

2022
GREEN BOND REPORT

Report on funding allocation and environmental impact indicators of the 2022-2029 Green Bond

This report is dedicated to reporting on the funds allocated and the environmental performance achieved by the measures financed by the 2022-2029 Green Bond placed on the market on May 25, 2022.

The Green bonds

Green bonds are bonds that associate initiatives and projects with positive impacts on the environment with the funds raised. The first such financial instrument was issued by the World Bank in 2008.

According to Climate Bonds Initiative's "Sustainable Debt Global State of the Market 2021" report, in 2021, **Green bonds issued worldwide accounted for 49% of the total "GSS+" bonds issued** (Green, Social, Sustainable, and other labels). On the other hand, Social bonds accounted for 21%, Sustainability bonds for 19%, Sustainability-linked bonds for 11%, and Transition bonds for a residual share (less than 0.5%).

Overall, a total of \$1,1 trillion worth of GSS+ bonds were issued in 2021, up 46% from the previous year (\$731 billion).

The Green financing framework

In 2022, Hera updated its 2019 **Green financing framework (Gff)** aligning with the principles of the European Taxonomy and market best practices. The updated Gff has thus become a policy document defining the categories of "green projects" aligned with the European Taxonomy that can be financed through a Green bond; the process and criteria for selecting "green projects"; the process for managing funding received; commitments in terms of reporting and external auditing.

The funds collected are used to finance or refinance several projects - already underway or planned in the Group business plan to 2025 - selected on the basis of the Gff, which pursue one or more of the goals of the 2030 UN Sustainable Development Goals (SDGs), divided into three areas:


- **energy efficiency and energy infrastructures** (SDGs 7, 11 and 13): installation of smart gas and electricity meters, development of district heating networks, and public lighting efficiency projects;
- **circular economy and pollution prevention and control** (SDG 11, 12 and 13): innovative projects in waste collection systems, extension of quantity-based tariff, construction of facilities and infrastructures for recycling, recovering and reusing materials as well as plants for bio/chemical waste treatment and the reuse of materials from waste-to-energy plants;
- **sustainable water and wastewater management** (SDGs 6, 13 and 14): wastewater management projects, and sewerage and water infrastructure for resilience and adaptation to climate change.

Hera's Gff aims to finance **16 eligible economic activities** in line with the European Taxonomy, within the three categories outlined above.

"Green projects" refer to projects that aim to achieve **five environmental objectives** laid down in the European Taxonomy:

- climate change mitigation;
- climate change adaptation;
- natural resources preservation;
- biodiversity preservation;
- pollution prevention and control.

Sustainalytics, a leading independent sustainability research and rating company, has certified that Hera's framework is aligned with the technical criteria of the European Taxonomy for the corresponding 16 economic activities and in line with the 2021 Green bond and Green loan principles.

Categories of Eligible Green Projects	EU economic activities	EU environmental objectives	UN SDGs
Sustainable water and wastewater management	5.1 Construction, extension and operation of water collection, treatment and supply systems 5.3 Construction, extension and operation of waste water collection and treatment	Climate change mitigation	  
Circular Economy & Pollution prevention and control ⁶	3.17 - Manufacture of plastics in primary form 4.13 - Manufacture of biogas and biofuels for use in transport and of bioliquids 5.5 - Collection and transport of non-hazardous waste in source segregated fractions 5.7 - Anaerobic digestion of bio-waste 5.8 - Composting of bio-waste 6.5 - Transport by motorbikes, passenger cars and light commercial vehicles	Climate change mitigation	  
Energy Efficiency and Energy Infrastructure	4.1 - Electricity generation using solar photovoltaic technology 4.9 - Transmission and Distribution of Electricity 4.14 - Transmission and distribution networks for renewable and low-carbon gases 4.15 - District Heating/Cooling distribution 4.22 - Production of heat/cool and power from geothermal energy (excluding power generation) 7.3 - Installation, maintenance and repair of energy efficiency equipment 7.5 - Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings 7.6 - Installation, maintenance and repair of renewable energy technologies	Climate change mitigation	  

The characteristics of the Bond

Based on the updated Gff, in 2022 the Hera Group issued its **first Green bond aligned with the European Taxonomy** totalling 500 million euro repayable in 7 years with a coupon of 2.5% and a yield of 2.639%.

The Green bond provided for a 45% refinancing share for investments incurred in 2021 and a 55% financing share for investments incurred in 2022.

All the information relating to the bond is published in the [Investor Relations](#) section of the Group's website.

Below is the allocation of funds collected through the Green bond issued in 2022 by individual economic activity eligible for the EU Taxonomy.

GREEN BOND 2022-2029: ALLOCATION OF FUNDS COLLECTED

Area (EU Taxonomy Activities)	Total collection (mn €)	Shares (%)
5.1 Construction, expansion and operation of collection, treatment and supply systems	183.5	36.7%
5.3 Construction, expansion and operation of collection and treatment of wastewater	109.0	21.8%
Total of sustainable water and wastewater management	292.5	58.5%
3.17 Manufacture of plastic materials in primary forms	11.4	2.3%
4.13 Production of biogas and biofuels for transport and bioliquids	1.4	0.3%
5.5 Collection and transport of non-hazardous waste in source-separated fractions	55.0	11.0%
5.7 Anaerobic digestion of organic waste	1.6	0.3%
5.8 Organic waste composting	1.1	0.2%
Total circular economy and pollution prevention and control	70.5	14.1%
4.1 Electricity generation through photovoltaic solar technology	6.0	1.2%
4.9 Electricity transmission and distribution	78.4	15.7%
4.15 District heating and cooling distribution	6.0	1.2%
4.22 Production of heat and cooling from geothermal energy	0.2	0.0%
7.3 Installation, maintenance and repair of energy efficiency devices	2.0	0.4%
7.5 Installation, maintenance and repair of instruments and devices for measuring, regulating and controlling the energy performance of buildings	43.0	8.6%
7.6 Installation, maintenance and repair of renewable energy technologies	1.4	0.3%
Total energy efficiency and energy infrastructures	137.0	27.4%
Total	500.0	100%

The environmental benefit produced by projects financed with the Green bond has been quantified using 18 performance indicators, shown below and third-party verified. These indicators are reported within the Hera Group's [Consolidated non-financial statement 2022](#) and shown in the GRI content index. Some of these performance indicators pertain to more than one category of eligible green projects.

2022-2029 GREEN BOND: INDICATORS FOR MEASURING ENVIRONMENTAL BENEFITS

Categories of Eligible Green Projects	2020	2021	2022
Energy efficiency and energy infrastructures			
1) Energy saved: ISO 50001 energy saving interventions (toe savings compared to 2013) ¹	6.2%	6.8%	6.9%
2) GHG emissions avoided or offset (kton CO ₂ e)	2,155.8	2,490.4	2,539.3
3) GHG emissions reduction with SBTi calculation methodology (% compared to 2019) ²	-5.9%	-10.3%	-11.7%
4) Average number of power cuts per customer in high concentration areas	1.06	0.64	0.84
5) Average number of power cuts per customer in medium concentration areas	1.10	1.97	2.19

Categories of Eligible Green Projects	2020	2021	2022
6) Average number of power cuts per customer in low concentration areas	4.76	3.58	3.71
7) Gas smart meters installed (number)	19,800	80,000	180,000
8) Citizens served (energy services) (million)	3.4	3.4	3.4
9) Biomethane produced (million cubic meters)	7.8	8.0	7.7

Circular economy and pollution prevention and control

10) Plastic recycled by Aliplast (k tonnes)	68.8	80.9	79.2
2) GHG emissions avoided or offset (kton CO2e)	2,155.8	2,490.4	2,539.3
11) Sorted waste (%)	65.3%	65.3%	67.8%
12) Waste sent for recovery (% of total waste treated in sorting plants)	81.4%	80.8%	80.6%
13) Reusable and reused purified wastewater (% of total purified wastewater)	5.2%	6.0%	7.3% ³

Sustainable water and wastewater management

8) Citizens served (water services) (million)	3.6	3.6	3.6
14) Annual volume of wastewater treated (millions of cubic meters)	271.2	347.1	420.7
15) Water fed in the network by source (thousands of cubic meters)	409,547	414,041	408,321
<i>of which Aquifer (thousands of cubic meters)</i>	<i>206,894</i>	<i>207,907</i>	<i>210,150</i>
<i>of which Surface water (thousands of cubic meters)</i>	<i>170,593</i>	<i>172,947</i>	<i>165,672</i>
<i>of which Springs and minor sources (thousands of cubic meters)</i>	<i>32,060</i>	<i>33,186</i>	<i>32,499</i>
16) Reduction in internal water consumption (% compared to 2017) ⁴	-11.9%	-16.6%	-20.5%
17) Purified water quality compared to the legal limits(%) ⁵	35.6%	37.3%	38.5%
18) Urban agglomerations >2,000 population equivalents complying with wastewater treatment legislation (% of population equivalents)	97.6%	99.6%	99.6%

¹ Data referring to Hera Spa, Inrete Distribuzione Energia, AcegasApsAmga, Marche Multiservizi, Herambiente, Hestambiente, Herambiente Servizi Industriali, and Frullo Energia Ambiente

² Scope 1+2+3 downstream electricity and gas sales. The Scope 3 data for natural gas sales for 2021 and 2022 does not take into account the transitory increases in emissions related to last resort gas services. The Scope 3 data for natural gas sales for 2021 has been aligned with the calculation method used for the 2022 data.

³ Data referring to Hera Spa, AcegasApsAmga and Marche Multiservizi

⁴ Data referring to water consumption from civil and industrial aqueducts in the Group's most "water-intensive" business units served by Hera Spa in Emilia-Romagna

⁵ The indicator relates to plants with more than ten thousand population equivalent (the volumes treated in these plants are 93% of the total effluent treated) and is calculated on the basis of the ratio between the measured concentration of Bod5, Cod, Sst, ammoniacal nitrogen, phosphorus and total nitrogen and the relevant maximum concentrations permitted by Legislative Decree. 152/2006 or by the authorizations in force for the individual plants.

Independent auditors' report on the Green bond report

To the Board of Directors of
Hera S.p.A.

We have been appointed to perform a limited assurance engagement of the 2022 Green bond report of Hera S.p.A. ("Green bond report"), prepared by Hera S.p.A. (the "Company", "Hera") in accordance with the provisions of the Hera - Green Financing Framework ("Framework"), relating to the Euro 500 million Green bond issued in May 2022, maturing May 2029, placed at Euronext Dublin, Luxembourg Stock Exchange, ExtraMOT PRO (ISIN code XS2485360981).

The limited review was performed with specific reference to the "Allocation reporting" and "Impact reporting" sections included in the Green bond report. Our limited assurance engagement does not cover the information relating to the European Regulation 2020/852 concerning environmentally sustainable economic activities. An extract from the Green bond report is attached to the consolidated non-financial disclosure of the Hera Group at 31 December 2022.

Responsibility of the Directors and the Board of Statutory Auditors for the Green bond report

The Directors are responsible for the preparation, content, and presentation of the Green bond report, prepared in accordance with the provisions of the Framework.

The Directors are also responsible, within the terms provided for by law, for that part of the internal control they consider necessary to allow the preparation of a Green bond report that is free from material misstatement, caused by fraud or unintentional behaviours or events.

Finally, the Directors are responsible for defining, implementing, and maintaining the systems through which the information necessary for the preparation of the Green bond report is obtained.

Auditor's independence and quality control

We are independent in accordance with the principles of ethics and independence disclosed in the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality, and professional behaviour. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system, that includes documented policies and procedures for the compliance with ethical and professional standards and with applicable laws and regulations.

Auditor's Responsibility

It is our responsibility to express, based on the procedures performed, a conclusion about the compliance of the NFD with the requirements of the Decree and of the GRI Standards. Our work has been performed in accordance with the principle "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The principle requires that we plan and perform procedures to obtain a limited assurance that the Green bond report is free from material misstatements. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised ("reasonable assurance engagement") and,

consequently, do not provide us with a sufficient level of assurance to become aware of all significant facts and circumstances that would be identified in a reasonable assurance engagement.

The procedures performed on the Green bond report were based on our professional judgment and included inquiries, primarily with the Hera's personnel responsible for the preparation of information included in the Green bond report ("Allocation reporting" e "Impact reporting" sections), in the analysis of documents, recalculations and other procedures to obtain evidence considered appropriate.

We performed the following procedures:

1. Allocation reporting
 - Analysis of the contents of Hera's Green Financing Framework - May 2022 and of the investment allocation criteria and the Categories of Eligible Green Projects - EU economic activities – EU environmental objectives.
 - Analysis of the Second-Party Opinion issued by Sustainalytics, which assessed the sustainability profile of the green bond (Framework) and the alignment of the bond with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2021.
 - Interviews with Hera personnel responsible for managing the financial resources ("Proceeds") deriving from the issuance of the Green bond, in accordance with the provisions of Hera's Green Financing Framework.
 - Understanding of the processes and procedures underlying the generation, detection and management of investments allocated in accordance with the Green Financing Framework (reporting and control processes concerning use of proceeds).
 - Comparison and reconciliation of quantitative data relating to investments with Hera's accounting results and consolidated financial statements.
 - Analytical procedures and limited assurance procedures, to assess, on a sample basis, the proper data consolidation and representation of the information relating to the investments and projects.
2. Impact reporting
 - Analytical procedures and limited assurance procedures, to assess, on a sample basis, the proper consolidation and representation of the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that caused us to believe that the "Allocation reporting" and "Impact reporting" sections included in the Green bond report 2022 of Hera have not been prepared, in all material respects, in accordance with the provisions of the Framework.

Our conclusions on the Green Bond Report do not extend to information relating to the provisions of European Regulation 2020/852, regarding eco-sustainable economic activities.

Bologna, 30 May 2023

Audirevi S.p.A.

Signed by



Antonio Cocco

Partner

This report has been translated into the English language solely for the convenience of international readers.
