

GREEN FINANCING FRAMEWORK

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HERA GREEN FINANCING FRAMEWORK

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1. INTRODUCTION

The Hera Group (“Hera”, the “Group”) is one of the major multi-utility companies listed in Italy: it offers the sustainable management of several public services (Energy Services, Waste Management, Water Distribution and Waste Water, District Heating, Public Lighting, etc.) to over 4.2 million citizens in 312 municipalities spread over five Italian regions (Emilia-Romagna, Veneto, Friuli-Venezia Giulia, Marche and Tuscany).

Hera’s goal is to be 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 that is able to innovate and build strong links with the surrounding areas in which it operates while preserving the local environment.

Hera strongly believes in sustainable development since it has always been part of its corporate strategy. In fact, the environment is not only a part of Hera’s work, but also and above all a social heritage: a resource to protect and safeguard, to ensure a future for the community.

In addition to offering quality energy, water and waste management services, Hera’s mission is to create “Shared Value”, i.e. economic value for the company and at the same time for the community and the areas served, with public priorities as guiding principles (please see the following paragraph for further details).

1.1. SUSTAINABILITY STRATEGY

The Group's mission shows a strong inclination towards sustainability, which is an indispensable part of the company's strategies:

in 2025, 55% of EBITDA is expected to be based on "shared value", i.e. involving projects and activities that respond to the goals on the UN Global Agenda 2030 with investments for shared value projects corresponding to roughly 66% of overall 2021-2025 investments (3.8bn €).

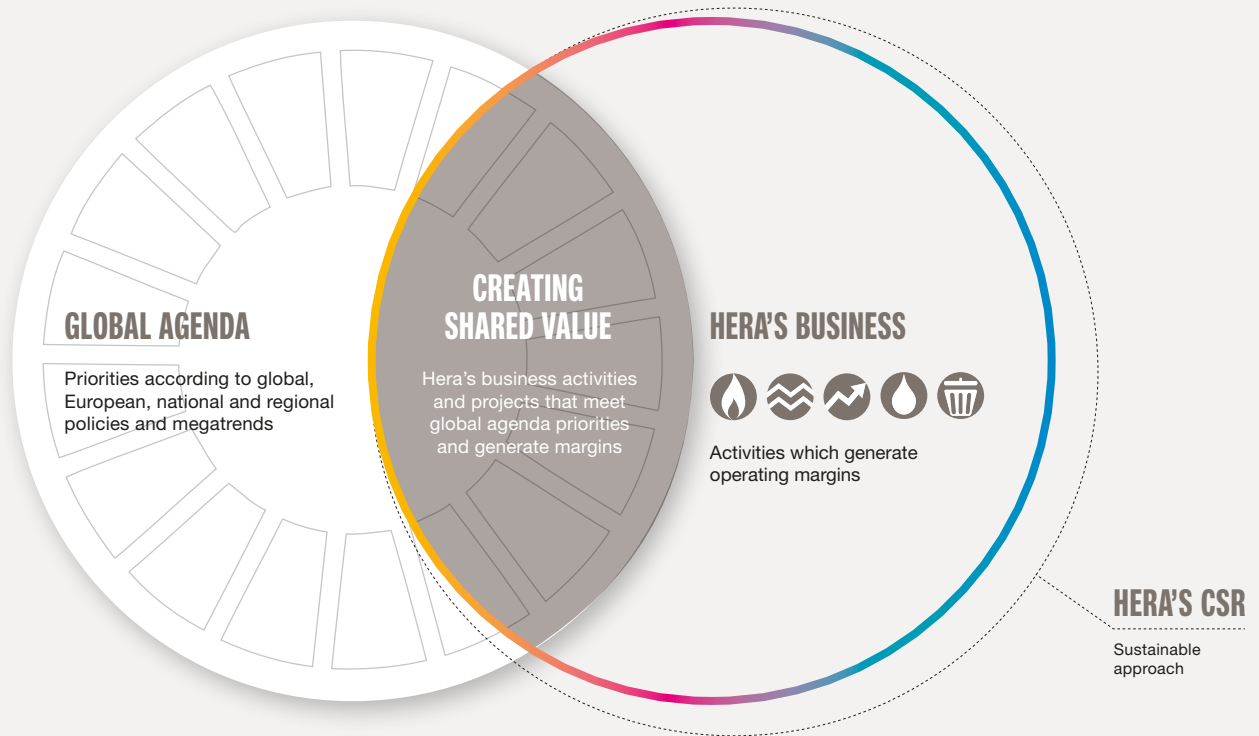
The Group's strategy is set out in Hera's Business Plan for the coming 4 years; the most re-

cent 2021-2025 Business Plan projects growing economic results, achieved by respecting economic-financial, environmental, and social sustainability. Our Creating Shared Value (CSV) approach is a beacon of business operations. It also guides corporate strategy and the drive for innovation to address the urgencies outlined in the UN Global Agenda 2030.

This approach enables us to achieve positive effects in terms of competitiveness, reputation and involvement of our stakeholders.



THE RELATIONSHIP BETWEEN CSR AND CSV ACCORDING TO HERA



Creating Shared Value is the new perspective that integrates Hera's strategic approach to corporate social responsibility (CSR) and sustainability. It stems from a path started in 2016 and is Hera's way of generating economic value for the company and, at the same time, producing a positive impact on society and the environment, considering global priorities. Since 2016, the Hera Group's approach has therefore embraced activities and projects that:

- improve its environmental and social sustainability performances mainly related to the businesses it manages (also, but not exclusively, in relation to the law and sector regulations) (CSR); and
- generate operating margins that are consistent with the "Global Agenda" priorities (CSV).

Every three years, the CSV framework is reviewed and verified according to the new and emerging global challenges; the last revision, which took place in 2020, brought the framework to its current state.

The CSV framework is made up of three drivers:

- Energy - Pursuing carbon neutrality,
- Environment - Regenerating resources and closing the loop,
- Local area (and Business) - Enabling resilience and innovating.

The three drivers of change and the relevant nine impact areas are linked to the 11 UN

Global Agenda 2030 goals to which the Group contributes, seven of which are identified as priorities. The priority Sustainable Development Goals (SDGs) for the Hera Group are goals that are more directly related to its business activities and on which the Group has a direct impact.

Goal 17 is one of the priority SDGs, since partnerships are essential to achieve the important sustainability goals set.

Hera's priority SDGs are the following: goal 6, clean water and sanitation; goal 7, affordable and clean energy; goal 9, industry, innovation and infrastructure; goal 11, sustainable cities and communities; goal 12, responsible consumption and production; goal 13, climate action; goal 17, partnerships for the goals. Details of the other important SDGs are as follows: goal 4, quality education; goal 5, gender equality; goal 8, decent work and economic growth; goal 14, life below water.

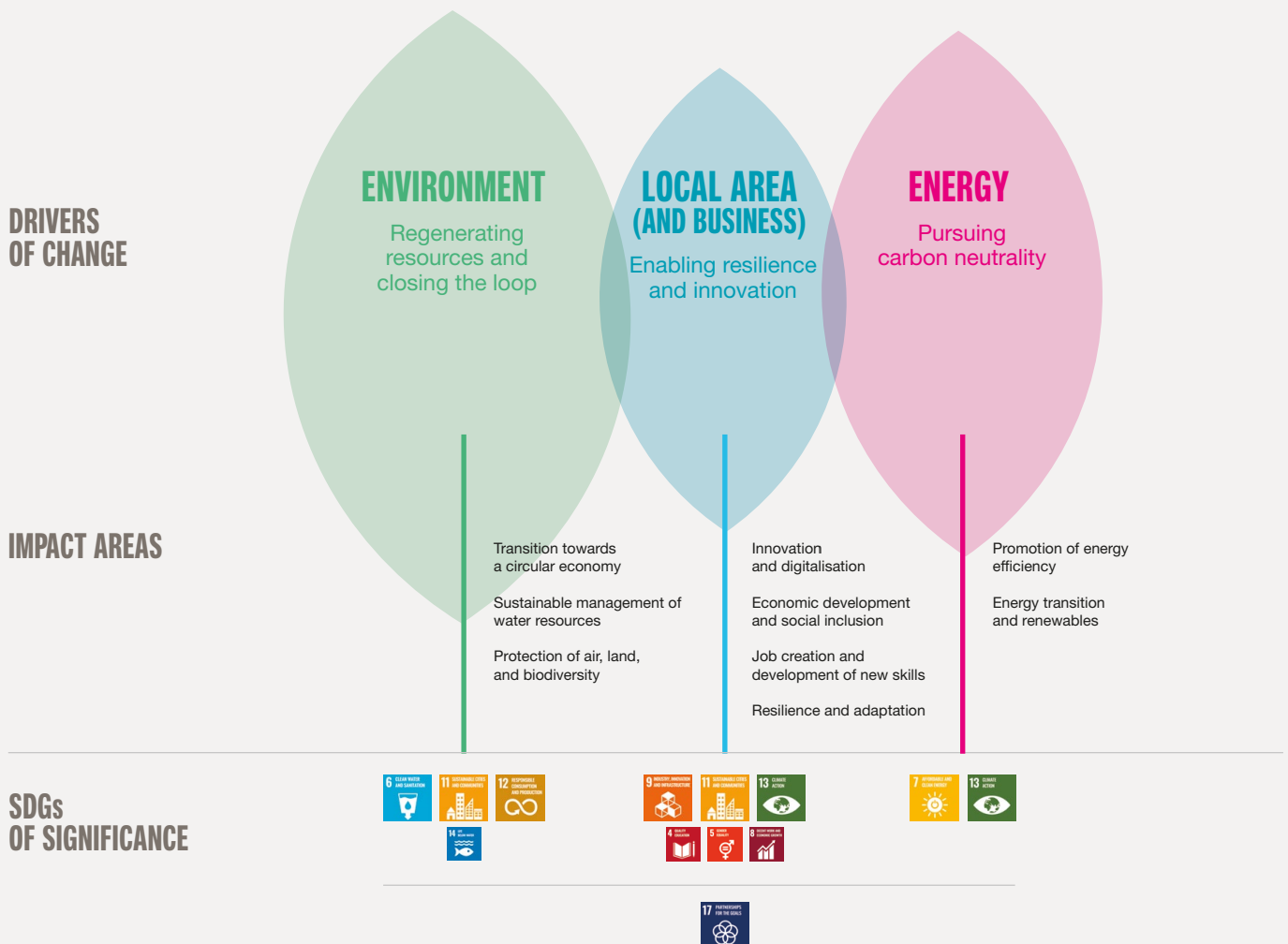
Starting from 2019, the measurement of the "shared value" EBITDA is also verified by the independent auditors that verify the Sustainability Report. The calculation methodology includes specific criteria that analyse the businesses we operate, consistently with the drivers we have identified, and the impact areas to create shared value.

Creating Shared Value is part of the Articles of Association

Another important step concerns the approval by the latest Shareholders Meeting of the introduction of the concept of “Purpose” with a focus on creating shared value into the Articles of Association of Hera, one of the first companies in Italy to do so. Indeed, an additional paragraph was included in Article 3 to explain the Group’s corporate purpose, i.e. the goals it aims to achieve in carrying out its business activities. This emphasises Hera’s commitment to sustainability, which has characterized it since its incorporation. The new paragraph reads as follows: “The Company acts on a business model aimed at creating long-term value for its shareholders, by creating value shared with its

stakeholders. To this purpose, the Company organizes and carries out business activities whose goals include promoting social equity and contributing to achieving carbon neutrality, regenerating resources and increasing the resilience of the service system managed, benefiting customers, local ecosystems and future generations”. The Articles of Association thus updated – in line with Borsa Italiana’s new Corporate Governance Code and best practices at European level – allow the Hera Group to further strengthen its commitment to the energy transition and circular economy, through innovation and digitalisation, as well as the promotion of social equity.

THE AREAS FOR CREATION OF SHARED VALUE FOR HERA: THE DRIVERS OF CHANGE, THE IMPACT AREAS AND THE UN GLOBAL AGENDA 2030 GOALS OF INTEREST TO HERA



Hera's commitment to sustainability in national and international networks

Hera's commitment to sustainability has been shaped over the past years by joining leading national and international networks.

The Hera Group was the second Italian company to become a member of the **Ellen MacArthur Foundation**, a world reference in the circular economy, which aims to promote awareness of aspects related to this issue, exchange experiences, initiate projects in partnerships and cooperate in the field of research and development. 2021 was the third consecutive year of reporting on the **New Plastics Economy Global Commitment**, an initiative set up by the Foundation to make the plastic sector more circular and joined by the Group in 2018 with challenging goals. Furthermore, the Group applied to one of its subsidiaries a digital tool developed by the Ellen MacArthur Foundation for measuring the circularity, **Circulytics**.

In 2021 Hera was one of 70 companies that supported the second **Business Call for a UN Treaty on Plastic Pollution** promoted by the World Wide Fund for Nature (WWF) and the Ellen MacArthur Foundation. This call to action is designed to provide a coordinated global re-

sponse in the form of a UN treaty to help governments and businesses tackle plastic pollution.

Hera is also among the promoters of the **Circular Economy Network (CEN)**, 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. Hera is also a member of **ICESP** (Italian Circular Economy Stakeholder Platform), the Italian platform that groups the main national players in the circular economy and **Alliance for the Circular Economy**, which is a network of 18 Italian organisations promoting circularity in business strategies.

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 currently joined by 476 businesses and non-businesses. Also, within the Global Compact, Hera joined the **CEO Water Mandate**, the United Nations Global Compact initiative promoted to relaunch commitment by companies in the sustainable management of water resources.



Hera's new five-year strategy

The Group updated its five-year strategy in January 2022 with Hera's newest and more ambitious commitments, accelerating its contribution to the goals of the UN Global Agenda 2030, which for years has guided Hera's commitment towards sustainable development.

Hera's Business Plan revolves around three strategic focal points – the **environment**, **socio-economic factors** and **innovation** – according to which Hera's projects will be shaped, in all business areas, with the aim of uniting the Group's development with that of the context in which it operates, creating a "win-win" situation and increasing shared value. In particular, the

environmental focal points include promoting a circular economy by recovering, reusing and regenerating resources. More generally, this area also includes all actions aimed at countering climate change – an area in which Hera has been a leader for some time.

The new Business plan points again towards strong sustainable growth. Attention towards sustainability continues to be a fundamental element in the Group's strategy, in line with the goals set out in the UN Global Agenda 2030 that can be applied to its activities (covering 11 of the UN's 17 SDGs) which have become part of the basic strategic objective and the **"Purpose"** of the Group.

STRATEGIC PRIORITIES BY DIMENSION AND BY BUSINESS SECTOR

BUSINESS SECTOR
 NETWORKS ENERGY WASTE OTHER SERVICES

DIMENSION OF ANALYSIS

	NETWORKS	ENERGY	WASTE	OTHER SERVICES
ENVIRONMENTAL	<ul style="list-style-type: none"> Saving and reuse of natural resources Reduction of methane losses Physical resilience of infrastructures 	<ul style="list-style-type: none"> CO₂ reduction (direct and compensation) Energy transition Resilience of the supply chain (wholesale) 	<ul style="list-style-type: none"> Maximization of recovery and recycling Increasingly circular supply chains Physical and supply chain resilience 	<ul style="list-style-type: none"> Energy saving Circularity of materials and of procurement Cybersecurity
SOCIO-ECONOMIC	<ul style="list-style-type: none"> Quality of services provided System and user security Renewal of gas and water concessions 	<ul style="list-style-type: none"> Incentives for energy efficiency measures Sustainable behaviours Tenders for last resort services 	<ul style="list-style-type: none"> Sustainable behaviour of citizens Promotion of reuse and sharing Renewal of urban waste concessions 	<ul style="list-style-type: none"> Sustainable models of urban development Health and safety of served areas Multi-business solutions for customers
INNOVATION	<ul style="list-style-type: none"> Smart tools for leak detection & measurement Data analytics for maintenance and efficiency Digital skills 	<ul style="list-style-type: none"> Digital channels for customers Model decentralised business models Advanced risk management skills 	<ul style="list-style-type: none"> Engagement and digital communication Data analytics for maintenance and efficiency Digital skills 	<ul style="list-style-type: none"> Smarter and more inter-connected cities Data analytics for maintenance and efficiency Further digital skills

Long-term objectives by 2030

To even more concretely orient Hera's long-term objectives, and better define its contribution to implementing European policies and the UN's recommendations, the Group has extended its perspective to 2030. One of the most significant challenges involves pursuing carbon neutrality. Hera aims at being the Italian multi-utility with the most ambitious goals by 2030, being committed to: reduce absolute Scope 1&2 GHG emissions by 28% (also by purchasing 100% renewable energy by 2023); reduce Scope 3 GHG emissions from the use of sold natural gas by 30%; reduce Scope 3 GHG emissions for all sold electricity by 50% per MWh. All targets have been validated by SBTi as aligned with a well-below 2° C scenario.

With an eye to 2030, the Group will also continue to make efforts towards circular economy, with a 150% increase in the amount of plastic recycled by Aliplast (compared to 2017), and over 80% rise in the amount of packaging recycled. Furthermore, the Group is giving greater attention to the contribution that may come from hydrogen, with reference on the one hand to the evolution and preparation of its own assets, beginning with gas distribution networks, and on the other hand to the new business opportunities that may be pursued thanks to its multi-utility platform; these prospects for development will also be pursued in partnerships with a number of important industrial actors.



2. GREEN FINANCING FRAMEWORK

Rationale for the establishment of a Green Financing Framework

Through this Green Financing Framework (the “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 and the Paris Agreement. 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 the energy transition.

This Framework has been drafted in alignment with the Green Bond Principles administered by the International Capital Market Association (the “ICMA”)¹ and the Green Loan Principles administered by the Loan Market Association (the “LMA”)². Furthermore, the present Framework has been drafted in alignment with the Regulation that establishes the EU Taxonomy (EU 2020/852) and the EU Taxonomy Delegated Acts on climate change mitigation and adaptation (EU 2021/2139)³. Hera will include further EU Taxonomy alignment assessment as soon as the relevant acts on the other four EU Taxonomy objectives (Sustainable use and protection of water and marine resources, Transition to a circular economy, Pollution prevention and control and Protection and restoration of biodiversity

and ecosystems) come into force at national or European level.

Hera’s valuation of each project determines the alignment with relevant criteria of the EU Taxonomy. The investments listed in this Framework are compliant with the Technical Screening Criteria for climate change mitigation, respect the “Do No Significant Harm” criteria (DNSH criteria) to the other environmental objectives and meet the minimum social safeguards. A full assessment of the Framework’s alignment with the EU Taxonomy is included in the Second Party Opinion provided by Sustainalytics, and available on Hera’s website.

This Framework is designed as an umbrella platform allowing the Hera Group to assume various types of green financing instruments:

1. Green Bonds (including public and private format debt),
2. Green Loans (including but not limited to Term Loans, Project Finance Loans, Asset Finance Loans and Revolving Credit Facilities (RCF)), together referred to as the “Green Financing Instruments”.

All Green Financing Instruments shall comply with the provisions set out in this Framework.

¹ Green Bond Principles June 2021: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-100621.pdf>
² Green Loan Principles, February 2021: <https://www.lsta.org/content/green-loan-principles/>
³ https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en

2.1. USE OF PROCEEDS

An amount equal to the net proceeds from the issuance/incurrence of Green Financing Instruments will be used by Hera exclusively to finance and/or refinance, in whole or in part, new and existing green projects carried out by Hera directly and/or indirectly through Hera's subsidiaries (collectively "Eligible Green Projects").

Hera considers as Eligible Green Projects those investments and expenditures in projects and assets that comply with the requirements of Regulation (EU) 2020/852 and eligibility criteria for climate change mitigation in accordance with Annex I of the EU Taxonomy Delegated Acts (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852⁴. For the avoidance of doubts, Hera has not included the additional document C/2022/0631 in draft "Commission

Delegated Regulation (EU) amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities".

Hera considers aligned to climate change mitigation principles those activities that respond to Article 3 of the Regulation (EU) 2020/852. In particular, the above mentioned Article 3 requires activities to contribute substantially to one environmental objective (climate mitigation in this case) through the compliance of the Technical Screening Criteria, do not significantly harm any of the other five environmental objectives, and comply with the minimum safeguards, in order to qualify as environmentally sustainable activities.

⁴ Annex I of the delegated acts (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the Technical Screening Criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation [...] and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.



Taking as a point of reference the activity “5.1 Construction, extension and operation of water collection, treatment and supply systems”, referred to under Annex I of the EU Taxonomy Delegated Acts (EU) 2021/2139⁵, Hera has analysed the compliance of the activity to the requirements of the regulation as follows:

- Identification of the business units and companies that develop this economic activity. The identified processes or assets belong to:
 - Water management system of Hera
 - Water management system of AcegasApsAmga S.p.A.
 - Water management system of Marche Multiservizi S.p.A.
- The evaluation of Technical Screening Criteria has been individually assessed by asset or process. The Technical Screening Criteria for Substantial contribution to climate change mitigation of the above mentioned activity 5.1 indicates that “*The water supply system complies with one of the following criteria:*
 - (a) *the net average energy consumption for abstraction and treatment equals to or is lower than 0,5 kWh per cubic meter produced water supply. Net energy consumption may take into account measures decreasing energy consumption, such as source control (pollutant load inputs), and, as appropriate, energy generation (such as hydraulic, solar and wind energy);*
 - (b) *the leakage level is either calculated using the Infrastructure Leakage Index (ILI) (205) rating method and the threshold value equals to or is lower than 1,5, or is calculated using another appropriate method and the threshold value is established in accordance with Article 4 of Directive (EU) 2020/2184 of the European Parliament and of the Council (206). That calculation is to be applied across the extent of water supply (distribution) network where the works are carried out, i.e. at water supply zone level, district metered area(s) (DMAs) or pressure managed area(s) (PMAs).”*
- Both the criteria were individually assessed for each of the water management system,

and it emerged that all the three water companies of Hera Group comply at least with one of the two mitigation Technical Screening Criteria regarding *the average net energy consumption for abstraction and treatment and the leakage level threshold.*


⁵ Please see footnote 4

- The “Do not significant harm” assessment was completed individually by asset. The other environmental objectives considered relevant to this aim are:
 - Climate change adaptation. The activity complies with the criteria set out in Appendix A to the Annex of the Delegated Act.
 - Sustainable use and protection of water and marine resources. The activity complies with the criteria set out in Appendix B to the Annex of the Delegated Act.
 - Protection and restoration of biodiversity and ecosystems. The activity complies with the criteria set out in Appendix D to the Annex of the Delegated Act.
- The generic criteria for DNSH to climate change adaptation (Appendix A) is respected, as all three processes have been through a climate risks analysis process according to the ERM system of the Group.
- The generic criteria for DNSH to sustainable use and protection of water and marine resources (appendix B) is respected, as all three processes have undergone relevant evaluations by the Public Administration for the granting of the contract.
- The generic criteria for DNSH to protection and restoration of biodiversity and ecosystems (appendix D) is respected, as all three processes have undergone an Environmental Impact Assessment or equivalent.
- Hera complies with European and Italian work-related regulations. Minimum safeguards are considered respected based on the alignment with stricter regulations.
- It has been concluded that Capex, Opex and turnover, as defined by the Regulation, can be considered as aligned to climate change mitigation taxonomy requirements.

All Hera Group business sector and subsidiaries follow the same EU Taxonomy methodologies and procedures that are coordinated at group level by CFO and Shared value and Sustainability Director.

ALL ELIGIBLE GREEN PROJECTS ARE EVALUATED FOR ELIGIBILITY AS OUTLINED IN THE PREVIOUS EXAMPLE

⁶ Circular Economy under GBP as “Circular economy adapted products, production technologies and processes and/or certified eco-efficient products” and under GLP as “Eco-efficient and/or circular economy adapted products, production technologies and processes”

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	  

Eligible Green Projects may include new, ongoing or existing projects funded no more than 24 months before the issuance/assumption 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 merger and acquisitions of pure player companies specialized⁷ in any of the above eligible categories. Hera will include M&As only if assets, plants or economic activities (described above) are in line with the EU Taxonomy.

⁷ Pure player companies are defined as companies which derive 90% or more of their revenues from activities falling in any of the above eligible categories



2.2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Hera has an internal procedure for the management of a Green Financing Instruments process and the related projects.

Each year, until the full allocation of the Green Financing Instruments proceeds, the Group CFO, the Finance Department in collaboration with the Shared value and Sustainability Director review and validate the pool of the Eligible Green Projects taking into account the Taxonomy-aligned activities of Hera Group.

Hera's procedure entails also the involvement of the Ethics and Sustainability Committee. The Ethics and Sustainability Committee is composed of four members:

- › at least one independent board member of Hera Spa, the Committee Chairman and a member;
- › the Shared value and Sustainability Director; and
- › at least one external expert with regard to Corporate Social Responsibility.

More in detail, the annual reporting of invest-

ments 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.

The Eligible Green Projects are evaluated and selected following a detailed procedure. In particular, Eligible Green Projects:

- a) should comply with the eligibility criteria described above, especially the Technical Screening Criteria set in the Taxonomy Regulation;
- b) are expected to adhere to Hera's internal policies, procedures and external standards; for instance Hera has an Enterprise Risk Management policy and anti-bribery standards that each investment must comply with;
- c) must respect the do no significant harm (DNSH) principle and
- d) must comply with Minimum safeguards criteria.

Hera ERM policy

Hera Group has adopted an approach to risk management based on three levels of defense, where the risk activity is organized in risk analysis and control, assigned to risk specialist teams at corporate level for each relevant risk category (environmental aspects, health and safety, physical security, procurement and vendor rating,..), risk management, assigned to risk owners inside business units, both under the supervision of the Risk Committee, and finally adequacy and effectiveness verification of the overall risk management process under the responsibility of Internal Audit.

In order to ensure an efficient and effective risk management process, Hera has adopted the ERM approach to guarantee top management and Board of Directors with a homogeneous view of consolidated risk exposure, methodological coherence and the information needed to define the risk appetite related to strategic business objectives. In this respect, a fundamental role is played by the risk management framework, deployed according to the Risk Model, i.e. the risk taxonomy of the group with strategic dimensions assigned to specific risk typologies; group risk propensity, coherent with risk management strategy and group objectives; and finally proper risk management activities.

As far as environmental and social risks are concerned, those risks also are subject to the same process and approach that shapes the identification and assessment of other group risks. For them, identification and measurement are performed through specific analyses by the risk specialist teams as de-

scribed before, then consolidated in an ERM analysis and then used by the risk owners to plan optimal mitigation measures put in place by themselves or by the action owners.

Hera performs on a regular basis a thorough analysis about vulnerabilities to environmental aspects and to nat-cat risks for the assets of its businesses, be related to office sites, waste plants, power plants, networks (gas and water pipelines). The aim of the analyses is twofold: identify the potential impact of environmental factors of Hera's activity that could impact the environment and the local communities; identify vulnerabilities of Hera assets to extreme natural events, specifically flooding and earthquakes, assessing the impact of such events and identifying the assets more exposed to consequences for business; allow an optimal recourse to risk mitigation by reducing Hera's environmental footprint and vulnerabilities to environmental factors and, if suitable, hedge residual risks through insurance market. It allows a targeted implementation of specific mitigation/remediation actions, on the basis of additional analyses fine-tuned for a specific asset.

As far as social risks are involved, Hera performs a constant and thorough analysis and control of health and safety conditions for its employees, particularly heightened during the Covid19 pandemic, and has implemented and improved control procedures in order to assure that suppliers and firms involved in Hera's construction sites are fully compliant with all applicable laws, regulations and social and workers' rights.

Minimum Safeguards, Internal procedures and external standards

Hera complies with the Minimum safeguards thanks to the adoption by all Group companies of the Code of Ethics. The new Code has been inspired by the Davos Manifesto of the World Economic Forum and the following acts of the United Nations General Assembly: "The Declaration of Human Rights" adopted in 1948 and the "2030 Agenda for Sustainable Development" adopted in 2015. With reference to the general issue of corporate social responsibility, Hera has also considered the Uni Iso 26000 guideline while, as far as working conditions and workers' rights are concerned, it has referred to the Sa8000 international standard. Finally, Hera has taken into account the formal commitments undertaken during its journey to integrate the principles of corporate social responsibility and sustainability into its operations, including: joining the Global Compact (since 2004), signing the

Charter for Equal Opportunities and Equality at Work (in 2009) and the CEOs Call to Action by CSR Europe "CEO Call for a new Deal for Europe" (in 2019).

In addition, the projects should comply with applicable national, European and international environmental and social standards and regulations, to ensure a stringent management of any potential negative environmental and social impacts.

Hera has set a comprehensive and robust list of corporate sustainability policies in line with the highest external standards, which include:

- SA 8000 for corporate social responsibility
- ISO 14001 for environmental certification
- ISO 50001 for energy efficiency certification
- ISO 9001 for quality certification
- ISO 45001 for occupational safety certification
- ISO 37001 for the prevention of corruption

2.3. MANAGEMENT OF PROCEEDS

The net proceeds from each Green Financing Instrument will be deposited in Hera's general account and an amount equal to such net proceeds will be earmarked for allocation to the Eligible Green Projects. Hera implements certain investments EU Taxonomy compliant to improve and facilitate the transition to greener gas or hydrogen in the distribution business close to the citizens such as smart grid and smart meters (thus excluding gas generation and production).

Hera undertakes to comply with the best market standards of allocation. Hera will make sure that the expenditures meant for both the retrofit of gas transmission and distribution networks and installation and repair of smart gas meters (*falling into Eligible Green Projects referenced under EU economic activities 4.14 and 7.5 in the Section 2.1 Use of Proceeds*) will not exceed 10% of the total proceeds of the Green Financing Instrument. Allocation of an amount equal to the net proceeds to Eligible Green Projects will be monitored and accounted for in Hera's internal tracking system, to ensure that

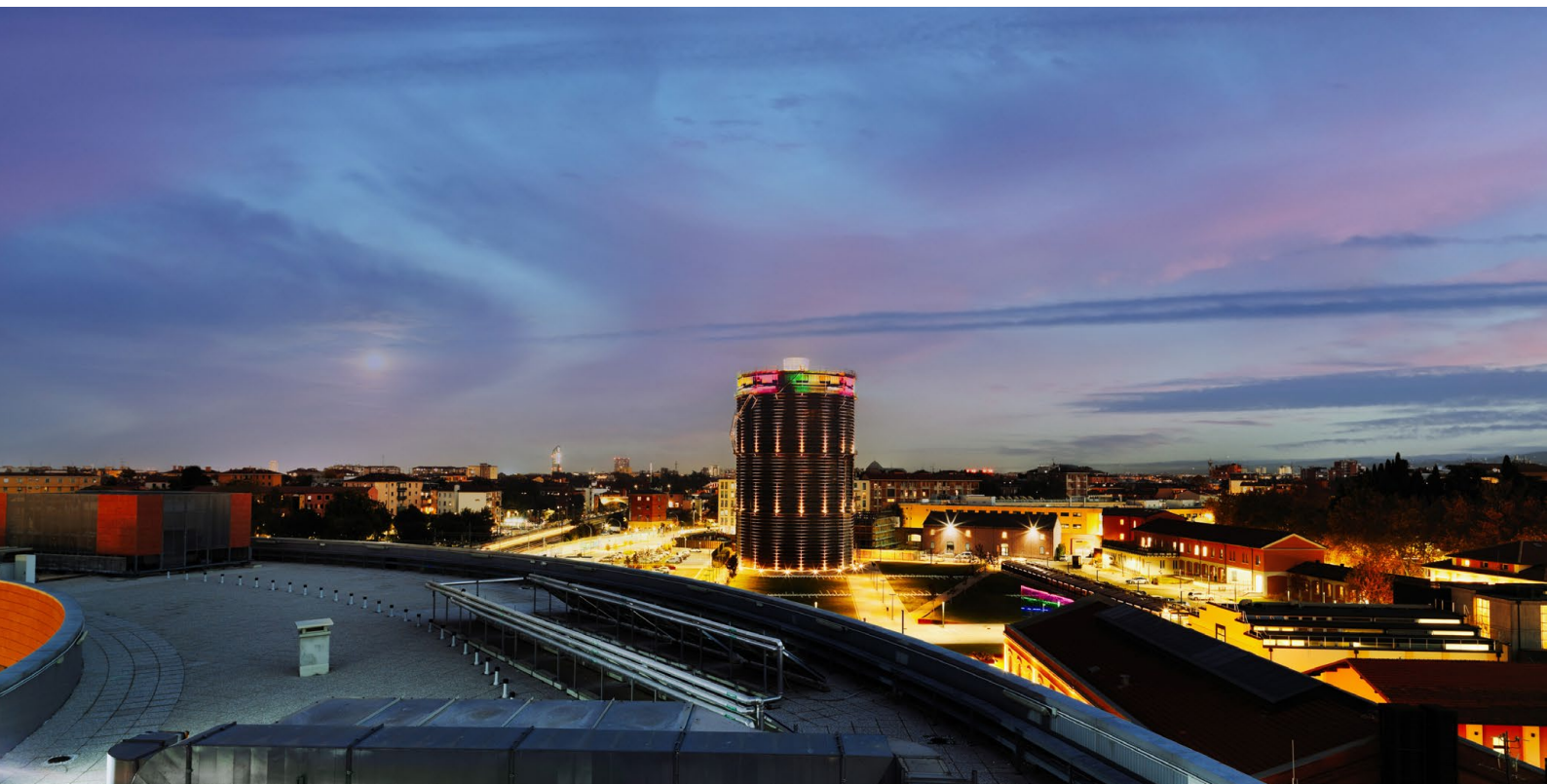
each expense is not funded by more than one Green Financing Instrument and avoid double counting. The funds raised directly by Hera will be conveyed, if necessary, to the bank accounts of the subsidiaries through dedicated intercompany loans or through the management of the centralized treasury of the Hera Group. At the end of each calendar year and so long as the Green Financing Instrument is 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 ensure on a best-efforts basis that the amount of Eligible Green Projects always exceeds, or is at least equal to the sum of the net proceeds of outstanding Green Financing Instruments. Hera will use its best efforts to substitute any Eligible Green Project in the case of divestment or if no longer eligible or in the case of major controversy, as soon as practical once an appropriate substitution option has been identified.

Unallocated Proceeds

Hera will intend, on a best effort basis, to fully allocate an amount equal to the net proceeds raised by any Green Financing Instrument no later than 24 months following issuance. 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.



2.4. REPORTING

Hera will report on the allocation of net proceeds and associated environmental benefits within one year of issuance and annually thereafter, until an amount equal to the net proceeds of each Green Financing Instrument issued has been fully allocated, and as necessary in the event of material development or in case of substitution of Eligible Green Projects.

This allocation and impact report (“Green Bond Report”) will be published in the Group Sustainability report and will be made available on the Group website: Hera Group: your Multiservices (gruppohera.it)

A. Allocation Reporting

The allocation report will include:

- The aggregated amount of Green Financing Instruments issued by type (i.e. Green Bond, Green Loan)
- For each Green Financing Instrument:
 - 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 unallocated proceeds invested in cash or other liquid marketable instruments, if any;
- the proportion of net proceeds used for financing versus refinancing;
- the proportion of net proceeds by project type (capital expenditures, operating expenditures etc);
- the proportion of Eligible Green Projects that are EU Taxonomy aligned.

⁹ ICMA Handbook – Harmonised Framework for impact reporting (June 2021): <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>;

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 Instrument. Hera intends, on a best effort basis, to align the impact reporting with the guidelines from the Harmonised Framework for Impact reporting⁹.



EXAMPLES OF KPIs (REPORTED IN COMPARISON WITH ANTE INVESTMENT SITUATION OR PREVIOUS YEAR), THAT WILL DEPEND ON THE ELIGIBLE PROJECT FINANCED, ARE ILLUSTRATED BELOW.

EXAMPLE OF KPIs FOR REPORTING WHERE APPLICABLE

ELIGIBLE CATEGORY



ENERGY EFFICIENCY AND ENERGY INFRASTRUCTURE

- › Energy saved (toe)
- › GHG emission avoided (tCO₂e)
- › Reduction in CO₂ emissions compared to 2019 with SBTi calculation method (Scope 1+2+3 sale of electricity and gas downstream) (%)
- › Number of events of interruption by client (n)
- › Installed Smart meters (n)
- › Served Citizens/Points of grid distribution (POD, PDR)
- › Biomethane produced by OFMSW (million m³)



CIRCULAR ECONOMY & POLLUTION PREVENTION AND CONTROL

- › Recycled plastic sold (ton)
- › GHG emission avoided (tCO₂e)
- › Separated/Sorted collection of waste (%)
- › Waste sent for the recovery of material (%)
- › Reusable treated waste water (% of total treated waste water)



SUSTAINABLE WATER AND WASTEWATER MANAGEMENT

- › Served citizens (n)
- › Annual volume of wastewater treated (mc)
- › Water fed in the network by source (mc)
- › Reduction rate of internal water consumption compared to 2017 (%)
- › Quality of the waste-water in compliance with regulatory limits (%)
- › Urban areas compliant with law regarding waste-water treatment (%)

3. EXTERNAL REVIEW

Pre-issuance external review

Hera has retained Sustainalytics to review this Framework and provide a “second party opinion” (“**SPO**”) in respect of its alignment with (a) ICMA’s Green Bond Principles 2021 and LMA Green Loan Principles 2021 and (b) the EU Taxonomy. The SPO will be made available on Hera’s website: Hera Group: your Multiservices (gruppohera.it).

Post-issuance external review

On a yearly basis till the full allocation of the net proceeds of the Green Financing Instruments, Hera will publicly disclose the amount, the types, of the green projects allocated within a dedicated section of the Sustainability Report called “Green Bond Report”. An independent external auditor will provide a review to “Limited Assurance” standard of the annual Green Bond Report within the Sustainability Report. The external review will be made available on Hera’s website: Hera Group: your Multiservices (gruppohera.it).





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