



Hera

Green Financing Framework

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1. Introduction

The Hera Group (“Hera”) is one of the major multi-utility companies in Italy: it offers the sustainable management of several public services to around 4.4 million citizens in 349 municipalities spread over 5 Italian regions (Emilia Romagna, Veneto, Friuli Venezia Giulia, Marche and Tuscany). Hera provides energy (distribution and sale of gas and electricity), water (aqueduct, sewage and purification) and waste management (collection and disposal) services to citizens and Group enterprises.

The Group’s strengths lie in:

- the **balance of its services**, comprised of services managed according to free market criteria (sale of gas and electricity, and disposal of special waste) and regulated services (gas and electricity distribution, integrated water services, collection and disposal of waste);

- strong **roots in the areas** in which it operates and **deep focus on sustainability**;
- a **widespread shareholding structure** with around 21 thousand shareholders.

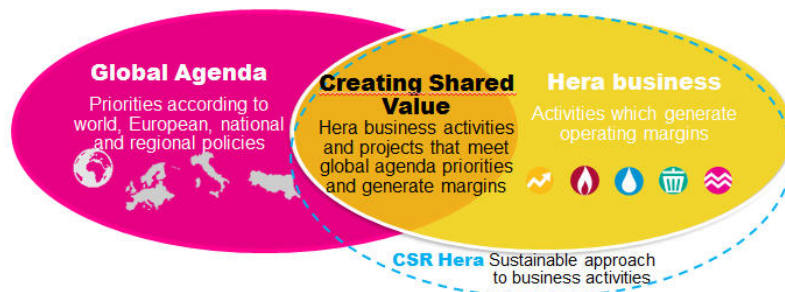
The **Hera Group** confirmed its leading position in Italy in all businesses in which it operates and obtained the following rankings (2017 data)¹:

- **1st operator** in the environmental sector for treated waste
- **2nd operator** in the water cycle sector for volume of water supplied
- **2nd operator** in the public lighting sector for number of light points managed

A. Hera's commitment to shared value

In 2016, Hera began a process aimed at designing the Group's approach to the Creation of Shared Value and reached its own definition of Creating Shared Value consistent with the nature of its business. The aim of the process is to further **integrate sustainability into business activities** and to **direct both strategy and sustainability reporting to the urgencies dictated by the Global Agenda on Sustainable Development**. Thanks to this process, the Hera Group is reshaping its approach towards corporate social responsibility, which no longer focuses on the **"what"** and **"how"** of the company but on its **"why"**, becoming a beacon that inspires strategy and guides innovation, with a more positive, direct and systematic impact on competitiveness, reputation and involvement.

For Hera, the **creation of shared value** is the result of all those business activities that generate operating margins and meet the global agenda drivers, i.e. those **"calls to action"** for change in specific fields, set out in global, European, national and local policies.



Sixty-three global, European, national and local policies were analysed to define the priorities for change towards sustainability, including the 2030 UN Agenda. Three Drivers of change were identified by grouping the various activities into strategic development lines for Hera (smart use of energy, efficient use of the resources, innovation/contribution to development).

¹ Positioning based on internal data elaboration



This definition of Creating Shared Value is at the basis of a new, evolved approach to social responsibility and sustainability and it is also an important source of inspiration for future strategies and new projects, in line with the sustainable development targets of the 2030 UN Agenda. For Hera, the Creating Shared Value approach is a consolidated point of reference for the reclassification of economic results, developed projects and future goals, in addition to representing a guide for strategic investment choices.

B. Hera's alignment to the United Nation's Sustainability Development Goals

The 2030 Agenda for sustainable development ratified at the UN summit in September 2015 by 193 countries includes 17 goals regarding sustainable development (**Sustainable Development Goals** or SDGs), divided into 169 targets. The SDGs are regarded as the continuation of the millennium development goals, already defined in 2000 by the United Nations.

An in-depth study was carried out in 2018 to understand the exact goals which Hera contributes most to through its own activities. This detailed study required the **analysis of all 169 targets** and shows that Hera's activities contributes to 11 UN Goals.

C. Integrating Sustainability into the Group strategy

Hera's Group strategy must ensure solid and coherent industrial and economic development of businesses, in line with the performance and results achieved over the last 16 years. In order to respond effectively to the needs of Hera's local area and customers - for example, attention to the environment and new technologies, and the methods for interacting with stakeholders - three critical success factors have been identified for utilities in the coming years:

1. Ecosystem
2. Circularity
3. Technology

Belonging to an **ecosystem** in a constantly evolving context increases companies' resilience to changes in the environment and accelerates the evolution of corporate culture as a result of external contamination. Hera's Group strategy has always been based on a close relationship with the local area and its ecosystem: this distinctive aspect is regarded today as a real asset.

Circular economy responds to a range of critical issues that modern society must address: from the gradual lack of resources to reduced atmospheric emissions or the reduction of non-recyclable waste. Over the years, Hera has developed industrial strategies based on sustainability, allowing it to become an international point of reference in terms of circular economy. Its future actions must also continue to effectively and purposefully steer circularity and decarbonisation goals.

Technological evolution and, more specifically, digitisation have become ever common priorities in the national industrial sector. Greater efficiency by operators will also produce benefits for customers and citizens, in terms of cost or service quality. Hera needs to use the opportunities offered by new technologies in order to extract cost efficiencies and synergies connected to data management and will be able to play a key role as facilitator for spreading a smart approach throughout the local area, especially in the case of smart cities. The five strategic levers already used by the Hera Group in recent years (Growth, Excellence, Efficiency, Innovation and Agility) are useful for coordinating the work and strategies of the single units, steering them towards a shared target and actions.

The Business Plan 2018-2022 shows that almost $\frac{3}{4}$ of the five-year growth forecast will be achieved by projects implemented to respond to the 2030 UN Agenda targets applicable to Hera's activities (11 out of the 17 targets), thus bringing shared value EBITDA to exceed Euro 470 million in 2022 (from 36% in 2018 to 40% of total EBITDA).

D. Hera's commitment to sustainability in the national and international networks

Hera's commitment to sustainability has taken shape over the past years by joining leading international networks.

The Hera Group was the second Italian company to complete the process for inclusion in the **CE100** programme of the **Ellen MacArthur Foundation**, the world's leader in circular economy, which aims to promote issues related to the circular economy, exchange experiences, initiate projects in partnerships and cooperate in the field of research and development.

Hera is also among the promoters of the **Circular Economy Network**, a project promoted by the **Sustainable Development Foundation** and by a group of companies and associations involved in the transition to a new model of circular economy.

The Hera Group joined the Global Compact in 2004, and in July 2017 it was included in the **Global Compact Network Italia Foundation**, the Italian network set up in 2013 which has been joined by over 50 business and non-businesses. Also within the Global Compact, Hera joined the **CEO Water Mandate**, the United Nations Global Compact initiative promoted to re-launch commitment by companies in the sustainable management of water resources. Hera is also a member of **Impronta Etica**, an organisation that promotes corporate social responsibility and is part of the **CSREurope**.

2. Green Financing Framework

This Green Financing Framework has been drafted in alignment with the Green Bond Principles published by ICMA (2018 edition) and the Green Loan Principles published by the Loan Market Association (LMA) in December 2018.

Through this Green Financing Framework, Hera Group's objective is to showcase the need of its financial instruments to reflect its sustainability strategy and commitments in line with the UN's 2030 Agenda.

The Group also plans to use this tool as a mean to contribute to the pressing global need to shift financial flows towards the financing of energy transition.

This framework is designed has an umbrella platform allowing the Hera Group to issue various types of Green Financing instruments including:




1. Green Bonds including public and private format
2. Green Loans including but not limited to Term Loans, Project Finance Loans, Asset Finance Loans and Revolving Credit Facilities (RCF)
3. Any other instrument aiming at financing Eligible projects as defined in the "Use of Proceeds" section



All Green Financing instruments shall comply with the procedures set out in this Framework.

1. Use of proceeds

An amount equal to the net proceeds from the issuance of Green Financings will be used by Hera exclusively to finance and/or refinance, in whole or in part, new and existing **Eligible Green Projects**, carried out directly and/or indirectly through Hera's subsidiaries.

Hera considers as Eligible Green Projects those that comply with the Eligibility Criteria as defined below (in coherence with the Group shared value framework):

Eligible Category	Description of Eligible Green Projects	Environmental objectives	Contribution to the UN-SDGs
Water infrastructure	<ul style="list-style-type: none"> ▪ Types of projects: Wastewater, Sewage, and Water infrastructure for resources resilience and climate change adaptation 	<ul style="list-style-type: none"> ▪ Improvement of wastewater treatment plants ▪ Contribute to climate change mitigation 	 <p>6. Clean Water & Sanitation</p>  <p>14. Life below water</p>
Circular Economy & Sustainable Waste Management	<ul style="list-style-type: none"> ▪ Urban Waste Collection Systems: Community recycling depot, Dumpsters and containers for sorted waste collection, Pay as You Throw projects, Vehicles for urban waste collection ▪ Facilities & Plants for recycling of materials including Plastic, Glass, and Raw Materials recycling and recovery and/or further re-use into production process and Waste Selection improvements ▪ Waste to energy plants ▪ Biological and Chemical Treatment and other waste treatment plants 	<ul style="list-style-type: none"> ▪ Increase of sorted waste collection and disposal and reduction of waste disposed in landfills ▪ Contribute to climate change mitigation 	 <p>12. Responsible Consumption and Production</p>

Energy Efficiency and Energy Infrastructure	<ul style="list-style-type: none"> Improvement of Private and Public buildings lighting, heating, insulation Smart grids for distributed generation and for climate change adaptation Smart metering District heating grids Public Lighting & Smart Cities Charging Stations High Efficiency Cogeneration & Combined product of heat and power 	<ul style="list-style-type: none"> Increase of energy production by non-fossil fuels Contribute to climate change mitigation 	 <p>7. Affordable and Clean Energy</p>
			 <p>13. Climate Action</p>

Eligible Green Projects may include new, on-going or existing projects funded no more than two calendar years before the issuance of each Green Financing instrument.

Eligible Green Projects may include capital expenditures, operating expenditures related to improvement and maintenance of Eligible Green Projects, research and development expenses, as well as equity shares of companies specialized² in any of the above Eligible Categories.

2. Process for Project Evaluation and Selection

Hera has an internal procedure for the management of a Green bond process and the related projects. Such procedure entails also the involvement of the Ethics and Sustainability Committee. The Ethics and Sustainability Committee is composed of four members, two independent Director of Hera Spa (the Committee Chairman and a member), and two experts with regard to Corporate Social Responsibility and Italian Legislative Decree No. 231/01 (the Shared value and Sustainability Director and an external member).

More in detail the annual reporting of investments will be examined by the Ethics and Sustainability Committee, since investments and KPI are included in the Sustainability Report, before the Board of Directors approval.

² A company will be considered eligible if it derives 90% or more of its revenues from activities falling in any of the above Eligible Categories

3. Management of Proceeds

The net proceeds from each Hera's Green Financing instrument will be deposited in Hera's general account and an amount equal to the net proceeds will be earmarked for allocation to the Eligible Green Projects as selected according the internal procedure.

Each Eligible Green Project can be allocated to one or several Green Financing instruments. Allocation to Eligible Green Projects will be monitored and accounted for in Hera's internal tracking system, to ensure that each expense is not funded by more than one Green Financing instrument, and avoid double counting.

At the end of each calendar year and so long as the instruments are outstanding, the balance of the net proceeds of the issuance not already allocated to (re)finance Eligible Green Projects will be reduced by amounts matching disbursements made during the calendar year to Eligible Green Projects.

Hera will use its best efforts to substitute any Green Projects in the case of divestment or if no longer eligible, as soon as practical once an appropriate substitution option has been identified.

Unallocated Proceeds

Pending the allocation or reallocation, as the case may be, of the net proceeds to Eligible Green Projects, Hera will invest the balance of the net proceeds, at its own discretion, in cash or other liquid marketable instruments in its liquidity portfolio.

4. Reporting

Hera will report on the allocation of net proceeds and associated environmental benefits annually until the proceeds of each Green Finance instrument issued has been fully allocated, and as necessary in the event of material development or in case of substitution of Green Projects. This report will be published in the Group Sustainability report and will be made available on the Group website www.gruppohera.it

A. Allocation Reporting

- The aggregated amount of Green Financing instruments issued by type (i.e. Green Bond, Green Loan)
- For each Green Financing:
 - The aggregated amount of allocation of the net proceeds to the Eligible Green Projects (at category level), with a description [and selected case studies];
 - The balance of any unallocated proceeds invested in cash or other liquid marketable instruments; and,
 - The proportion of net proceeds used for financing versus refinancing

B. Impact reporting

Hera will report on a number of environmental impact metrics associated with the Eligible Green Projects funded with the net proceeds of each Green Financing. Examples of KPIs (reported in comparison with ante investment situation or previous year), that will depend on the eligible project financed, are illustrated below.

Eligible Category	Example of KPIs for reporting where applicable
Energy Efficiency and energy infrastructure	<ul style="list-style-type: none">▪ Energy saved (toe)▪ GHG emission avoided (tCO₂e)▪ Network length (km)▪ Number of event of interruption by client (n)▪ Installed Smart meters (n)▪ Served Citizens/Points of grid distribution (POD, PDR)▪ Public lighting points with Led technology (%)

Circular economy & Sustainable Waste Management	<ul style="list-style-type: none"> ▪ Recycled plastic sold (ton) ▪ GHG emission avoided (tCO2e) ▪ Atmospheric emissions with respect to legal limits (%) ▪ Heat energy, biomethane and electricity produced from waste treatment (MWh) ▪ Treated waste (ton) ▪ Separated/Sorted collection of waste (%) ▪ Waste sent for the recovery of material (%)
Water infrastructure	<ul style="list-style-type: none"> ▪ Served citizens (n) ▪ Network length (km) ▪ Water fed in the network by source (mc) ▪ Water distributed using tanker trucks (mc) ▪ Quality of the waste-water in compliance with regulatory limits (%) ▪ Urban areas compliant with law regarding waste-water treatment (%)

3. External Review

1. Second Party Opinion

A Second Party Opinion (SPO) provider has reviewed Hera's Green Financing Framework and has certified its alignment with ICMA's Green Bond Principles 2018. The SPO will be made available on Hera's website: www.gruppohera.it

2. Annual Audit/Limited Assurance

The allocation of each Green Financing's proceeds and environmental impact metrics will be reviewed by an external auditor since the reporting will be included in the Sustainability Report. A confirmation letter (called "Limited Assurance") on the Sustainability Report will be made available on Hera's website: www.gruppohera.it

Disclaimer

This document (the **Green Financing Framework**) is intended to provide non-exhaustive, general information. This document may contain or make reference to public information not separately reviewed, approved or endorsed by Hera S.p.A. (**Hera**) and accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Hera as to the fairness, accuracy, reasonableness or completeness of such information.

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It should be noted that all of the expected benefits of the Eligible Green Projects referred to in this Green Financing Framework may not be achieved. Factors including (but not limited to) market, political and economic conditions, changes in government policy (whether with a continuity of the government or on a change in the composition of the government), changes in laws, rules or regulations, the lack of available Eligible Green Projects being initiated, failure to complete or implement projects and other challenges, could limit the ability to achieve some or all of the expected benefits of these initiatives, including the funding and completion of Eligible Green Projects.

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