pursuant to article 17.10 of the current Articles of Association of Hera S.p.A. and pursuant to article 2386 of the Italian Civil Code, at its meeting of November 8<sup>th</sup> 2017, by a resolution approved by the Board of Statutory Auditors, appointed Alessandro Melcarne to co-opt for Aldo Luciano, specifying that the co-opted director would remain in office until the next Shareholders' Meeting which, on April 28<sup>th</sup> 2018, confirmed his appointment.

Here below is outlined the current composition of the Board of Directors, please refer to Table 1 (attached) for more detailed information on the composition and functioning of the Board of Directors, as well as to the specific section on the company's website which provides information about the personal and professional characteristics of each director.

Name, last name	Position	Category
Tomaso Tommasi di Vignano	Chairman	Executive Director
Stefano Venier	Chief Executive Officer	Executive Director
Giovanni Basile	Vice Chairman	Non-executive, independent director
Francesca Fiore	Director	Non-executive, independent director
Giorgia Gagliardi	Director	Non-executive, independent director
Massimo Giusti	Director	Non-executive, independent director
Sara Lorenzon	Director	Non-executive, independent director
Stefano Manara	Director	Non-executive, independent director
Danilo Manfredi	Director	Non-executive, independent director
Alessandro Melcarne	Director	Non-executive, independent director
Erwin P.W. Rauhe	Director	Non-executive, independent director
Duccio Regoli	Director	Non-executive, independent director
Federica Seganti	Director	Non-executive, independent director
Marina Vignola	Director	Non-executive, independent director
Giovanni Xilo	Director	Non-executive, independent director

### Diversity criteria and policies

The appointment of the Board of Directors took place during the Shareholders' Meeting of April 27<sup>th</sup> 2017, following the presentation of three lists, one majority and two minority, which ensured, in accordance with the provisions of regulations on gender balance, that at least one third of the members of the Board of Directors is made up of the less-represented gender (five members of the less-represented gender out of a total of 15 directors).

Of the current 15 directors, five are between 30 and 50 years of age, eight are between 50 and 60 years of age and two are over 60 years of age, with a total average age of about 52.

The directors have proven expertise in financial, economic and legal fields, sustainability, and social and environmental matters.

The Board of Directors has expressed a high level of appreciation for its composition, the characteristics of its members and its functioning.

Hera also maintains as a priority the goal of ensuring equal treatment and opportunities between the genders, including within the company organisation as a whole, on the assumption that:

- differences in gender, culture and background are now universally recognised as a value and should therefore be managed in the best possible way;
- an atmosphere in which people feel equal and included at work generates cooperative behaviour and fosters a co-organisational approach that in turn facilitates the more effective sharing of company culture.

As early as 2011, in order to further promote the development and dissemination of a company policy on equal opportunities and equality at work, the position of Diversity Manager was established with the aim of promoting the implementation of this company policy on equal opportunities and the enhancement of diversity.

The mission of Diversity Management can be outlined in a series of macro-points:

- spreading a culture of inclusion among public, private and civil society, and sharing best practices with institutions and companies in the area to strengthen the social web;
- supporting management in enhancing plurality within the company;
- strengthening the role of the Hera Group in developing a culture of valuing differences and balancing work and personal life.

Spreading a culture of diversity, introducing time-saving projects aimed at improving people's daily work-life balance, health and wellbeing and fostering empowerment have been central themes in the process undertaken so far within the company.

### Accumulation of positions in other companies

In a resolution dated October 10<sup>th</sup> 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 relevant regulatory framework.

### Induction Programme

As in the past, the Board of Directors has set up opportunities for in-depth discussions, both specific and within meetings of the Board, intensifying this process in order to ensure that directors acquire adequate knowledge of the main issues concerning the Company as quickly as possible.

Already in previous years, specific induction sessions were carried out to provide directors with adequate knowledge of the main sectors of activity (networks, energy and the environment), and various opportunities were provided for in-depth analysis, within the meetings of the Board of Directors, regarding business issues, investments, organisation, the market scenario, regulatory developments, upcoming tenders scheduled, and risk management.

In 2018, the induction plan and refresher sessions on business issues, finance, strategic direction, sustainability and social responsibility, waste disposal and communication with local communities continued.

In particular, visits were organised to the Group's plants and production sites while in-depth analyses were carried out on corporate mergers, market analyses of the plastics sector, future scenarios for the Group's activities in relation to public contracts, management of the integrated water cycle, share performance, management of the Group's financial risks and the 17 UN global objectives for sustainable development.

In 2018 as well, further in-depth focus sessions were carried out during strategy day as an opportunity to reflect collectively on the future with the support of management, an event which included a session dedicated to peers' strategic initiatives and their potential impact on the sector and the Group.

### c) 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:

- appointment and/or removal of the Chairman and Vice Chairman;
- appointment and/or removal of the CEO and/or the General Manager;
- formation and composition of the Executive Committee, appointment and/or removal of the members of the Executive Committee;
- 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;
- approval and modification of any multi-year plans or business plans;
- approval and modification of Group regulations, if adopted;
- recruitment and/or appointment, on the proposal of the Group CEO, of the managers responsible for each departmental area;
- proposal to place on the agenda of the 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;
- acquisition and disposal of equity investments with a value exceeding 500,000 (five hundred thousand) euro;
- purchase and/or sale of properties with a value exceeding 500,000 euro;
- provision of sureties, liens and/or other real guarantees with a value exceeding 500,000 euro;
- purchase and/or sale of companies and/or business units;
- appointment of directors of subsidiaries and affiliates;

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

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. The 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 2018. All the directors took part in 7 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 forty 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 participate in the meetings of the Board of Directors, to refer on matters falling under their competence that are part of the agenda.

With regard to the current financial year, three meetings of the Board of Directors were held as of March 27<sup>th</sup> 2019; these meetings were attended by ..... As of that date, 7 meetings of the Board of Directors had been planned for the remainder of the year.

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

This evaluation was carried out with the support of Spencer Stuart, an independent external advisor with expertise in governance issues and consulting for Boards of Directors.

The methodology of this company focuses on the structure and composition of the board, on the operating methods adopted by the Board to make decisions, and on the correct definition of responsibilities. Attention is paid to the effectiveness of the Board and its Committees in exercising their corporate governance and control functions.

The proposed methodology aims to grant continuity over time to the activities carried out in previous years and is based on the following instruments:

1. structured interviews with the Directors and the Chairman of the Board of Statutory Auditors concerning the main areas of interest (size, composition, functioning) of the Board;
2. examination of company documentation (minutes of Board meetings) and verification of the effectiveness of the actions that have been carried out during the last year, in order to follow up on comments made by the Directors during this previous self-assessment;
3. analyses of international best practices;

The final results of the project are presented and discussed at an ad-hoc Board meeting.

#### **Structured interviews**

As indicated, the project is carried out through individual interviews with the Directors and the Chairman of the Board of Statutory Auditors.

The interviews are based on an "Interview Guide" which is sent to the Directors prior to the meetings with the Spencer Stuart consultants and concern issues of corporate governance, the functioning of the Board, the composition of the Board, and the exercise of direction and control powers.

Each question requires a quantitative assessment and qualitative commentary on the issue under consideration. Counsellors express their level of support for the statements in the interview guide according to an internationally-used scale.

All analyses and comments are processed in an absolutely anonymous manner. By way of example, the following areas are discussed in greater depth: the organisation of the Board of Directors and its Committees, the roles and responsibilities of Directors, the composition of the Board of Directors, the participation and commitment of Directors, communications with Shareholders and Stakeholders, prospects, and the general effectiveness of the Board of Directors.

#### **Examination of company documents.**

Hera corporate documentation is analysed in order to understand how deeply the Board and the Committees are involved and to verify aspects such as the frequency and average duration of meetings, methods for presenting proposals, the quality of information provided to the Board, the level of participation of Directors and, where appropriate, managers invited to participate, the contributions Directors make to the debate and the quality of the minutes.

### Analyses of international best practices

Interviews with Directors also concern an analysis of the operating practices adopted by the Hera Board of Directors so that these might be compared with best practices.

Interviews with directors showed a very high level of overall appreciation of the way in which the Board operates: the responses, in accordance with the topics proposed in the interview guide, reported 94% agreement.

The company Spencer Stuart, which supported the Board of Directors in this evaluation activity, found a very high level of appreciation compared to other Boards in Italy and abroad.

At its meeting of March 27<sup>th</sup> 2019, the Board of Directors expressed a positive opinion on the size, composition and functioning of the Board itself, as well as of the Committees into which it is broken down.

In particular, the areas of excellence that were appreciated the most by the Directors are, among others:

- the effectiveness of the actions undertaken by top management to implement the proposals of the Directors following the previous self-assessment;
- the Board of Directors' knowledge of short-term business performance and medium and long-term prospects;
- the climate and methods of holding meetings are characterised by constructive debate among Directors;

the Board of Directors has exercised its role in terms of identifying, managing and controlling risks. Of the proposals that were identified through the evaluations by Directors, the following are of note:

- to continue with the induction plan on risk and investment issues;
- to continue to organise the annual strategy day as an opportunity for reflecting on the future.

### d) Delegated bodies

Hera's Board of Directors includes two executive directors, the Chairman and the Chief Executive Officer, to whom various company sectors report and to whom the consequent powers have been assigned, as explained in greater detail 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;
- to establish the agenda of the meetings of the Board of Directors, taking into account the proposals of the CEO;
- to oversee the deliberations of the Company's administrative bodies, without neglecting the reports presented periodically by the Internal Auditing Department;
  - to represent the Company before third parties and in legal proceedings, with the power to appoint attorneys and lawyers;
  - 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;
  - 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;
  - to represent the company in relations with the shareholding Public Authorities;
  - 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;
  - to execute the decisions of the Shareholders' Meeting and of the Board of Directors as far as his authority permits;
  - 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;
  - to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
  - to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
  - 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;
  - 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;



- 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;
- 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;
- to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
- 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:
  - 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;
  - b) by submitting reports, motions and appeals, applying for licences and authorisations;
  - 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 judgements and seizures of property and oppose the same, enter civil proceedings, file motions and appeals;
    - b) to 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;
  - 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 500 thousand euro for each transaction;
  - 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 300 thousand euro for each operation;
  - as far as his authority permits, to stipulate, amend and terminate commercial and service agreements with companies and entities;
  - 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 2 million euro for each transaction;
  - to provide for the expenses incurred by the Company for investments; stipulate, amend and terminate the relative contracts, in particular for:
    - a) works and supplies necessary for the transformation and maintenance of properties and plants up to an amount of 20 million euro for each individual operation;
    - b) purchases and disposals of furniture, fittings, machinery and moveable assets in general, including those enrolled in public registers, up to an amount of 10 million euro for each individual operation, as well as finance leases and rentals of such assets, with the cost limit referring to the annual rental;
    - c) purchases, including those under usage licence with the cost limit referring to the annual premium, and job orders relating to EDP programmes;
    - d) commercial information;
  - 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;
  - 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; to submit applications for participation as from the pre-qualification stage; to submit bids up to an amount of 25 million euro for each individual operation - in cases of urgency, the decision concerning amounts exceeding 25 million euro 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;
  - 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 500 thousand euro for each operation (this limit will not apply to transactions connected with participation in tenders);
  - 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 instalments, the payment, and to pay out possible damages and waive statutory mortgages, up to a total of 500 thousand euro for each operation;

- to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and initiating 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 instalments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of 500 thousand euro for each operation;
- to rent or let out properties under leases or subleases and stipulate, amend and terminate the relative contracts;
- to deliberate on 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;
- 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;
- to appoint lawyers and attorneys for dispute proceedings of any judicial degree; conclude transactions up to a maximum of 5 million euro for each individual transaction, sign arbitral settlements and compromise agreements, and nominate and appoint arbitrators;
- 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;
- to represent the Company in all lawsuits pertaining to labour law, including the power to:
  - a) to mediate individual employment disputes involving all categories of staff;
  - b) to 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;
- 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;
- to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
- as far as his authority permits, by deciding on 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 300 thousand euro for each operation;
- the Chairman is assigned the powers and responsibilities set forth in Legislative Decree no. 196 of June 30<sup>th</sup> 2003 concerning the protection of individuals and other parties with regard to the processing of personal data, with the power of delegation;
- 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 into account 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. In this regard, the organisational structure provides that the Chairman is responsible for the Central Legal and Corporate Affairs Department, the Central Personnel and Organisation Department, the Central External Relations Department, the Central Planning, Regulatory Affairs and Local Authorities Department, the Central Corporate Services Department and the Investor Relator Department, as well as the businesses related to the activities of Herambiente S.p.A., Marche Multiservizi S.p.A. and AcegasApsAmga S.p.A..

### Chief Executive Officer

The Board of Directors passed a resolution to vest the 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;
  - 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;
  - 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;
  - 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;
  - to draw up the annual budget to be submitted to the Board of Directors;
  - to be responsible for organizing the services and offices under his authority, as well as the employees working under him;
  - to make monthly reports to the Board of Directors, as far as his authority permits, as regards the specified subsidiary companies;
  - to sign company correspondence and deeds associated with the exercise of the powers attributed to him and the functions he holds;
  - to stipulate, amend and terminate agreements concerning lines of credit or loans of any type and duration involving a cost commitment of up to 1 million euro for each individual transaction;
  - 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;
  - to make payments into bank and post office accounts of the Company, and to endorse cheques and drafts for crediting to the said accounts;
  - 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;
  - to grant credit and accept receivables claimed by suppliers (reverse factoring and/or indirect factoring contracts) for the Company without recourse and/or with recourse up to a maximum amount of 250 million euro per transaction, and to operate with companies and factoring institutions by signing all related deeds;
  - 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) by signing tax and VAT returns and fulfilling any other tax-related obligations;
    - b) by submitting reports, motions and appeals, applying for licences and authorisations;
    - c) issuing receipts, in particular for payment orders in relation to credits subject to factoring operations;
    - d) by performing 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;
  - to issue guarantees and grant loans, and sign bank surety agreements up to the value of 500 thousand euro for each transaction; this limit shall not apply to transactions relating to participation in tenders; issue, accept and endorse credit instruments;
  - 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;
  - to take part, as far as his authority permits, in the Company's name, including in TACs (Temporary Associations of Companies), EGELs (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; submitting applications for participation as

from the pre-qualification stage; to submit bids up to an amount of 25 million euro for each individual operation - in cases of urgency, the decision concerning amounts exceeding 25 million euro will be made in association with the CEO, informing the Board of Directors accordingly at its next meeting; in the case of awarding, signing 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;

- as far as his authority permits, to stipulate, amend and terminate commercial and service agreements with companies and entities;
- 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 2 million euro for each transaction;
- 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 300 thousand euro for each operation;
- to conclude transactions up to an amount of 5 million euro for each individual operation, signing arbitral settlements and compromise agreements, and nominating and appointing arbitrators;
- to draw up, sign and implement deeds of association, modification or extinguishment for positive and negative easements, voluntary or of necessity, and initiating 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 instalments, the payment and to pay out possible damages and waive statutory mortgages, up to a total of 500 thousand euro for each operation;
- to grant and revoke powers of attorney within the sphere of the aforesaid powers, for individual acts or categories of acts, to both employees of the Company and to third parties including legal entities;
- as far as his authority permits, to decide on 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 300 thousand euro for each operation;
- the CEO is assigned the role of "Employer" pursuant to and for the purposes of Article 2 of Legislative Decree 81 of April 8<sup>th</sup> 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) Marcello Guerrini, as Corporate Systems Central Director.
  - b) Roberto Barilli, as Operations General Director and in particular for the regulated services planning and coordination department
  - c) Salvatore Molè, as Central Innovation Director.
  - d) Franco Fogacci, as Director of Water;
  - e) Antonio Dondi, as Director of Environmental Services;
  - f) 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).
- the CEO is responsible for managing activities relating to the Register of Freight Carriers, with the power of delegation;
- 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 into account 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.

The organisational structure provides that the Chief Executive Officer is responsible for Central Administration, the Finance and Control Department, the Central Innovation Department, the Corporate Social Responsibility Department, the Business Development and Subsidiaries Department and the Central Market Department, as well as the General Operations Department.

#### 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 April 27<sup>th</sup> 2017, in office until the natural expiration of the administrative body's term, and therefore until the approval of the financial statements as of December 31<sup>st</sup> 2019, as provided for by Article 23.3 of the Articles of Association, at its meeting of May 10<sup>th</sup> 2017, appointed as Chairman of the Executive Committee Tomaso Tommasi di Vignano - Chairman of the Executive Committee; Giovanni Basile as Vice Chairman of the Executive Committee; and Stefano Venier and Federica Seganti as committee members;

Subsequently, following the resignation of Federica Seganti from the position of member of the Executive Committee on November 8<sup>th</sup> 2018, the Board of Directors, which met on the same date, appointed Alessandro Melcarne to replace her.

In view of the above, the Executive Committee thus has the following composition:

■ Tomaso Tommasi di Vignano	Chairman of the Executive Committee
■ Giovanni Basile	Vice Chairman of the Executive Committee;
■ Stefano Venier	Member of the Executive Committee.
■ Alessandro Melcarne	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 2 million euro 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 300 thousand euro and up to 1 million euro 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 300 thousand euro and up to 1 million euro for each operation;
4. to settle disputes and/or waive credits of an amount exceeding 5 million euro;
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 1 million euro and up to 5 million euro 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 20 million euro 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 10 million euro for each operation.
  - In addition, the Committee is responsible for:
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 6 occasions in 2018, 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 and Giovanni Xilo, in the sense that they meet the independence requirements set out in the Code of Conduct and in article 148, paragraph 3 of the TUF.

Specifically, the above mentioned directors declared that:

- they do not control the issuer directly or indirectly, including via subsidiary or trust companies or third parties; they do not exercise significant influence over the issuer; they are not party to any shareholders' agreement whereby one or more parties may exercise control or significant influence over the issuer;
- they are not currently, nor have they been in the last three financial years, important representatives of the issuer, one of its subsidiaries with strategic importance or one of the companies subject to joint control together with the issuer, or of a company or body which, also together with others as a result of shareholders' agreements, controls the issuer or is able to exercise significant influence over it;
- they do not currently have, nor have they had in the previous year, either directly or indirectly, any significant commercial, financial or professional relationship:
  - with the issuer, one of its subsidiaries or any of the related important representatives;
  - with a party who, alone or with others as a result of shareholders' agreements, controls the issuer, or - in the case of companies or bodies - with the related important representatives, and who have not been employees of one of the aforementioned parties in the last three financial years;
- they have not received in the last three financial years, from the issuer or from a subsidiary or parent company, significant remuneration in addition to the "fixed" emolument of the issuer's non-executive directors and the remuneration for participation in internal committees, including participation in incentive schemes linked to the company's performance, even share-based;
- they have not held the office of executive director in another company in which an executive director of the issuer holds the office of director;
- they are not shareholders or directors of a company or entity belonging to the network of the firm appointed to audit the issuer's accounts;
- they are not close relatives of a party in one of the positions described in the previous points.

The independence of these directors was assessed by the Board of Directors at the time of their appointment, and the Board announced the outcome in a press release distributed 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 independent directors has been covered by such conditions for more than nine years, the Board of Directors, as in previous years, reserves the right to assess the independence of its members in relation to the requirement of duration of the appointment, on a case-by-case basis, in accordance with the principle of substance over form.

At its meeting of March 27<sup>th</sup> 2019, in light of the statements made by each non-executive director and taking into account that the Board of Directors is not aware of any statements by the current non-executive directors such as to compromise or condition their independence of judgement, the Board of Directors confirmed its assessment of the independence of its members.

The Board of Statutory Auditors, in conformity with the provisions contained in Article 3 paragraph 5 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.

Over the course of 2018, independent Directors, in conformity with the provisions of Article 3 paragraph 6 of the Code of Conduct, met independently and autonomously on December 19<sup>th</sup> 2018.

#### Lead independent director

Independent directors have the right to appoint a Lead independent director, although the requirements set out in the Code of Conduct for appointing such a figure do not apply in this case, since the Chairman is not the main figure responsible for managing the company and does not control the issuer.

To date, this power has not been exercised and the Board of Directors has therefore not appointed a Lead independent director.

## 5. Handling of corporate information

For the purposes of governing the communication to the sector Authorities and to the public of notices, data and price-sensitive 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, beginning July 3<sup>rd</sup> 2016 the Board of Directors updated the Group's procedure, introducing the new regulations of the European Market

abuse regulation (MAR) (EU regulation 596/2014, Directive 2014/57/UE, implementation regulations UE 2016/347 and 2016/1055), as well as the guidelines Consob issued on this topic in October 2017.

This procedure is aimed at:

- I. identifying and ascertaining specific confidential and relevant information, i.e. information relating to data, events, projects or circumstances that may become insider information and, consequently, affect the price of Hera shares;
- 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.

The purpose of the abovementioned procedure is to identify the corporate functions that support top management in identifying and mapping relevant information, as well as the persons who have access to it and the moment when it may become insider information, on the basis of the assessments carried out by top management itself.

In compliance with the provisions of the Consob guidelines, a so-called "Relevant Information List" ("RIL") was established, including the names of the persons who have access to the relevant information that were identified as a result of the mapping activity. The RIL is added to the existing list of people with access to privileged information, whose management and maintenance procedures have already been updated in compliance with the provisions introduced by the MAR (EU Regulation 596/2014, Directive 2014/57/EU, EU Implementing Regulation 2016/347), which specifically broadened the concept of privileged information, by establishing that it is precise information, which has not been publicly disclosed, relating, directly or indirectly, to one or more issuers or one or more financial instruments and that, if it were to be released publicly, would be likely to have a significant effect on the prices of those financial instruments or on the prices of related derivative financial instruments, and introduces the concept of inside information.

Additionally, in applying the new procedure regarding internal dealing updated by Hera S.p.A. following the introduction of the MAR (EU Regulation 596/2014, of Directive 2014/57/UE, implementation regulation UE 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, the general directors and the shareholders who hold an equity investment calculated in compliance with Art. 118 of Consob Issuers' Regulation, equal to at least 10% of total voting rights comprising the Company share capital as well as the people closely related to these. This procedure regulates the timescales and procedures for communication of the operations carried out by the significant parties. Hera S.p.A. 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.

## 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 S.p.A.'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 April 27<sup>th</sup> 2017, redefined the composition of the afore-mentioned committees at its meeting of May 10<sup>th</sup> 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 is tasked with periodically assessing the adequacy, overall consistency and concrete application of the policy adopted for the remuneration of executive directors and executives with strategic responsibilities, making use, for this purpose, of the information provided by the managing directors.

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

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.

This Committee, whose composition was initially established in the November 4<sup>th</sup> 2002 meeting of the Board of Directors and recently renewed on May 10<sup>th</sup> 2017, is made up of the following non-executive independent directors: Giovanni Basile as Chairman, Francesca Fiore, Massimo Giusti and Stefano Manara.

The Chairman Giovanni Basile as well as the member Massimo Giusti have experience in 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, may attend the Committee's meetings.

The remuneration Committee met on 4 occasions in 2018. All the members took part in 3 of these meetings, while almost all of them took part in the remaining 1. The average duration of the meetings of the remuneration Committee, regularly reported, was approximately one hour and forty minutes.

It is noted that, in 2018, the remuneration Committee handled matters relating to remuneration policies, subject to adoption by the Board of Directors at the time of approving the 2018 financial statement.

After the renewal of the Board of Directors during the Shareholders' Meeting of April 27<sup>th</sup> 2017, the remuneration Committee proposed to introduce a claw-back clause, providing for ex-post correction mechanisms of the system of remuneration of executive directors, as well as the clause that provides, in the event of resignation, dismissal or termination of office of the latter, a compensation allowance in the amount of 18 months of salary.

For information relating to this Section, please refer to the Remuneration Report pursuant to Article 123-ter of the 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, whose composition was renewed on April 27<sup>th</sup> 2017, is made up of Giovanni Basile as Chairman, Erwin Paul Walter Rauhe, Duccio Regoli and Sara Lorenzon. The Chairman Giovanni Basile as well as the member Erwin Paul Walter Rauhe have experience in accounting and financial matters judged adequate by the Board of Directors at the time of the appointment.

The Controls and Risks Committee met on 7 occasions in 2018, and all of the meetings were attended by all members. The average length of the meetings of the Internal Controls Committee was approximately one hour and five minutes.

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

The Controls and Risks Committee oversees the internal auditing system, the efficiency of corporate operations, the reliability of financial reporting to social bodies and the market, as well as the 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:

- 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;
- expresses its judgment regarding specific aspects of the identification of primary corporate risks;
- 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;
- 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;

- monitors the autonomy, effectiveness and efficiency of the Internal Auditing Structure;
- 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;
- 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;
- 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 2018 financial year, which were duly recorded, the following measures were carried out:

- examination and approval of the periodic reports;
- updating of ongoing and completed audits;
- illustrating the new Erm map;
- approving the Group's risk assessment, the 2019/2021 audit plan and of the budget for 2019 of the Internal Auditing Department Management;
- approving the revision of the mandate and the manual of the Internal Auditing Department Management.

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 2018, and following the quarterly reports released by the Controls and Risks Committee, the Board of Directors has approved the adequacy and efficacy of the internal control and risk management system in relation to the features of the company and the type of risk undertaken;

#### **d) Ethics and Sustainability Committee**

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

During its meeting of 12 September 2007, the Board of Directors of Hera S.p.A. 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 the aforementioned Code, the Board of Directors, at its meeting of October 8<sup>th</sup> 2007, set up a suitable Committee comprising 3 members, specifically one director of the company and a manager with expertise in matters of social responsibility and the matters dealt with in Legislative Decree. 231/01, additionally highlighting that at least one member must be external.

Subsequently, in its November 8<sup>th</sup> 2018 meeting, Hera's Board of Directors, in conformity with the provisions of Article 4 (Establishment and functioning of the internal committees to the Board of Directors) of the current Code of Conduct for Listed Companies of Borsa Italiana S.p.A., deemed it appropriate to entrust the Ethics Committee with the functions of overseeing sustainability issues related to the conduct of the Company's business and its dynamics of interaction with all stakeholders, also deciding to change its name to "Ethics and Sustainability Committee" and to expand its structure, increasing the number of members from three to four, two of whom Directors of Hera S.p.A..

This Committee, renewed on May 10<sup>th</sup> 2017, comprises two directors of Hera S.p.A. in the person of Massimo Giusti, Chairman, and Federica Seganti, appointed on November 8<sup>th</sup> 2018, as well as Mario Viviani and a manager with expertise in matters of social responsibility.

At its meeting of February 15<sup>th</sup> 2017, the Board of Directors of Hera S.p.A. approved a new update of the Code, adopting its fourth edition, following a process of sharing with the social partners, as well as benchmarking analyses on similar companies and forums involving executives and managers of the Company.

The Ethics Committee met on 8 occasions in 2018. All the members took part in 7 of these meetings, while almost all of them took part in the remaining 1; The average duration of the meetings of the Ethics Committee was approximately one hour and thirty minutes

##### **Functions of the Ethics and Sustainability Committee**

The Ethics and Sustainability 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, a confidential and direct channel of communication with the committee was established for all the stakeholders interested in reporting any possible conduct in violation of the code and the values promoted by the Group.

During the meetings held during the year, the Committee reviewed the reports sent and the resulting investigations carried out with the relevant departments, as well as acknowledged the contents of the resolution of the Board of Directors of Hera S.p.A. of November 8<sup>th</sup> 2018 on the new name and additional responsibilities attributed to the Committee.

## 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 S.p.A. listed companies, reference models and best practices at national and international levels.

### Risk Corporate Governance within Hera

Hera's organizational structure is designed for optimal management of any risk exposure arising from its business; it benefits from an integrated approach, aimed to uphold management effectiveness and profitability across the entire value chain.

Hera's corporate governance for risk management enables organisational strategies to be handled uniformly and consistently (Enterprise risk management). In such a system:

- the Board of Directors plays a guiding role and assesses the adequacy of the internal auditing and risk management system;
- the President and CEO supervise - within their ambits - the internal auditing and risk management functionality;
- the Vice President oversees coordination between the Risk Committee and the Audit and Risk Committee;
- the Controls and Risks Committee supports the Board of Directors in defining internal monitoring and risk management guidelines;
- the Risk Committee is the main policy-making, auditing and reporting organ for risk management; besides setting the general risk management guidelines, it maps and screens business risk, ensures that Risk Policies are set forth and outlines the information protocols targeted to the Audit and Risk Committee, to the Internal Auditing Management and to the Statutory Auditors.

Risk monitoring and management are functionally separated roles in Hera, and risk owners are in charge of the different organizational sections that deal with governance and with the adequacy of assessment in risk management processes.

More specifically, the correct and effective functioning of the Internal Control and Risk Management System is monitored centrally, through a broad mandate entrusted to the Internal Auditing department, which reports directly to the Vice Chairman.

The new corporate body responsible for supervising the issue of risk is described in more detail below.

### The Risk Committee

The Risk Committee was appointed by the Board of Directors on 28<sup>th</sup> April 2014 and consists of: Hera S.p.A.'s Executive Chairman, Vice Chairman and Chief Executive Officer; the Central Director of Administration, Finance and Control; the Central Director of Market, and the Enterprise Risk Manager. In relation to specific pertaining issues, the Central Director of Legal and Corporate Affairs, the Central Director of Corporate Services, the Central Director of Innovation and the Executive director of Hera Trading Srl are also expected to attend.

The Risk Committee is the principal policy-making, monitoring and reporting organ for 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 that risk policies and measurement parameters are defined and submitted for approval to the Hera S.p.A. Board of Directors;
- \* reporting to the Board on a half-yearly basis regarding the risk situation and management;
- \* defining and securing the information protocols towards the Audit and Risk Committee, the Internal Auditing Direction and the Board of Auditors.

Key risks covered in the Risk Committee refer to the following areas: strategy, energy, finance, credit, insurance, information and communication technology, safety and environment, and business continuity.

In 2018, the Risk Committee met four times and provided risk management information to the Board of Directors at its meetings of February 21<sup>st</sup> and July 30<sup>th</sup> 2018.

### The Group's risk management structure

In the overall design of the risk management process, Hera adopted an structured approach, in line with industry best practices, through the introduction of Enterprise Risk Management (ERM). ERM is aimed at establishing a systematic, consistent approach to risk control and management, and to create an effective guidance, monitoring and representation model, aiming to the adequacy of management processes and to their consistency with the final administration targets.

In particular, this approach is aimed at providing the Board of Directors with the elements useful for assessing the nature and level of corporate risk, particularly in the medium to long term, in order to define a risk profile compatible with the strategic objectives of the group. The definition of this profile is made explicit through the approval by the Board of Directors of the Hera Group risk management policy and the risk limits thereby specified. More specifically, the policy defines the group's stance on risk issues and identifies its Risk Management Framework, detailed through 3 fundamental elements:

- the Risk Model, identifying the reference scope for all risk management analysis carried out by the Group \*it defines the universe of risks, i.e. the types of risks to which the Group is potentially exposed, which are subject to periodic review on the basis of the evolution of the mission, the strategic objectives and the scope of the Group's business, as well as the socio-economic context;
- the Group's Risk propensity, which defines acceptable risk levels consistently with a given risk management strategy. This is defined through the identification of:
  - key risk levels, i.e. the most significant risk factors on which the Group intends to base its risk propensity;
  - risk metrics necessary for measuring the exposure arising from a given risk factor;
  - limits associated with each key risk level, which explain the relative maximum level of risk tolerated by the Group in the pursuit of its objectives;
  - monitoring, escalation and updating processes, aimed at ensuring the timely identification of any breaches of defined risk limits, the identification and implementation of corrective actions, the correct monitoring of all areas of significant risk and the alignment of the limits to the group's risk propensity;
- Risk management activities, outlined in
  - the Enterprise risk management, aimed at analysing the evolution of the overall risk profile of the Group, the results of which are the tool to support the informed risk assumption and the definition of strategic objectives;
  - continuous risk management, which for specific risks requires sector-specific methods of continuous management entrusted to dedicated risk specialists/risk owners, according to processes and methodologies specifically developed and formalised within the reference risk policies that guarantee effective control of the entire universe of the main risks to which the Group is potentially exposed, as well as the management of the Group's overall exposure in line with what is expressed in the Group's propensity to risk and with the objectives of the industrial plan.

On January 20<sup>th</sup> 2016, the first Erm report was submitted to the Board of Directors, mapping the Group's risks, accompanied by the adequate assessment of each individual risk and for the consolidated risk (impact, probability, severity, control levels). At that meeting, the Board of Directors approved the Hera Group risk management policy and risk limits for 2016.

On February 15<sup>th</sup> 2015, the second Erm report was submitted to the Board of Directors, expanding the scope of reference, the sphere and type of the risk subject to control. At that meeting, the Board of Directors approved the Hera Group risk management policy and risk limits for 2017.

On September 27<sup>th</sup> 2017, a report was submitted to the Board of Directors on the Group's risk management activities.

In particular, the following topics were further analysed:

- the lines for defending against risks and the structure of governance;
- compliance with Law 262/2005 and compliance with legislative decree 231/2001, explaining the role of the appointed Manager and of the Supervisory Body in their respective reports to the Board of Directors;
- the governance of risk management, explaining the role of the Risk Committee, in particular in communicating information flows to the Board of Directors, the Board of Statutory Auditors, the Controls and Risks Committee and Internal Auditing, and the governance system implemented through the adoption of the Erm with the attribution of the strategic guidance role to the Board of Directors, responsible for deciding on the Group's risk profile and approving the Hera Group risk management policy guidelines.

On January 10<sup>th</sup> 2018 the third Erm report was submitted to the Board of Directors.

On January 10<sup>th</sup> 2019 the fourth Erm report was submitted to the Board of Directors, expanding the scope of reference, the sphere and type of the risks subject to control and backtesting the risks associated with the previous Erm analysis. Furthermore, the risk limits for the year 2019 were approved, and the Hera Group risk management policy was updated.

#### **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 of February 24<sup>th</sup> 1998, 58 and following. Art. 154-bis of Tuf;
- Law 262 of December 2005 (and following changes, including the Legislative Decree to assimilate the Transparency Directive (2004/109/CE) regarding information on listed companies, approved on October 30<sup>th</sup> 2007, regarding the drafting of corporate financial document;
- Consob Issuers' Regulation of May 4<sup>th</sup> 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 April 6<sup>th</sup> 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 S.p.A. Board of Directors in the meeting held May 27<sup>th</sup> 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, updating and evaluation of risks regarding company information;  
Identifying controls and updates for the financial-administrative procedures in view of the identified risks;  
Evaluating the identified risks.

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

represents the process of identifying and/or updating 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 and/or updating the Group companies considered relevant in view of the proper functioning of the Group's control system for corporate reporting;
- identifying and/or updating 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;
- reviewing 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 S.p.A. has established an internal control system under which the directors of corporate functions verify the design and operating effectiveness of control activities, at least once per year, 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 at least once per year.

**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 S.p.A. 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 defines 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 S.p.A.'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 November 30<sup>th</sup> 2013, taking effect beginning November 1<sup>st</sup> 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 April 27<sup>th</sup> 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 risk assessment operations on specific operational areas and compliance with internal rules and procedures in carrying out corporate operations.

**c) Internal auditing department manager**

The correct and effective functioning of the Internal Control and Risk Management System is monitored centrally, through a broad mandate entrusted to the Internal Auditing department manager, appointed over the course of 2017, who reports directly to the Vice Chairman.

The Internal Auditing Manager 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 Risks Management Committee and the Board of Statutory Auditors. He or she 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**

of Legislative Decree 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.

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 February 16<sup>th</sup> 2004, the Board of Directors of Hera S.p.A. 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.

At present, the organisational, management and control model pursuant to Legislative Decree no. 231/2001 includes 22 protocols, implemented over time and relating to individual sensitive areas, aimed at ensuring transparency and a sense of responsibility in both internal and external relations.

For each "risky" process, the protocols identify the principles, roles and responsibilities to be complied with in managing activities and defining the periodic control information flows.

Each protocol ensures that the Supervisory Board constantly monitors activities at risk.

The procedures adopted embrace the principles of the Code of Ethics with the aim of guiding the Group's management according to the values and operating principles defined in the Charter of Values.

Risk factors and critical issues have been identified and weighed carrying out a risk assessment activity on the Group's business areas and infrastructure processes. The specific risks regarding the topics of the 231 are defined by the Supervisory Body in an annual audit plan that takes into account risk assessments, the assessment of new processes, regulatory developments and the extension of the scope of activities of the Group companies.

The Model provides for permanent verification of legal compliance, the preparation of an Audit Report on the effective implementation of protocols in the companies of the Group included in the scope of 231, the provision of assistance in the preparation of the Return Plans adopting the recommendations made in the reports, a specific follow-up activity aimed at verifying the implementation of the return plans and the effective overcoming of the critical points highlighted.

The Model provides for information and training for those involved in sensitive processes in order to raise awareness on forbidden and mandatory conduct, create awareness on related ethical conduct and promote a group culture in the management of corporate risks.

The bi-annual analysis by the Supervisory Board monitoring information flows on activities at risk is an integral part of the model.

Every three years, a risk analysis document is drawn up for the entire Group, with the associated revision plan, the last of which concerns the 2019-2021 period.

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 set up a supervisory board, by approving the associated regulation.

This board, currently comprising the head of Internal Auditing of Hera S.p.A. as Chairman, the head of Legal and Corporate Affairs of Hera S.p.A. and the head of the Internal Auditing of Hera S.p.a., is tasked specifically with periodically reporting to the corporate bodies of Hera S.p.A. on the implementation of said model, pursuant to Legislative Decree 231/2001 and will remain in office until

the date of the Shareholders' Meeting convened to approve the financial statements as of December 31<sup>st</sup> 2019.

The Supervisory Board met on 7 occasions in 2018. All the members took part in 6 of these meetings, while almost all of them took part in the remaining 1.

The average length of the meetings of the Supervisory Board was approximately one hour.

The Supervisory Board approved and updated the 231 protocols that make up the organisational 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 Board drew up a schedule of measures for verifying compliance with the protocols adopted.

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

The Hera S.p.A. Shareholder's meeting of April 23<sup>rd</sup> 2014 appointed Deloitte & Touche S.p.A. 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 October 1<sup>st</sup> 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 tasked with establishing adequate financial and 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;
- Controls and Risks 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 Statutory Auditors with the Supervisory Board pursuant to Legislative Decree 231; .
- the Directors in charge of the internal control and risk management system with the Chairman of the Controls and Risks Committee.

## 8 Directors' interest and transactions with Related Parties

At its meeting of October 10<sup>th</sup> 2006, the Board of Directors of Hera S.p.A. approved, in compliance with the then-in force Corporate Governance Code, 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 S.p.A. approved the new procedure for transactions with Related Parties (Procedure) in compliance with the provisions of the Consob Regulation adopted through Resolution no. 17221 of March 12<sup>th</sup> 2010 and subsequent amendments and integrations thereto (Consob Regulation), subsequently updated on December 21<sup>st</sup> 2015.

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 party and transactions with related party, 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;
  - framework resolutions, i.e. the series of transactions among 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, that is 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 1 million euro;
  - 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 the transactions with related parties (hereinafter referred to as the "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 and with 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 Committee for Internal Control and risk management.

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 March 31<sup>st</sup> 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.



## 9 Appointment of the statutory auditors

### List voting

The statutory auditors are appointed by the Shareholders meeting through the "list voting" mechanism, as per Art. 26 of the Articles of Association, in order to guarantee that minority shareholders designate one substitute auditor, in compliance with current legislation on gender balance.

In accordance with Article 14 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. In the latter case, a Statutory Auditor who subsequently exceeds this limit will automatically forfeit the office of Statutory Auditor of the Company.

Article 26 of the Articles of Association governs the terms and conditions for filing and publishing lists, as well as the related documentation, in compliance with current regulations.

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.

Article 25 of the Articles of Association establishes that, 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 are 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 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.

The terms and conditions for the filing of lists are indicated by the Company in the Shareholders' Meeting notice of call. Each shareholder may submit or participate in the submission and voting of only one list. In the event this rule is violated, the Shareholder's vote for any of the lists presented shall not be taken into account. Each shareholder with voting right may vote only one list.

### Eligibility to submit lists and their composition

Lists for the appointment of members of the Board of Directors may be submitted by shareholders, alone or together with other shareholders, representing at least 1% (one per cent) of the share capital with voting rights at the Ordinary Shareholders' Meeting, that is the percentage provided for by current legislation and indicated in the notice of call.

In this regard, it should be noted that, on the occasion of the last renewal of the Board of Statutory Auditors which took place at the Shareholders' Meeting of April 27<sup>th</sup> 2017, the shareholding required for presenting lists of candidates for the election of the sitting administrative body was identified by Consob (through Resolution No. 19856 of January 25<sup>th</sup> 2017) to be 1%, equal to the percentage provided for in Article 26.2 of the current Articles of Association.

In particular, (i) municipalities, provinces and consortia constituted 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.

In order to demonstrate ownership of the number of shares necessary for presenting lists, shareholders must file the appropriate certification proving ownership of the number of shares represented at the registered office within the deadline set by the Company for posting the lists.

Lists must include a number of candidates that does not exceed the number of the members to be elected, listed in a progressive order. Each candidate may appear on only one list under penalty of ineligibility. Each list must contain a number of candidates of the less-represented gender to ensure the balance between genders at least to the minimum extent required by current legislation. Lists with fewer than three candidates are exempt from this requirement.

### Appointment mechanism

The members of the control body are appointed in accordance with the provisions of Articles 26 of the Articles of Association:

- The Board of Statutory Auditors comprises three statutory members and two alternate members;
- 2 statutory members and 1 alternate member are taken from the list that obtained the highest number of shareholders votes according to the rank order in which they were listed, of which at least 1 statutory member must be of the less-represented gender;

the third statutory member and the other alternate member is taken from the other lists, respectively electing the first and the second candidate from the list that obtained the second highest number of votes, of which at least one alternate member must be of the less-represented gender. In the event two or more lists obtained the same number of votes, the oldest candidate will be elected statutory auditor, to ensure the balance between genders at least to the minimum extent required by current legislation.

In the event the minimum number required by law of statutory and alternate members of the less-represented gender is not elected, the candidate of the most represented gender positioned last on the list of candidates elected from the list with the highest number of votes shall be replaced by the candidate of the less-represented gender who was positioned first among the non-elected candidates on the same list and so on, up to the minimum number of statutory auditors belonging to the less-represented gender. If the minimum number of statutory auditors belonging to the less-represented gender still has not been reached even after applying this criterion, the replacement criterion indicated will be applied to the minority lists, starting from the list that received the highest number of votes;

the first candidate on the list that obtained the second highest number of votes will be entitled to the chair of the Board of Statutory Auditors. In the event two or more lists obtained the same number of votes, the oldest candidate will be elected chairman, to ensure the balance between genders at least to the minimum extent required by current legislation.

To appoint Statutory Auditors who, for any reason, are not appointed through the list voting process, the Shareholders' Meeting decides through the majority required by law, to ensure the balance between genders at least to the minimum extent required by current legislation.

#### **Replacing the members of the Board of Statutory Auditors;**

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.

Statutory Auditors for integrating the Board of Statutory Auditors, pursuant to art. 2401 of the Italian Civil Code, will be appointed by the shareholders' meeting through the majority provided for by law, among the names that the shareholders themselves indicated by submitting the list to which the Auditor who resigned from office belonged, in compliance with the principle of the representation of minorities and the balance between genders; in the event this is not possible, the shareholders' meeting must provide a replacement through the majority provided for by the law, in compliance with the balance between genders provided for by current legislation.

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

The shareholder's meeting held April 27<sup>th</sup> 2017 appointed a Board of Statutory Auditors comprising three statutory members and two alternate members, complying with the current legislation regarding gender balance and whose mandate lasts from now until the approval of the financial statement for the 2019 financial year.

This appointment was thus made on the basis of the list voting system, in order to ensure that one statutory auditor, in the position of chairman, and one alternate auditor are appointed from the minority list.

At the Shareholders' Meeting of April 27<sup>th</sup> 2017 mentioned above, three lists of candidates were presented, listed below along with an indication of their proposing Shareholders:

**List no. 1**, presented by the shareholders Municipality of Bologna, Municipality of Casalecchio di Reno, Municipality of Cesena, Municipality of Modena, Municipality of Padova, Municipality of Trieste, Municipality of Udine, Con.Ami, Holding Ferrara Servizi Srl, Ravenna Holding S.p.A. and Rimini Holding S.p.A., who, together with 107 other public shareholders, were at the time parties to the "Shareholders' Agreement on Voting and Share Transfer Rules" of June 23<sup>rd</sup> 2015, and who together hold 666,023,417 Hera shares, corresponding to 44.71% of the voting shares of Hera S.p.A., a list that was voted for by 59.975289% of the share capital present, containing the names, in ranked order, of the following candidates:

#### **Standing auditors**

1. Marianna Girolomini
2. Antonio Gaiani

#### **Alternate auditors**

1. Valeria Bortolotti

**List no. 2**, presented by the shareholders Arca Fondi S.G.R. S.p.A., manager of the Arca Azioni Italia fund; Eurizon Capital SGR S.p.A. manager of the following funds: Eurizon Progetto Italia 40, Eurizon Progetto Italia 20, Eurizon Azioni Italia, Eurizon Azioni PMI Italia and Eurizon Progetto Italia 70; Eurizon Capital SA manager of the following funds: Equity Italy, Equity Small Mid Cap Italy and Equity Italy Smart Volatility; Fideuram Asset Management (Ireland) manager of the following funds: Fideuram

Fund Equity Italy and Fonditalia Equity Italy; Fideuram Investimenti S.p.A., manager of the Fideuram Italia fund; Interfund Sicav Interfund Equity Italy; Legal & General Assurance (Pensions Management) Limited; Mediolanum Gestione Fondi SGR S.p.A., manager of: Mediolanum Flessibile Italia and Mediolanum Flessibile Sviluppo Italia funds; Mediolanum International Funds - challenge fund - challenge fund Italian Equity; Pioneer Investment Management SGRpa, manager of the Pioneer Azionario Crescita fund; Pioneer Asset Management SA, manager of the PF Italian Equity and PF European Potential funds, together holders of 19,140,764 Hera shares, corresponding to 1.285% of the voting shares of Hera S.p.A., a list that was voted for by 23.794414% of the share capital present, containing the names, in ranked order, of the following candidates:

#### Standing auditors

1. Myriam Amato

#### Alternate auditors

1. Stefano Gnocchi
2. Emanuela Rollino

**List no. 3**, presented by the shareholder Gruppo Società Gas Rimini S.p.A., owner of 30,771,269 Hera shares, corresponding to 2.065825% of the voting shares of Hera S.p.A., a list that was voted for by 14.524686% of the share capital present, containing the names, in ranked order, of the following candidates:

#### Standing auditors

1. Elisabetta Baldazzi

#### Alternate auditors

1. Antonio Venturini

Following the Shareholders' Meeting vote, the administrative body is composed as follows:

- |                        |                   |
|------------------------|-------------------|
| 1. Myriam Amato        | Chairman          |
| 2. Marianna Girolomini | Standing auditor  |
| 3. Antonio Gaiani      | Standing auditor  |
| 4. Valeria Bortolotti  | Alternate auditor |
| 5. Stefano Gnocchi     | Alternate auditor |

From the date of appointment to the date of this report, the composition of this body has not changed. Table 2 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 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.

The independence of these auditors was assessed by the Board of Directors at the time of their appointment, and the Board announced the outcome in a press release distributed to the market.

At its meeting of March 12<sup>th</sup> 2019, in light of the statements made by each auditor, the Board of Directors confirmed its assessment of the independence of its members.

In the same meeting, the Board of Statutory Auditors also carried out its own self-assessment, based on an analysis of the suitability of its members and the adequate composition of the body in complying with current legislation requirements of professionalism, competence and integrity.

For the purposes of this self-assessment process mentioned above, the Board of Statutory Auditors carried out preliminary and evaluation activities, requesting from its members information and data relating to qualitative, quantitative and operational profiles.

In particular, it ascertained that its members met the requirements of professionalism, competence and experience, that they had sufficient time available to perform their duties, that they complied with the limit on the number of offices held, and that the composition of the Board was adequate in terms of gender balance and age of its members.

The Board of Statutory Auditors also noted whether collaboration among its members was effective and whether the information flows with the administrative body, with the company managers, with the various committees and with the auditing company was functional and adequate.

The Board of Statutory Auditors met on 4 occasions in 2018, and all of the meetings were attended by all auditors. The average duration of the meetings of the Board of Statutory Auditors was approximately two hours and ten minutes.

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

#### **Diversity criteria and policies**

The appointment of the Board of Statutory Auditors took place during the Shareholders' Meeting of April 27<sup>th</sup> 2017, following the presentation of three lists, one majority and two minority, which ensured that the board was composed in accordance with the provisions of regulations on gender balance (three out of five members is made up of the less-represented gender).

The average age of the members of the Board of Statutory Auditors is approximately 49 years: two members are between 40 and 50 years old and one member is between 50 and 60 years old.

The Board of Statutory Auditors, as part of its self-assessment activities, expressed a high level of appreciation, with specific reference to its functioning, its composition and the characteristics of its members specifically concerning the requirements of eligibility, independence, integrity and professionalism established by current legislation, and additionally in relation to the subjects and sectors of activity related or inherent to the activities of the Companies referred to in Article 4 of the Articles of Association.

### **10 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) [[HYPERLINK: mailto:ir@gruppohera.it](mailto:ir@gruppohera.it)]). .

### **11 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.

The full text of the proposed resolutions, together with the explanatory reports, and the documents that will be submitted to the Shareholders' Meeting are made publicly available at the Company's registered office and on the Company's website [www.gruppohera.it](http://www.gruppohera.it), as well as on the authorised storage site [www.1Info.it](http://www.1Info.it) within the timeframe established by the law for each of the matters dealt with.

Those who at the end of the accounting day coinciding with the recording day, as stated by the law, will have the right to vote and for whom the Company received the relative communication from the authorised intermediary by the end of the third trading day preceding the date set for the Shareholders' Meeting, are entitled to participate in the Shareholders' Meeting. However, the right to attend and vote shall remain unaffected if the communications are received after the said deadline, provided that they are received by the beginning of the sessions of the Shareholders' Meeting. Those who become share owners only afterwards will not have the right to participate and vote in the Shareholders' Meeting.

People entitled to attend may be represented at the Shareholders' Meeting in accordance with the law; to do so, they have the right to use the proxy form available on the Company's website, where the procedures that interested parties may use to notify the Company of their proxies, including electronically, are also available.

For each Shareholders' Meeting, the Company identifies a person to whom the holders of voting rights may grant their proxy with voting instructions on all or some of the proposals on the agenda. The proxy must be granted to the said representative, by the end of the second trading day prior to the date of the Shareholders' Meeting, using the specific proxy form available and in the manner specified on the Company's website.

The proxy to the designated representative is not valid for the proposals for which voting instructions have not been given.

Shareholders may ask questions about the items on the agenda even before the Shareholders' Meeting, in the manner indicated on the Company's website.

Shareholders who, either individually or jointly, represent one fortieth of the share capital may request, within ten days of publication of this notice, to add items to be discussed, specifying in their request the additional items proposed, or submit resolution proposals on items already on the agenda. Requests must be written and submitted according to the manner indicated on the Company's website.

In accordance with Article 14 of the Articles of Association, the Shareholders' Meeting is chaired by the Chairman of the Board of Directors or, in his absence, by a person elected by the Shareholders' Meeting, with the vote of the majority of those present. The Chairman of the Shareholders' Meeting appoints a Secretary, verifies that the meeting has been properly convened, verifies the identity and legitimacy of those present and governs the conduct of the Shareholders' Meeting, in accordance with the Shareholders' Meeting regulations, ascertaining the results of voting.

In accordance with Article 14 of the Articles of Association, both 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 majority vote"), 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 April 29<sup>th</sup> 2003 approved the text of the meeting regulations, whose updated version is available on the Company's website [www.gruppohera.it](http://www.gruppohera.it), outlining 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 2018 financial year, one shareholders' meeting was held on April 26<sup>th</sup>, which was attended by 14 directors.

## **12 Considerations regarding the letter by the Chairman of the Corporate Governance Committee of December 21<sup>st</sup> 2018.**

The Board of Directors, in relation to the letter that the Chairman of the Corporate Governance Committee sent to the Chairmen of the administrative bodies of Italian listed companies on December 21<sup>st</sup> 2018, together with the sixth Annual Report on the application of the Code of Conduct, also attached, examined, at the suggestion of the Executive Director, the recommendations provided therein, and specifies in particular the following:

- continued to guarantee the timeliness and completeness of pre-council briefing, ensuring 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. The timeliness of the provision of such documentation was positively assessed by the members of the Board of Directors during the self-assessment process, as well as by the company Spencer Stuart that supported the Board of Directors in this activity;
- continued to apply the independence criteria established by the Code and by current legislation in evaluating the independence of its members, reserving the right to verify, on a case-by-case basis, if necessary, the requirement concerning the duration of the office, and in any case in compliance with the principle of substance over form. At the same time, the Control Body maintained a high level of attention in its supervisory activity with regard to the correct application of the independence criteria outlined above;
- maintained, in continuity with the past, a high degree of attention on annual board review activities, monitored by the Executive director, which are described in detail in this Report, and during which constant interaction with individual directors is guaranteed;
- established, for the three-year period 2019-2021, as per the proposal of the Remuneration Committee, a medium-long term incentive plan based on the introduction of three-year KPI differing from those of the short-term incentive plan (BSC), thus further enhancing the ability to create and share value, as well as to further consolidate the Group's culture of financial soundness.

Table 1: Structure of the Board of Directors and Committees

Board of Directors											Control and risks committee		Remuneration committee		Appointment committee		Executive committee		Ethics and sustainability committee		
Position	Component	birth year	date first appointed *	in office since	In office until	Exec.	Non-exec.	Code of Indep.	TUF Indip. Req.	No. of other offices held ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)		
Presidente	Tomaso Tommasi di Vignano	1947	4-Nov-02	27-Apr-17	Approv. 2019 FS	X				-	10/10							6/6	P		
Amministratore Delegato	Stefano Venier	1963	23-Apr-14	27-Apr-17	Approv. 2019 FS	X				-	10/10							6/6	M		
Vice Presidente	Giovanni Basile	1966	23-Apr-14	27-Apr-17	Approv. 2019 FS		X	X	X	-	9/10	7/7	C	4/4	C			6/6	M		
Amministratore	Francesca Fore	1967	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	1	9/10			4/4	M						
Amministratore	Giorgia Gagliardi	1982	23-Apr-14	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10										
Amministratore	Massimo Giusti	1967	23-Apr-14	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10			4/4	M					8/8	C
Amministratore	Sara Lorenzon	1981	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10	7/7	M								
Amministratore	Stefano Manara	1968	28-Aug-13	27-Apr-17	Approv. 2019 FS		X	X	X	2	10/10			3/4	M						
Amministratore	Dario Manfredi	1969	23-Apr-14	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10										
Amministratore	Alessandro Melcarne	1984	8-Nov-17	8-Nov-17	Approv. 2019 FS		X	X	X	-	10/10								2/2	M	
Amministratore	Erwin P.W. Rauhe	1955	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	1	10/10	7/7	M								
Amministratore	Duccio Reggoli	1961	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	-	9/10	7/7	M								
Amministratore	Federica Segani	1966	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	1	10/10							4/4	M	1/1	M
Amministratore	Marina Vignola	1970	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10										
Amministratore	Giovanni Xilo	1962	27-Apr-17	27-Apr-17	Approv. 2019 FS		X	X	X	-	10/10										

Indicate the quorum required for the presentation of lists at the time of the last appointment: at least 1% of shares with voting rights in the ordinary shareholders' meeting (art. 17.5 of the Articles of Association).

No. of meetings held during the financial year in question: 10

Cc: 7

Rc: 4

Ac: /

Ec: 6

Ethics and sustainability c.: 8

\* the date each director was appointed refers to the date in which the director was appointed the very first time to the issuer's Board of Directors.  
 \*\* this column indicates the list from which each director was drawn ("M" Majority list, "m" Minority list, "BoD" list presented by the Board of Directors)  
 \*\*\* this column indicates the number of positions as director or auditor the individual in question holds in other regularly listed companies, include abroad, or in financial or insurance companies or banks, or of significant size.  
 For the list of these companies, with indications for each director, see table 3.  
 (\*) this column indicates the directors' participation in meetings of the Board and committees, respectively (indicate the number of meetings attended out of the total number of meetings he/she could have attended, p.e. 6/8; 8/8, etc.)  
 (\*\*\*) this column indicates the director's role in the committee: "C" for chairman, "M" for member

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

Board of Statutory Auditors									
Position	Component	Birth year	Date first appointed *	In office since	In office until	List**	Code of Indep.	*** (%)	No. of other offices held****
Chairman	Myriam Amato	1974	27-Apr-17	27-Apr-17	Appr. Bil. 2019	m	X	14/14	1
Standing auditor	Girolomini Marianna	1970	23-Apr-14	27-Apr-17	Appr. Bil. 2019	M	X	14/14	-
Standing auditor	Gaiani Antonio	1965	23-Apr-14	27-Apr-17	Appr. Bil. 2019	M	X	14/14	-
Alternate auditor	Gnocchi Stefano	1974	27-Apr-17	27-Apr-17	Appr. Bil. 2019	m	X	-	2
Alternate auditor	Bortolotti Valeria	1950	23-Apr-14	27-Apr-17	Appr. Bil. 2019	M	X	-	-

Indicate the quorum required for the submission of lists at the time of the last appointment:  
at least 1% of shares with voting rights in the ordinary shareholders' meeting (art. 26.2 of the Articles of Association).

No. of meetings held during the financial year in question: 14

\* 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 the directors hold in other companies**

Name, last name	Position	Other positions (*)
Tomaso Tommasi di Vignano	Chairman	
Stefano Venier	Chief Executive Officer	
Giovanni Basile	Vice Chairman	
Francesca Fiore	Director	Member of supervisory board at Navya SA
Giorgia Gagliardi	Director	
Massimo Giusti	Director	Director, Cassa di Risparmio di Rimini - until 11-Jan-2018 Vice President of Nadia Spa Società Imm.re (Gruppo Bper Banca Spa) - until June-2018
Sara Lorenzon	Director	
Stefano Manara	Director	BoD Chairman, Con.Ami BoD Chairman, Rest Srl
Daniilo Manfredi	Director	
Alessandro Melcarne	Director	
Erwin P.W. Rauhe	Director	Non-executive director, Isagro Spa
Duccio Regoli	Director	
Federica Seganti	Director	Director, Eurizon Capital Sgr Spa
Marina Vignola	Director	
Giovanni Xilo	Director	

(\*) List of 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.