

Second-Party Opinion

Hera Group's Sustainability-Linked Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Sustainability-Linked Financing Framework aligns with the Sustainability-Linked Bond Principles 2020 and Sustainability-Linked Loan Principles 2021. This assessment is based on the following:

- Selection of Key Performance Indicators:** Hera Group's Sustainability-Linked Financing Framework includes two KPIs: Absolute greenhouse gas (GHG) emissions (KPI 1) and quantity of recycled plastics (KPI 2), (see Table 1). Sustainalytics considers KPI 1 as very strong and KPI 2 as strong based on both KPIs having a clear and consistent methodology, offering a direct measure of performance, with an externally recognized definition, and large scope of applicability. Further, KPI 1 also lends itself well to be benchmarked against external contextual benchmarks.
- Calibration of Sustainability Performance Targets:** Sustainalytics considers the SPTs to be aligned with the issuer's sustainability strategy. Sustainalytics considers the SPT 1 to be ambitious and SPT 2 as ambitious as both SPTs show improvement on historical performance while SPT 1 is also aligned with peer's average and, with a science-based decarbonization pathway.
- Bond Characteristics** Hera Group will link the financial characteristics of the bond or loan to the achievement of the SPTs in the form of a coupon rate step-up or a margin adjustment. A failure to achieve at least one of the SPTs will trigger the coupon step-up or the margin adjustment.
- Reporting** Hera Group commits to report on an annual basis on its performance on the KPIs in its annual non-financial report available on its website. The reporting commitments are aligned with the SLBP and SLLP.
- Verification** Hera Group commits to have external limited assurance conducted on its KPI performance at the communicated SPT deadline, which is aligned with market expectations.

Evaluation Date	October 04, 2021
Issuer Location	Bologna, Italy

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

KPI	Baseline	SPT	Strength of the KPI	Ambitiousness of SPT
Absolute greenhouse gas (GHG) emissions (in t CO2e)	2019	1.a. Reduction of GHG emissions for the defined Scope 1,2 and 3 emissions by 15.4% by 2024. 1.b. Reduction of GHG emissions for the defined scope by 36.7% by 2030.	Very Strong	Ambitious
Quantity of recycled plastics (in Ktons)	2017	2.a. Recycle 100.0 kton/year of plastic by 2025, equivalent to +68% increase from a 2017 baseline. 2.b. Recycle 148.9 kton/year of plastic by 2030, equivalent to +150% increase from a 2017 baseline.	Strong	Ambitious

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Scope of Work and Limitations

Hera Group has engaged Sustainalytics to review the Sustainability-Linked Finance Framework and provide an opinion on the alignment of the notes with the Sustainability-Linked Bond Principles (SLBP)¹ and Sustainability-Linked Loan Principles (SLLP).²

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent³ opinion on the alignment of the reviewed Sustainability-Linked Finance Framework with the SLBP and the SLLP.

As part of this engagement, Sustainalytics exchanges information with various members of Hera Group's management team to understand the sustainability impact of their business processes and SPTs, as well as reporting and verification processes of aspects of the Sustainability-Linked Finance Framework. Hera Group's representatives have confirmed that:

- (1) They understand it is the sole responsibility of issuer to ensure that the information provided is complete and accurate;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Bond Framework and should be read in conjunction with the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Hera Group. Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated SPTs of KPIs but does not measure the KPIs' performance. The measurement and reporting of the KPIs is the responsibility of the Bond issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Hera Group has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months or until one of the following occurs:

- (1) A material change to the external benchmarks⁴ against which targets were set;
- (2) A material corporate action (such as material M&A or change in business activity) which has a bearing on the achievement of the SLBs or the materiality of the KPI.

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¹ The Sustainability Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

² The loan Principles and Guidelines are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: https://www.lsta.org/content/?industry_sector=guidelines-memos-primary-market

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

⁴ Benchmarks refers to science based benchmarks

Introduction

Hera Group (“Hera” or the “Group”) is an Italy-based multi-utility company offering management of several public services including energy services, waste management, water distribution and wastewater, district heating, and public lighting to over 4.2 million people in Italy. The Company also controls Aliplast, a subsidiary plastic recycling company with operations across Europe. For the year ended December 2020, Hera had revenues of €7.5 billion and just over 9,000 employees.

Hera Group intends to issue Sustainability-Linked Bonds or Sustainability-Linked Loans where the coupon rate of the bond or interest rate of the loan margin is tied to the achievement of the Sustainability Performance Targets (“SPTs”) for two Key Performance Indicators (“KPIs”); GHG emissions and quantity of recycled plastics.

Hera has engaged Sustainalytics to review the Sustainability Finance Framework and provide an opinion on the alignment of the finance framework with the SLBP and SLLP.

The KPIs and SPTs used by Hera are defined in Tables 1 and 2 below.

Table 1: KPI Definitions

KPI	Definition
Absolute greenhouse gas (GHG) emissions (in t CO ₂ e)	<p>The KPI is defined as Scope 1, 2 and 3 emissions measured in tons of carbon dioxide equivalent</p> <ul style="list-style-type: none"> Scope 1 and 2 emissions are derived from the Group’s owned and controlled assets required for its operations including the supply and consumption of electricity. Scope 3 emissions relate to the sale of electricity to and use of natural gas by Hera’s customers. <p>For the base year of 2019, absolute Scope 1, 2 and 3 emissions represented 86% of Hera Group’s emissions.</p>
Quantity of recycled plastics (in Ktons)	The KPI is a measure of the annual quantity of recycled plastic waste in kilo-tonnes. The recycling process transforms collected plastic waste to finished products, mainly polyethylene films (PE films), polyethylene terephthalate plate (PET plate) and granules of the leading polymers.

Table 2: SPTs and Past Performance

KPI 1	2017	2018	2019 (baseline)	2020	SPT 2024	SPT 2030	
Absolute GHG emissions (t CO ₂ e)	12,966	12,244	11,781	11,141	9,988	7,459	
KPI 2	2017 (baseline)	2018	2019	2020	2024	SPT 2025	SPT 2030
Quantity of recycled plastics (Ktons)	59.6	63.7	72.8	68.8	90.6	100.0	148.9

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of Sustainability-Linked Financing Framework with the Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles

Sustainalytics is of the opinion that the Sustainability-Linked Financing Framework is aligned with all the core components of the Sustainability-Linked Bond Principles 2020 (SLBP) and the Sustainability-Linked Loan Principles 2021 (SLLP).



Selection of Key Performance Indicators (KPIs)

Relevance and Materiality of KPIs

Sustainalytics in its assessment of materiality and relevance considers i) whether an indicator speaks to a material impact of the issuer business on environment or social issues, and ii) to what portion of impact the KPI is applicable.

Sustainalytics considers KPI 1, absolute GHG emissions, to be a material and relevant given the following:

- Sustainalytics' Industry Report on the "Utilities" industry^{5,6} identifies "Carbon – Own Operations"⁷ as a highly material ESG issue (MEI) for companies in this sector. The Utilities industry is responsible for approximately 25% of the world's greenhouse gas emissions, making it the single largest source by industry with electric utilities being the largest sub-industry.⁸
- The Sustainability Accounting Standards Boards (SASB)⁹ identifies GHG emissions and energy management key material sustainability topics and accounting metrics in the "Electric Utilities & Power Generators" industry.¹⁰ Business activities may include power generation, electrical and gas transmission.
- GHG emissions represent a direct indicator of the Group's environmental performance. Hera's 2020 Sustainability Report identifies energy transition and renewables as a key driver of the Group's strategy.¹¹ In this regard, the Group has set a target to increase the share of electricity from renewable sources for its internal consumption from 82.8% in 2019 to 100% by 2023.¹² For more details on the same, please refer to Section 2.

⁵ Sustainalytics, "Industry Report - Utilities", (July 2020).

⁶ The Diversified Metals industry is composed of two subindustries: Aluminum and Diversified Metals Mining. Companies in the Aluminium sub-industry are involved in the extraction and processing of aluminium.

⁷ Carbon - Own Operations refers to a company's management of risks primarily related to its own operational energy use and GHG emissions (scope 1 and 2).

⁸ Sustainalytics, "Industry Report - Utilities", (July 2020).

⁹ The SASB Foundation was founded in 2011 as a not-for-profit, independent standards-setting organization. The SASB Foundation's mission is to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors. SASB Standards identify the subset of environmental, social, and governance issues most relevant to financial performance in each of 77 industries.

¹⁰ SASB, "SASB Materiality Map", (2018), at: <https://materiality.sasb.org/>

¹¹ Hera Group, "2020 Sustainability Report", at: <https://eng.gruppohera.it/documents/1514726/4210498/Sustainability+report+2020+Full+version+%28NFI+-+Leg.+Decrete+25416%29.pdf/c99ff00f-aae9-cc8e-2e84-4585b3efd932?t=1619606310019>

¹² Hera Group, "2020 Sustainability Report", at: <https://eng.gruppohera.it/documents/1514726/4210498/Sustainability+report+2020+Full+version+%28NFI+-+Leg.+Decrete+25416%29.pdf/c99ff00f-aae9-cc8e-2e84-4585b3efd932?t=1619606310019>

- In terms of applicability Scope 1 and 2 emissions accounted for 8% and Scope 3 from the sale of electricity to and use of natural gas by customers for 78% of Hera's 2019 GHG emissions. As such, the selected KPI covers the vast majority of Hera's emissions.

Sustainalytics considers KPI 2, quantity of recycled plastics, to be a material and relevant given the following:

- KPI 2, quantity of recycled plastics, represents a material environmental issue of plastic pollution through unmanaged plastic waste that ends up in the environment, including oceans, where it continues to have climate impacts as it degrades. Research from the Center for International Environmental Law (CIEL) has shown that plastic on the coastlines, riverbanks, and landscapes releases greenhouse gases at an even higher rate than plastics in landfills and incinerated,¹³ which makes the need for recycling plastics critically important as it is a hazard to marine life and air quality.
- In Hera's 2020 Sustainability Report, transition towards a more circular economy is one of the key pillars in executing its sustainability strategy, with plastics recycling as a focus area.¹⁴ Sustainalytics notes the pivotal role that collection and recycling of plastic plays in Hera's sustainability strategy as an indication of high relevance and materiality to Hera.
- Hera explained that as a utility company in Italy, it has been mandated by regulation to operate a waste collection service from its customers across the country. After acquisition of Aliplast in 2017, the Group has also started recycling plastic waste in-house utilizing Aliplast's facilities. KPI 2 covers 100% of Aliplast's recycling capacity and as such Sustainalytics considers this to be highly applicable to its operations.
- Sustainalytics' ESG Risk Rating assessment identifies "Resource Use" as a material ESG issue and an area of medium exposure for the multi-utilities' subindustry. In support of Sustainalytics' view, Plastic Europe, an association of plastic manufacturers in Europe, has set targets for reuse and recycling of all plastic packaging at 60% by 2030 and 100% by 2040 in Europe.¹⁵ Sustainalytics notes from its assessment and regional initiatives in promoting plastics recycling, the high relevance and materiality of this KPI.

KPI Characteristics

Sustainalytics in its assessment of the KPI characteristics considers i) whether a clear and consistent methodology is used, ii) whether the issuer follows an externally recognized definition, iii) whether the KPIs are a direct measure of the performance of the issuer on the material environmental or social issue, and iv) if applicable, whether the methodology can be benchmarked to an external contextual benchmark.¹⁶

Sustainalytics considers Hera's definition and methodology to calculate KPI 1 performance to be clear and consistently applied. Scope 3 emissions (78% of total 2019 emissions) were determined in accordance with the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standards. The KPI also follows an industry standard definition which is recommended by bodies such as the GHG Protocol's Corporate Reporting Standards, the SBTi guidelines and the SASB standards on GHG emissions reporting. Sustainalytics further considers the KPI to be a direct measure of performance on the material environmental issue of "carbon own-operations" and notes that the KPI lends itself to be benchmarked against external contextual benchmarks, in this case, alignment with SBTi's well-below 2 degrees scenario decarbonization pathway using the absolute contraction approach.

Sustainalytics considers Hera's definition and methodology to calculate KPI 2's performance to be clear and consistent with the Group's historical approach to measuring recycling capacity since it acquired Aliplast in 2017.

¹³ CIEL, "Plastic and Climate: The hidden costs of a plastic planet, (2021)", at: <https://www.ciel.org/wp-content/uploads/2019/05/Plastic-and-Climate-Executive-Summary-2019.pdf>

¹⁴ Hera Group, "2020 Sustainability Report", at: <https://eng.gruppohera.it/documents/1514726/4210498/Sustainability+report+2020+Full+version+%28NFI+-+Leg.+Decree+25416%29.pdf/c99ff00f-aae9-cc8e-2e84-4585b3efd932?t=1619606310019>

¹⁵ Plastics Europe, "Plastics 2030: Voluntary Commitment to increasing circularity and resource efficiency", at: https://www.plasticseurope.org/application/files/6015/7190/8808/Plastics2030_A5_flyer_FINAL_Oct2019.pdf

¹⁶ External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

The KPI is also a direct measure of performance to a material environmental issue of plastic waste and recycling, while its definition is well recognized with many companies and governments setting their own plastics recycling targets. However, the KPI does not lend itself to be benchmarked against external contextual benchmarks because of the absence of such benchmarks in plastics recycling.

Overall Assessment

Sustainalytics overall considers KPI 1, absolute greenhouse gas (GHG) emissions to be very strong and KPI 2, recycled plastics, to be strong given that both KPIs speak to material environmental issues for Hera Group, are direct measures of performance on material environmental issues, follow a clear and consistent methodology with an externally recognized definition. Further, KPI 1 has a large scope of applicability in relation to Hera’s total emissions and can also be benchmarked against external decarbonization benchmarks.

Absolute greenhouse gas (GHG) emissions (in t CO2e)	Not Aligned	Adequate	Strong	Very strong
Quantity of recycled plastics (In Ktons)	Not Aligned	Adequate	Strong	Very strong



Calibration of Sustainability Performance Targets (SPTs)

Alignment with Issuer’s Sustainability Strategy

Hera has set the following SPTs for its KPIs:

- SPT 1: Reduction of GHG emissions for the defined scope by 15.4% by 2024 and 36.7% by 2030, from a 2019 baseline.
- SPT 2: Recycle 100.0 kton/year of plastic by 2025 and 148.9 kton/year of plastic by 2030, equivalent to +68% and +150% increase from a 2017 baseline respectively.

Sustainalytics considers the SPTs to be aligned with Hera’s sustainability strategy (please refer to Section 2 for analysis of the credibility of Hera’s sustainability strategy).

Strategy to Achieve the SPTs

Hera intends to achieve the SPTs through the following strategy:

For SPT 1: Hera intends to increase supply of electricity from renewable sources for the consumption of Group companies and increase sale of electricity from renewable sources to its customers. The Group will offer solutions to reduce the carbon footprint of customers in all segments (households, condominiums, businesses, and public administration) and has also embarked on initiatives to develop hydrogen as an energy carrier to improve environmental footprint of its energy offerings. Hera has also targeted reduction of greenhouse gas emissions from landfills while exploring options to further develop the district heating system. The Group will monitor and invest in technologically innovative projects and initiatives aimed at promoting environmental sustainability and circularity in its business.

For SPT 2: Hera intends to develop multi-year commercial partnerships with large and medium-sized companies for the sale of recycled plastics and leveraging existing client relationships by cross selling solutions for waste management such as separate waste collection, which the Group has committed to increase from 65.3% in 2020 to 80% in 2030. The Group will further revamp the PET recycling line in the Novara Plant, while considering revamping other sites. Hera will also revamp two PE-LD extruders and will continue the revamping of other plants as well as new plants. The Group also aims to increase the opening hours of most of recycling lines reaching 24/7 and will look for expansion opportunities beyond Italy through joint ventures or other mergers and acquisition opportunities.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers whether the SPTs go beyond business-as-usual trajectory, ii) how the SPTs compare to targets set by peers, iii) and how the SPTs compare with science.¹⁷

Hera has set the baseline for SPT 1 at 2019, with the rationale to account for data of a series of target companies which merged into Hera Group at the end of 2019. The 2019 data of the merged target companies is included in the reported SPT figures for 2019.

Hera has set the baseline for SPT 2 at 2017, with the rationale to maintain consistency with the Group's ongoing investor communications and to align with the acquisition of Aliplast, acquired in 2017 to lead the plastics recycling initiative.

SPT 1: Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance, peer performance, science

To assess alignment with science-based decarbonization trajectories, Sustainalytics relied on the target verification report of Hera Group by the SBTi in March 2021, which confirmed alignment with the well-below 2 degrees scenario using the absolute contraction approach. Targets verified in the report are: i) a commitment to reduce absolute scope 1 and 2 GHG emissions by 28% by 2030 from a 2019 base year ii) a commitment to increase annual sourcing of renewable electricity from 83% in 2019 to 100% by 2023 iii) a commitment to reduce absolute scope 3 GHG emissions from the use of sold products 30% by 2030 from a 2019 base year iv) a commitment to reduce scope 3 GHG emissions for all sold electricity 50% per MWh over the same timeframe.¹⁸ Hera group clarified to Sustainalytics that these separate emissions reduction targets translate to a combined reduction target of 36.7% during the SPT period driven by improvements in Scope 3 emissions, which have the largest weighting in the Group's emissions portfolio.

Regarding peers, Hera's 36.7% GHG emissions reduction 2030 target is above peers of the same size (at 25%) although larger market cap companies are targeting 50% GHG emissions reduction.¹⁹ The Transition Pathway Initiative (TPI) estimates that only 20% of utilities set targets that are at least well-below 2-degree scenario by 2030.²⁰ For these reasons, Sustainalytics notes Hera's target as aligned with market practice.

Sustainalytics notes that Hera does not have sufficient historical data to analyze past performance and compare with the SPT due to a change in the scope of the Group in 2019. However, Hera has informed that the SPT reflects the continuation of a downward trend in GHG emissions since 2017.

SPT 2: Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance.

Sustainalytics notes that Hera only has performance figures from the baseline in 2017, when it acquired Aliplast. Between 2017-2020, Hera increased its recycling capacity by 15.6% or an average annual increase of 5.2% during the period. To achieve the SPT in 2030, Hera Group needs to increase the recycling capacity by 116.3% between 2021 and 2030, or an implied average annual increase of 12.9% over the same SPT period. Sustainalytics notes the higher growth rates in recycling capacity required to achieve the SPT as representing a significant improvement from the 2017-2020 period.

Sustainalytics notes the challenges in identifying appropriate peers for multi-utility providers to form a reasonable peer comparison and concludes that there is insufficient data to benchmark SPT 2 against peer's performance. Sustainalytics further notes the absence of external contextual targets aligned with ecosystem boundaries to benchmark the future progress of this SPT.

Hera Group may recalculate or adjust the targets in the event of changes in relevant regulations, mergers and acquisitions activity with material impact, significant structural changes in Hera group, loss of concessions and changes in external reporting methodologies.

¹⁷ We refer here to contextual benchmarks, that indicate the alignment of targets with ecosystem boundaries.

¹⁸ Hera Group Target Validation Report (March 2021)

¹⁹ Based on Sustainalytics assessment of the Utilities Sector

²⁰ Transition Pathway Initiative, "TPI State of Transition Report 2021", (2021), at: <https://www.transitionpathwayinitiative.org/publications/82.pdf?type=Publication>

Overall Assessment

Sustainalytics considers both SPTs to align with Hera Group’s sustainability strategy and considers Hera’s SPT 1 to be ambitious given that it is aligned with science based decarbonization trajectories and aligned with market best practice from peer assessment. Sustainalytics also notes that while representing continued improvement of the decarbonization effort, the rate of emissions reduction during the SPT period is lower than historically achieved rates of emissions reduction and thus assess the SPT as ambitious.

Sustainalytics considers Hera’s SPT 2 to be ambitious given that it represents a significant improvement to past performance, while noting the difficulty to conduct a reasonable peer assessment or to benchmark future performance against science trajectories.

Absolute GHG emissions reduction by 15.4% by 2024 and 36.7% by 2030, from a 2019 baseline.	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
Recycle 100.0 kton/year of plastic by 2025 and 148.9kton/year by 2030, equivalent to +68% and +150% increase from a 2017 baseline respectively.	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious



Bond/ Loan Characteristics

Hera Group has disclosed that the financial characteristics of all securities issued under this Framework will be linked to the achievement of the SPTs. A failure to achieve one or both SPTs at the target observation date will trigger a penalty provision in the form of a coupon rate step-up for bonds or a margin adjustment for the loan securities. No more than one coupon step-up or margin adjustment, as applicable, can be applied over the life of a given Sustainability-Linked Instrument. The SPTs will be assessed independent of each other, and Hera reserves the right to use one or both SPTs for any issuance.²¹ The specific basis point coupon rate step-up or margin adjustment will be specified in the relevant transaction documentation.



Reporting

Hera commits to report on an annual basis on its performance on the KPIs and expects to include the relevant figures in the annual non-financial report available on Hera’s public website, which is aligned with the SLB Principles. Hera further commits to disclose relevant information that enabling investors to monitor the level of ambition of the SPTs. The report, published around April each year, will contain all the relevant information needed to assess if any changes to the security characteristics are to be made, including but not limited to up-to-date information on the performance of the selected KPI, including the baseline revisions where relevant, any relevant information enabling investors to monitor the progress of the SPT.



Verification

Hera commits to an annual external verification of the published KPI performance figures at the SPT deadline, which is aligned with the SLB Principles on verification. The verification will be performed by Nexia Audirevi or any other qualified provider of third-party assurance at a limited assurance standard.

²¹ Sustainalytics has provided an opinion based on the understanding that the financial characteristics of instruments issued under this Framework will be tied to the achievement of SPTs corresponding to both KPIs included in the Framework.

Section 2: Assessment of Hera's Sustainability Strategy

Credibility of Hera Sustainability Strategy

According to Sustainalytics' ESG rating, Hera is considered an outperformer amongst its industry peers across environmental, social and governance factors.²² The Group has been tracking sustainability performance and reporting on progress since 2003. Hera has indicated that it has embedded sustainability and the principles of "Creating Shared Value" (CSV) in its business model and value chain, its operating model and its overall strategy.²³ Hera's Board of Directors has overall responsibility for the Group's response to climate change through various committees such as the Control and Risks Committee, the Risk Committee as well as Ethics and Sustainability Committee. The Chief Executive Officer is responsible for the implementation of this strategy through Hera's Shared Value and Sustainability Department, which also develops policies and reports on sustainability.²⁴

Hera Group developed a 2020-2024 business plan which is centered on the sustainability guidelines of European policies as a reference and confirms the Sustainable Development Goals as the basis for its climate strategy.²⁵ The business plan consists of three strategic dimensions: environmental, social and economic, and articulates 2024 as well as 2030 targets. To further enhance the climate strategy, Hera Group aligned its sustainability reporting to the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations for the first time in 2019 and as of April 2021, the Group had its GHG emissions decarbonization pathway verified by the Science Based Target initiative as aligned with the 'well-below 2 degrees scenario'. Sustainalytics is of the opinion that Hera's sustainability strategy, as outlined in its 2020 'Sustainability Report', is credible.²⁶

With regards to resource use and circularity of plastics waste, Hera has identified transition to a circular economy as the top priority in its ESG materiality analysis.²⁷ The Group acquired Aliplast in 2017 and further seeks to expand recycling capacity in its existing plants while looking for mergers and acquisition opportunities to further boost capacity and possibly take its recycling operations beyond Italian borders. In 2020, the Group published its second reporting on the New Plastics Economy Global Commitment and at the national level, Hera is a member of ICESP (Italian Circular Economy Stakeholder Platform).²⁸ Overall, Sustainalytics considers that the targets set, and progress made towards their achievement, along with the strategic alignment with national targets and participation in multi-stakeholder initiatives, to be indicative of strong sustainability performance.

Based on the above, Sustainalytics is of the view that the Sustainability-Linked Financing instruments will further support Hera in advancing the Group's sustainability strategy.

Hera's Environmental and Social Risk Management

Overall, Sustainalytics notes that the ESG risk management practices of Hera Group are considered strong. Sustainalytics also recognizes that while Hera's defined targets are impactful, it is acknowledged that achieving the SPT could bear environmental and social risks related to health and safety, community relations, waste and effluents, and biodiversity loss.

In the following section Sustainalytics' comments on Hera's ability to mitigate such potential risks:

- The Group has a Code of Ethics which serves as a guide to executing all Hera's activities.²⁹ This code is monitored by Hera's Ethics and Sustainability Committee who examines Company procedures on social and environmental issues as well as the sustainability report to be submitted to the Board of Directors. In addition, the Group has a separate Code of Ethics which guides the activities of its suppliers from the working conditions to social and environmental policies.³⁰
- At the Board of Directors level, Hera's management of the risks and opportunities linked to climate change are also handled by multiple committees including the Control and Risks Committee and the Risk Committee. Hera has various

²² This assessment has been derived from Sustainalytics' ESG Risk Rating.

²³ Hera Group, "2020 Sustainability Report", (2020), at: https://eng.gruppohera.it/group_eng/sustainability/sustainability-report/sr

²⁴ Hera Group, "2020 Sustainability Report", (2020), at: https://eng.gruppohera.it/group_eng/sustainability/sustainability-report/sr

²⁵ Hera Group, "2020 Sustainability Report: Climate Change Mitigation", (2021), at:

<https://eng.gruppohera.it/documents/1514726/4185711/Hera+for+climate+%28updated+on+April+22%2C+2021+after+targets+validation+by+SBTi%29.pdf/5f06d1b3-d820-a183-c8a9-1e7c6146a64f?t=1620293119353>

²⁶ Hera Group, "2020 Sustainability Report", (2020), at: https://eng.gruppohera.it/group_eng/sustainability/sustainability-report/sr

²⁷ Hera Group, "2020 Sustainability Report", (2020), at: https://eng.gruppohera.it/group_eng/sustainability/sustainability-report/sr

²⁸ Hera Group, "2020 Sustainability Report", (2020), at: https://eng.gruppohera.it/group_eng/sustainability/sustainability-report/sr

²⁹ Hera Group, "Code of Ethics", at: <https://eng.gruppohera.it/documents/1514726/0/Code+of+Ethics.pdf/890cbae2-1d4f-ec19-6a59-55bf436f3306?t=1594026267182>

³⁰ Hera Group, "Code of Ethics Relations With Suppliers", at:

<https://eng.gruppohera.it/documents/1514726/4185711/Code+of+Ethics+relations+with+suppliers.pdf/fa97c798-4cb4-c1f3-d28a-4899355adadd?t=1594968170715>

certifications in place that indicate the Group's commitment to the potential risks identified above, including: ISO 9001 – Quality Management System; ISO 50001 – Energy Management; ISO 14001 – Environmental Management System; and ISO 45001 - Occupational Health and Safety.³¹

- Hera adopts a group-level model for assessing of risks and defining prevention strategies in order to ensure that it follows an integrated approach. Hera's health and safety risks assessments are carried out in accordance with the requirements of the Italian Legislative Decree No. 81/2008 Consolidated Law on Occupational Safety and specifically articles 17 (non-delegable obligations of the employer), 18 (employer's and managers' obligations), 28 (risk assessment purpose) and 29 (procedures for carrying out risk assessment).³²
- In order to manage community relations, Hera has in place 'Stakeholder Engagement Guidelines' which identifies its various stakeholder groups and the specific internal functions responsible for engagement. The Group's Investor Relations Department oversees shareholders and financial community engagement, the Corporate Services Department is in charge of suppliers' engagement, and the Strategy, Regulations and Local Authorities Department is in charge of local community and authorities' engagement. The Group actively reports on stakeholder engagement activities as well as partnerships with local communities through a dedicated annual thematic report, 'Building the future together'.
- The Group has a policy in place for management of its own and third party waste which targets minimizing waste at the source as well as material and energy recovery.³³ For hazardous waste, Hera has developed dedicated drop-off points or collection sites for the members of served communities to limit environmental impact. In addition, hazardous waste treatment facilities of its third parties are periodically monitored via Environmental Impact Assessment and audits.
- Hera aims to proactively manage the natural environment in areas where it operates through implementation of an Environmental Management system. The Group articulates its commitment to biodiversity via a dedicated report where Hera commits to not developing projects in protected and world heritage areas.³⁴ In addition, project sites are subject to EIA procedures and strict auditing compliance and also published in the Group's sustainability report.

Overall, Sustainalytics considers that Hera has strong management programs and policies to mitigate sustainability risks that are material to the Group's sub-industry.

Section 3: Impact of the SPTs Chosen

Impact of GHG emissions reduction for multi-utility providers

Multi-utility providers play a pivotal role in the supply of essential services to the public such as energy services, waste management, water distribution and wastewater, district heating, and public lighting. However, each service offered has a significant carbon footprint and governments, regulators, investors, and citizens are making increasing demands on the multi-utility sector to decarbonize the value chain.

There are urgent and high-priority actions that would meaningfully reduce greenhouse gas emissions from multi-utility providers to achieve the Paris Agreement targets such as increasing the share of renewable energy in the energy mix, ending the production and use of single-use plastics, fostering the transition to zero-waste communities, implementing extended producer responsibility as a critical component of circular economies, and adopting and enforcing ambitious targets to reduce greenhouse gas emissions from all sectors. Sustainalytics notes Hera's effort and commitment in the reduction of greenhouse gas emissions from all its service offerings through adopting energy efficiency programs from increased use of renewable energy in the energy mix, and enhanced waste management from increasing recycled waste, as positively contributing towards meeting the Paris Agreement targets to keep temperature rise below 1.5°C.

³¹ Hera Group, "Hera Group Engagement with Biodiversity", at:

https://eng.gruppohera.it/documents/1514726/4185888/HERA_Biodiversity_Commitment.pdf/e3ce8a74-a307-4284-4432-b416b4977782?t=1625240322909

³² Hera Group, "Policy for Quality and Sustainability", at: https://eng.gruppohera.it/group_eng/who-we-are/hera-group-strategy/quality-safety-and-environment/policy-for-quality-and-sustainability

³³ Hera Group, "Hera Group Engagement with Biodiversity", at:

https://eng.gruppohera.it/documents/1514726/4185888/HERA_Biodiversity_Commitment.pdf/e3ce8a74-a307-4284-4432-b416b4977782?t=1625240322909

³⁴ Hera Group, "Hera Group Engagement with Biodiversity", at:

https://eng.gruppohera.it/documents/1514726/4185888/HERA_Biodiversity_Commitment.pdf/e3ce8a74-a307-4284-4432-b416b4977782?t=1625240322909

Impact of plastics recycling

Nearly every piece of plastic begins as a fossil fuel, and greenhouse gases are emitted at each stage of the plastic lifecycle: i) fossil fuel extraction and transport; ii) plastic refining and manufacture; and iii) end of life impact. Globally, the use of plastic in products keeps increasing because of its low price and its adaptability, which make it effective in a variety of applications such as packaging, construction, automotive and electronics products. This has fueled global demand for plastics production, growing exponentially from 1.5 million tonnes in 1950 to 359 million tonnes in 2018,³⁵ and with it the amount of plastic waste and the environmental hazards caused by hazardous substances present in plastic products grew as well. The long lifespans for plastics pose the greatest threat to oceans and landscapes through unmanaged plastic waste, whose lifespan can range from 20 years for plastic bags, 200 years for plastic straws and 450 years plastic water bottles,³⁶ making the need to build circularity in the plastics lifecycle urgent.

In Europe, there is credible action being taken towards boosting plastics recycling and a report from the European Parliament states that about one-third, 32.5%, of plastic waste in Europe is recycled while 24.9% is landfilled and 42.6% is used for energy recovery.³⁷ Many European countries have set national recycling targets while at a regional level the goal is 100% re-use, recycling and recovery of all plastics packaging in the EU-28, Norway and Switzerland by 2040.³⁸ Sustainalytics notes the importance of Hera’s targets in plastics recycling and believes any capital allocations towards this objective will contribute towards meeting these national and regional plastics recycling goals.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability linked bonds advances the following SDG goals and targets:

KPI	SDG	SDG Target
Absolute greenhouse gas (GHG) emissions (in t CO2e)	7. Affordable and clean energy.	7.2. By 2030, increase substantially the share of renewable energy in the global energy mix.
	9. Industry, innovation and infrastructure.	9.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.
Recycled plastics by Hera Group (in Ktons)	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Conclusion

Hera intends to issue Sustainability-Linked instruments which will tie the coupon rate or margin to the achievements of the following SPTs:

- GHG emissions reduction by 15.4% by 2024 and 36.7% by 2030, from a 2019 baseline.
- Recycle 100.0 kton/year of plastic by 2025 and 148.9kton/year by 2030, equivalent to +68% and +150% increase from a 2017 baseline respectively.

³⁵ European Parliament, "Plastic waste and recycling in the EU: facts and figures, (2018)", at: <https://www.europarl.europa.eu/news/en/headlines/society/20181212STO21610/plastic-waste-and-recycling-in-the-eu-facts-and-figures>
³⁶ WWF Australia, "The lifecycle of plastics, (2021)", at: <https://www.wwf.org.au/news/blogs/the-lifecycle-of-plastics#gs.84w6xf>
³⁷ European Parliament, "Plastics waste and recycling in Europe", at: <https://www.europarl.europa.eu/news/en/headlines/society/20181212STO21610/plastic-waste-and-recycling-in-the-eu-facts-and-figures>
³⁸ Plastics Europe, "PlasticsEurope publishes its Voluntary Commitment to increase circularity and resource efficiency", at: <https://www.plasticseurope.org/en/newsroom/press-releases/archive-press-releases-2018/plastics-2030-voluntary-commitment>

Sustainalytics considers KPI 1 as very strong and KPI 2 as strong given that both KPIs speak to material issues the Hera has exposure to, while following an externally recognized definition. Sustainalytics further considers KPI 1 to benchmarkable against external contextual benchmarks. Both SPTs are considered ambitious, with SPT 1 offering an improvement on historical performance while aligned with peer's performance and science-based targets, and SPT 2 representing a significant improvement on historical performance.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers Hera's Sustainability-Linked Finance Framework to be in alignment with the five core components of the SLBP and the SLLP and concludes that the prospective achievement of the SPTs to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Hera Group

Sustainability-Linked Bond ISIN:

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3): Sustainalytics

Completion date of second party opinion pre-issuance: October 4, 2021

Independent External Review provider's name for post-issuance verification (section 4):

Completion date of post issuance verification:

At the launch of the bond, the structure is:

- a step-up structure a variable redemption structure

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review:

- assessed all the following elements (complete review) only some of them (partial review):
- | | |
|--|--|
| <input checked="" type="checkbox"/> Selection of Key Performance Indicators (KPIs) | <input checked="" type="checkbox"/> Bond characteristics (acknowledgment of) |
| <input checked="" type="checkbox"/> Calibration of Sustainability Performance Targets (SPTs) | <input checked="" type="checkbox"/> Reporting |
| <input checked="" type="checkbox"/> Verification | |
- and confirmed their alignment with the SLBP.

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

Sustainalytics overall considers KPI 1, absolute greenhouse gas (GHG) emissions to be very strong and KPI 2, recycled plastics, to be strong given that both KPIs speak to material environmental issues for Hera Group, are direct measures of performance on material environmental issues, follow a clear and consistent methodology with an externally recognized definition. Further, KPI 1 has a large scope of applicability in relation to the Group’s total emissions and can also be benchmarked against external decarbonization benchmarks.

List of selected KPIs:

- Absolute greenhouse gas (GHG) emissions reduction for Scopes 1 + 2 + 3 (from the sale of electricity and the downstream sale of natural gas) (in t CO2e)
- Recycled plastics by Hera Group (in Ktons)

Definition, Scope, and parameters

- | | |
|--|---|
| <input checked="" type="checkbox"/> Clear definition of each selected KPIs | <input checked="" type="checkbox"/> Clear calculation methodology |
| <input type="checkbox"/> Other (please specify): | |

Relevance, robustness, and reliability of the selected KPIs

- | | |
|--|--|
| <input checked="" type="checkbox"/> Credentials that the selected KPIs are relevant, core and material to the issuer’s sustainability and business strategy. | <input checked="" type="checkbox"/> Evidence that the KPIs are externally verifiable |
| <input checked="" type="checkbox"/> Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis | <input checked="" type="checkbox"/> Evidence that the KPIs can be benchmarked |
| <input type="checkbox"/> Other (please specify): | |

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Sustainalytics considers both SPTs to align with Hera Group’s sustainability strategy and considers Hera’s SPT 1 to be ambitious given that it is aligned with science based decarbonization trajectories and aligned with market best practice from peer assessment. Sustainalytics also notes that while representing continued improvement of the decarbonization effort, the rate of emissions reduction during the SPT period is lower than historically achieved rates of emissions reduction and thus assess the SPT as ambitious. Sustainalytics considers Hera’s SPT 2 to be ambitious given that it represents a significant improvement to past performance, while noting the difficulty to conduct a reasonable peer assessment or to benchmark future performance against science trajectories.

Rationale and level of ambition

- | | |
|--|---|
| <input checked="" type="checkbox"/> Evidence that the SPTs represent a material improvement | <input checked="" type="checkbox"/> Credentials on the relevance and reliability of selected benchmarks and baselines |
| <input checked="" type="checkbox"/> Evidence that SPTs are consistent with the issuer’s sustainability and business strategy | <input checked="" type="checkbox"/> Credentials that the SPTs are determined on a predefined timeline |

Other (please specify):

Benchmarking approach

- | | |
|--|---|
| <input checked="" type="checkbox"/> Issuer own performance | <input checked="" type="checkbox"/> Issuer’s peers |
| <input checked="" type="checkbox"/> reference to the science | <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure

- | | |
|---|--|
| <input checked="" type="checkbox"/> potential recalculations or adjustments description | <input checked="" type="checkbox"/> issuer’s strategy to achieve description |
| <input checked="" type="checkbox"/> identification of key factors that may affect the achievement of the SPTs | <input type="checkbox"/> Other (please specify): |

3-3 BOND CHARACTERISTICS

Hera will tie the financial characteristics of the bond/loan to the achievement of the SPTs in the form of coupon rate step up or margin adjustment. Both KPIs will be assessed independent of each other, and Hera may issue an instrument using one or both KPIs

Financial impact:

- variation of the coupon
- ...
- Other (*please specify*):

Structural characteristic:

- ...
- ...
- Other (*please specify*):

3-4 REPORTING

Reporting will be annual and available on Hera’s website

Information reported:

- | | |
|--|---|
| <input checked="" type="checkbox"/> performance of the selected KPIs | <input checked="" type="checkbox"/> verification assurance report |
| <input checked="" type="checkbox"/> level of ambition of the SPTs | <input type="checkbox"/> Other (<i>please specify</i>): |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
|--|--------------------------------------|

Other (please specify):

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other (please specify):
- Reporting reviewed *(if yes, please specify which parts of the reporting are subject to external review):*

Where appropriate, please specify name and date of publication in the “useful links” section.

Level of Assurance on Reporting

- limited assurance
- reasonable assurance
- Other *(please specify):*

USEFUL LINKS *(e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)*

Section 4. Post-issuance verification

An external verifier shall conduct the verification on an annual basis to a limited assurance standard

Information reported:

- limited assurance
- reasonable assurance
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Material change:

- Perimeter
- KPI methodology
- SPTs calibration

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For more information, visit www.sustainalytics.com

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