

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Financing Asset Pool

Hera

17 June 2019

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Overall Evaluation of the Green Financing Framework

Hera commissioned ISS-oekom to assist with its Green Financing Programme by assessing three core elements to determine the sustainability quality of the Framework:

1. Hera's Green Financing Framework – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBPs).
2. The asset pool – whether the projects aligned with ISS-oekom's issue-specific key performance indicators (KPIs) (See Annex 2).
3. Hera's sustainability performance, according to the ISS-oekom Corporate Rating.

ISS-oekom ASSESSMENT SUMMARY












| SPO SECTION | SUMMARY | EVALUATION ¹ |
|---|---|---|
| Part 1: Performance against the GBPs | The issuer has defined a formal concept for its Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA GBPs. | Positive |
| Part 2: Sustainability quality of the asset pool | <p>The overall sustainability quality of the asset pool in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS-oekom Green Bond KPIs. The KPIs contain a clear description of eligible asset categories which include water infrastructure, energy efficiency and energy infrastructure and circular economy and sustainable waste management.</p> <p>All project categories contribute, in a significant or limited way, to the Sustainable Development Goals.</p> <p>All assets of the asset pool are located in Italy, where legislative frameworks set minimum standards, which reduce environmental and social risks.</p> | Positive |
| Part 3: Issuer sustainability performance | <p>Within the methodology of the ISS-oekom Corporate Rating, the issuer shows a good sustainability performance and with a ranking of 6th out of 43 sector peers, is classified as “Prime” in the ISS-oekom methodology.</p> <p>Hera is a multi-utility company and such generates its revenue from water, waste management, electricity generation and distribution, gas distribution and other services. With the purification of water alongside the provision of clean drinking water and sanitary services, the company responds to the global sustainability challenge of providing access to water. Yet, these activities do not account for the major share of net sales. In addition, Hera’s electricity and heat generation is almost 50% based on natural gas, while the majority share is based on renewable or waste to energy sources.</p> <p>Across all the key ESG challenges faced by the Multi Utility sector, Hera demonstrates above average performance. Furthermore, Hera has taken sound measures to reduce environmental impacts of waste incineration plants and has taken adequate measures to ensure pipeline integrity and safety in the scope of its gas distribution activity. Hera implemented good corporate governance practices and business ethics rules.</p> <p>It is rated 6th out of 43 companies within its sector as of 17.06.2019.</p> | <p>Status: <i>Prime</i></p> <p>Rating: <i>B-</i></p> <p>Prime threshold: <i>B-</i></p> |

Contribution of the Green Bond to the UN SDGs




Based on the assessment of the sustainability quality of the green bond asset pool and using a proprietary methodology, ISS-oekom assessed the contribution of the Hera's green bond to the Sustainable Development Goals defined by the United Nations (UN SDGs). This assessment is displayed on 5-point scale (see Annex 2 for methodology):

| | | | | |
|------------------------------------|--------------------------------|--------------------------|---------------------------------|-------------------------------------|
| Significant Obstruction | Limited Obstruction | No Net Impact | Limited Contribution | Significant Contribution |
|------------------------------------|--------------------------------|--------------------------|---------------------------------|-------------------------------------|

Each of the bond's categories has been assessed for its contribution to, or obstruction of, the SDGs:

| USE OF PROCEEDS CATEGORY | CONTRIBUTION OR OBSTRUCTION | SUSTAINABLE DEVELOPMENT GOALS |
|--|---------------------------------|---|
| WATER INFRASTRUCTURE | | |
| Water infrastructure | Significant contribution |   |
| | Limited contribution |  |
| ENERGY EFFICIENCY AND ENERGY INFRASTRUCTURE | | |
| Smart electricity grids for distributed generation and for climate change adaptation | Limited contribution |   |
| Smart gas grids for distributed generation and for climate change adaptation | Limited contribution |   |
| Smart metering | Limited contribution |   |
| District heating system | Limited contribution |   |

¹ The ISS-oekom's present evaluation will remain valid until any modification of the Green Financing Framework or addition of new assets into the asset pool by the issuer and as long as the issuer's Corporate Rating does not change (last modification on the 25.04.2019). The controversy check of the underlying assets has been conducted on the 07.06.2019.

| USE OF PROCEEDS CATEGORY | CONTRIBUTION OR OBSTRUCTION | SUSTAINABLE DEVELOPMENT GOALS |
|--|-----------------------------|---|
| Public Lightning & Smart Cities | Limited contribution |   |
| Charging stations for electric vehicles | Limited contribution |   |
| CIRCULAR ECONOMY & SUSTAINABLE WASTE MANAGEMENT | | |
| Urban Waste Collection Systems | Significant contribution |  |
| Facilities & Plants for recycling and waste selection improvements | Significant contribution |  |
| Waste to energy plants | Limited contribution |   |
| Biological and Chemical Treatment and other waste treatment plants | Significant contribution |  |

The issuer's green bond significantly contributes to the following SDGs:

- 7 "Affordable and clean energy" and 13 "Climate Action" thanks to its Use of Proceeds categories promoting clean energy generation and efficient distribution
- 12 "Responsible consumption and production" thanks to its project categories contributing to waste treatment.
- 6 "Clean water and sanitation" thanks to its Use of Proceeds category of water infrastructure

ISS-oekom SPO ASSESSMENT

PART I: GREEN BOND PRINCIPLES

1. Use of Proceeds

An amount equal to the net proceeds from the issuance of Green Financings will be used exclusively to finance and/or refinance, in whole or in part, new and existing Eligible Green Projects, carried out directly and/or indirectly through Hera's subsidiaries. Hera considers as Eligible Green Project those that comply with the Eligibility Criteria (in coherence with the Group shared value framework) as defined below:

| ELIGIBLE CATEGORY | DESCRIPTION OF ELIGIBLE GREEN PROJECTS | ENVIRONMENTAL OBJECTIVES |
|--|---|--|
| Energy Efficiency and Energy Infrastructure | <ul style="list-style-type: none"> Improvement of Private and Public buildings lighting, heating, insulation Smart grids for distributed generation and for climate change adaptation Smart metering District heating grids Public Lighting & Smart Cities Charging Stations High Efficiency Cogeneration & Combined product of heat and power | <ul style="list-style-type: none"> Increase of energy production by non-fossil fuels Contribute to climate change mitigation |
| Circular Economy & Sustainable Waste Management | <ul style="list-style-type: none"> Urban Waste Collection Systems: Community recycling depot, Dumpsters and containers for sorted waste collection, Pay as You Throw projects, Vehicles for urban waste collection Facilities & Plants for recycling of materials including Plastic, Glass, and Raw Materials recycling and recovery and/or further re-use into production process and Waste Selection improvements Waste to energy plants Biological and Chemical Treatment and other waste treatment plants | <ul style="list-style-type: none"> Increase of sorted waste collection and disposal and reduction of waste disposed in landfills Contribute to climate change mitigation |
| Water infrastructure | Types of projects: Wastewater, Sewage, and Water infrastructure for resources resilience and climate change adaption | <ul style="list-style-type: none"> Improvement of wastewater treatment plants Contribute to climate change mitigation |

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

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

Opinion: ISS-oekom considers the Use of Proceeds description provided by Hera's Green Financing Framework as aligned with the GBPs. The environmental benefits are described and quantified, demonstrating the positive impact of each Use of Proceeds category.

2. Process for Project Evaluation and Selection

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

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

Opinion: ISS-oekom finds that the process for Project Evaluation and Selection broadly aligns with the GBPs. Further information about how the Ethics and Sustainability Committee reviews, selects and validates pool of projects would strengthen alignment with the GBPs.

3. Management of Proceeds

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

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

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

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

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

Unallocated Proceeds

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

Opinion: ISS-oekom finds that the segregation, tracking of funds and process for unallocated funds aligns with the GBPs. The process to avoid double counting is also positive. Unallocated proceeds that are invested in cash or other liquid instruments have no time limit for this temporary allocation.

4. Reporting

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

A. Allocation Reporting

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

B. Impact reporting

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

| ELIGIBLE CATEGORY | EXAMPLE OF KPIS FOR REPORTING WHERE APPLICABLE |
|--|--|
| Energy Efficiency and energy infrastructure | <ul style="list-style-type: none"> ▪ Energy saved (toe) ▪ GHG emission avoided (tCO2e) ▪ Network length (km) ▪ Number of event of interruption by client (n) ▪ Installed Smart meters (n) ▪ Served Citizens/Points of grid distribution (POD, PDR) ▪ Public lighting points with Led technology |
| Circular economy & Sustainable Waste Management | <ul style="list-style-type: none"> ▪ Recycled plastic sold (ton) ▪ GHG emission avoided (tCO2e) ▪ Atmospheric emissions reduction with respect to legal limits (%) ▪ Heat energy, biomethane and electricity produced from waste treatment (MWh) ▪ Treated waste (ton) ▪ Separated/Sorted collection of waste (%) ▪ Waste sent for the recovery of material (%) |
| Water infrastructure | <ul style="list-style-type: none"> ▪ Served citizens (n) ▪ Network length (km) ▪ Water fed in the network by source (mc) ▪ Water distributed using tanker trucks (mc) ▪ Quality of the waste-water in compliance with regulatory limits (%) ▪ Urban areas compliant with law regarding waste-water treatment (%) |

Opinion: ISS-oekom finds that the reporting is fully aligned to the requirements of the GBPs. This includes publishing on a regular basis and the type of content that will be reported.

External review

1. Second Party Opinion

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

2. Annual Audit/Limited Assurance

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

PART II: SUSTAINABILITY QUALITY OF THE GREEN BOND ASSET POOL

Relevant ISS-oekom KPI sets for Hera's Green Bond Use of Proceeds categories








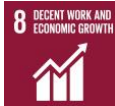
ISS-oekom assessed the ESG risk management in place at an asset level for the project categories of this Green Bond. To conduct the assessment, ISS-oekom defined ESG KPI sets capturing the key ESG challenges faced by those projects categories.

| ISS-OEKOM KPI SET | HERA'S PROJECT CATEGORY |
|--|---|
| ENERGY EFFICIENCY AND ENERGY INFRASTRUCTURE | |
| Smart Energy – Electricity distribution | <ul style="list-style-type: none"> • Smart grids for distributed generation and for climate change adaptation – electricity-related assets • Smart metering – electricity-related assets |
| Smart Energy – Gas distribution | <ul style="list-style-type: none"> • Smart grids for distributed generation and for climate change adaptation – gas-related assets • Smart metering – gas-related assets |
| Energy efficiency improvement for urban development | <ul style="list-style-type: none"> • Public lightning and smart cities |
| District heating network | <ul style="list-style-type: none"> • District heating grids |
| Charging stations | <ul style="list-style-type: none"> • Charging stations |
| CIRCULAR ECONOMY & SUSTAINABLE WASTE MANAGEMENT | |
| Waste management | <ul style="list-style-type: none"> • Urban Waste Collection Systems: Community recycling depot, Dumpsters and containers for sorted waste collection, Pay as You Throw projects • Facilities & Plants for recycling of materials including Plastic, Glass, and Raw Materials recycling and recovery and/or further re-use into production process and Waste Selection improvements • Biological and Chemical Treatment and other industrial waste treatment plants |
| Waste to energy | Waste to energy plants |
| WATER INFRASTRUCTURE | |
| Water supply | <ul style="list-style-type: none"> • Water infrastructure for resources resilience and climate change adaptation |
| Waste water treatment | <ul style="list-style-type: none"> • Water infrastructure – Wastewater and Sewage |

Evaluation of the assets

Smart energy – Electricity distribution

As a Use of Proceeds category, smart electricity grids and smart meters have a limited contribution to SDG 7 “Affordable and Clean Energy” and a limited contribution to SDG 13 “Climate Action”. Additionally, when considering the deeper ESG management, water supply can be associated with other SDGs. The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

| ASSESSMENT AGAINST ISS-OEKOM ESG KPI | ASSOCIATION WITH THE SDGs |
|--|---|
| Environmental aspects of construction and operation | |
| <ul style="list-style-type: none"> ✓ 100% of assets meet high environmental standards during the construction phase (e.g. noise mitigation, minimization of environmental impact during construction work). |  |
| Environmental aspects of smart meters | |
| <ul style="list-style-type: none"> ✓ Substances of concern are appropriately taken care of in all projects. |  |
| <ul style="list-style-type: none"> ✓ 100% of assets are able to be recycled at the end of their lives. |  |
| Community dialogue | |
| <ul style="list-style-type: none"> ✓ All relevant assets feature community dialogue as an integral part of the planning process (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation schemes). |   |
| Energy efficiency | |
| <ul style="list-style-type: none"> ✓ 100% of assets utilize energy efficient data centres. |  |
| <ul style="list-style-type: none"> ✓ 100% of assets feature high standards regarding energy efficiency in transmission networks (e.g. state-of-the-art technology). |  |
| Working conditions during construction and maintenance work | |
| <ul style="list-style-type: none"> ✓ 100% of assets provide for high labour and health and safety standards during for construction and maintenance work (e.g. ILO core conventions). |  |

Standards for supply chain management

- ✓ 100% of assets provide for good and binding labour and health and safety standards in the supply chain.
- ✓ 100% of assets provide for good and binding environmental standards in the supply chain.



Data protection and information security

- ✓ 100% of assets meet minimum requirements for data and information security.



Controversy assessment

A controversy assessment on the assets did not reveal any controversies that can be attributed to Hera.

Smart energy – Gas distribution

As a Use of Proceeds category, smart gas grids have a limited contribution to SDG 7 “Affordable and clean energy” and 13 “Climate action”. The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

ASSESSMENT AGAINST ISS-OEKOM ESG KPI

ASSOCIATION WITH THE SDGs

Environmental aspects of gas distribution network efficiency

- ✓ All the assets feature measures to avoid fugitive methane leakages (e.g. automatic laser-based leak detection system).
- ✓ For all the assets, the pipeline integrity is ensured thanks to appropriate technologies installed and measures in place (e.g. protective coatings installed, frequent inspections and maintenance, appropriate replacement programs).
- ✓ For all the assets, an emergency response plan is in place.



Environmental aspects of smart meters

- ✓ For all assets, the reduction or elimination of substances of concerns for the smart meters installed, is included.
- ✓ All assets are able to be recycled at the end of their lives.



Community dialogue

- ✓ All relevant assets feature community dialogue as an integral part of the planning process (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation schemes).



Social aspects of gas distribution

- Social requirements regarding encouraging customers to save resources and responsible treatment of disadvantages customers are not applicable to the issuer's asset pool as the issuer only operates grids and distribution network and does not sell the gas to the final customer.
- ✓ For all assets, residents are informed about safety risks and appropriate behavior in case of leak.



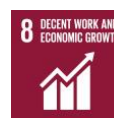
Standards for data protection and security

- ✓ 100% of assets meet high requirements regarding data protection and information security management.



Working conditions during construction and operation

- ✓ 100% of assets provide for high labour and health and safety standards during construction and maintenance work (e.g. ILO core conventions).




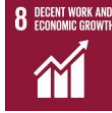


Controversy assessment

A controversy assessment on the assets did not reveal any controversies that can be attributed to Hera.

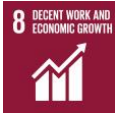
District heating

As a Use of Proceeds category, District heating has a limited contribution to the SDG 7 “Affordable and Clean Energy” and a limited contribution to SDG 13 “Climate Action”. The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

| ASSESSMENT AGAINST ISS-OEKOM ESG KPI | ASSOCIATION WITH THE SDGs |
|---|---|
| Sources of heat generation | |
| <ul style="list-style-type: none"> ✓ For some assets, heat is generated via renewable energy (eg. Geothermal). For other assets, heat is generated through methane gas boilers or other sources of energy which do not provide any added environmental benefits. |  |
| Energy efficiency of the network | |
| <ul style="list-style-type: none"> ✓ All assets meet high standards regarding energy efficiency and heat insulation (e.g. state-of-art technologies). |   |
| Social aspects of heat distribution | |
| <ul style="list-style-type: none"> - Social requirements regarding encouraging customers to save resources and responsible treatment of disadvantages customers are not applicable to the issuer’s asset pool as the issuer only operates district heating distribution network. | |
| Working conditions during construction and maintenance work | |
| <ul style="list-style-type: none"> ✓ All assets provide for high labour and health and safety standards during construction and maintenance (e.g. ILO core conventions). |  |
| Controversy assessment | |
| <p>A controversy assessment on the assets did not reveal any controversies that can be attributed to Hera.</p> | |


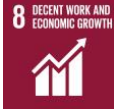
Public lighting and smart cities

As a Use of Proceeds category, Public lighting and smart cities has a limited contribution to SDG 7 “Affordable and Clean Energy” and a limited contribution to SDG 13 “Climate Action”. The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

| ASSESSMENT AGAINST ISS-OEKOM ESG KPI | ASSOCIATION WITH THE SDGs |
|---|---|
| Percentage improvement of energy and resource efficiency | |
| <ul style="list-style-type: none"> ✓ For all assets, the percentage improvement reaches or exceeds 20% for energy efficiency. |  |
| Environmental aspect of installed electronic equipment | |
| <ul style="list-style-type: none"> ✓ More than 50% of financed projects meet high environmental standards regarding take-back and recycling of electronic equipment at end-of-life stage. |  |
| <ul style="list-style-type: none"> ✓ For all assets, the thresholds defined by the European Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS Directive) are fulfilled. (change wording but no) |  |
| Social standards in the supply chain | |
| <ul style="list-style-type: none"> ✓ For all financed asset high labour standards are applied in the supply chain (e.g. ILO core conventions). |  |
| Working conditions during construction and maintenance work | |
| <ul style="list-style-type: none"> ✓ All the assets provide for high labour and health and safety standards during construction and maintenance (e.g. ILO core conventions). |  |
| Controversy assessment | |
| <p>A controversy assessment on the assets did not reveal any controversies that can be attributed to Hera.</p> | |

Charging stations

As a Use of Proceeds category, charging stations have a limited contribution to SDG 7 “Affordable and Clean Energy” and to SDG 13 “Climate Action”. The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

| ASSESSMENT AGAINST ISS-OEKOM ESG KPI | ASSOCIATION WITH THE SDGs |
|---|---|
| Environmental aspects of charging stations | |
| <ul style="list-style-type: none"> ○ No information is available regarding assets that underwent a comprehensive life-cycle-assessment. |  |
| Working conditions during construction and maintenance work | |
| <ul style="list-style-type: none"> ✓ All assets provide for high labour and health and safety standards for construction and maintenance work (e.g. ILO core conventions). |  |
| Controversy assessment | |
| <p>Due to the nature of the assets, a controversy assessment was not carried out by ISS-oekom.</p> | |

Sustainable waste management

As a Use of Proceeds category, Sustainable waste management has a strong contribution to SDG 12 “Ensure sustainable consumption and production patterns”.




The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

| ASSESSMENT AGAINST ISS-OEKOM ESG KPI | ASSOCIATION WITH THE SDGs |
|---|---|
| Site selection | |
| <ul style="list-style-type: none"> ✓ All relevant assets underwent environmental impact assessments at the planning stage. |   |
| <ul style="list-style-type: none"> ✓ All assets are not located in key biodiversity area sites (e.g. Ramsar, IUCN protected areas I-IV). |  |
| Community dialogue | |
| <ul style="list-style-type: none"> ✓ All assets feature community dialogue as an integral part of the planning process (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation schemes). |   |
| Environmental aspects during operation | |
| <ul style="list-style-type: none"> ✓ All assets provide for high standards regarding environmentally safe operation of plants (e.g. air emissions, disposal of residues). |  |
| <ul style="list-style-type: none"> ✓ All assets provide measures ensuring high standards regarding recycling of waste components. |  |
| Working conditions during construction and maintenance work | |
| <ul style="list-style-type: none"> ✓ All assets are located in Italy, where high labour and health and safety standards are in place for construction and maintenance work (e.g. ILO core conventions). |  |
| Controversy assessment | |

A controversy assessment on the assets did not reveal any controversies that can be attributed to Hera.








Waste to energy

As a Use of Proceeds category, Waste to energy has a contribution to SDG 7 “Affordable and clean energy” and SDG 13 “Climate Action”. The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

| ASSESSMENT AGAINST ISS-OEKOM ESG KPI | ASSOCIATION WITH THE SDGs |
|--|---|
| Consideration of environmental aspects during planning and construction | |
| <ul style="list-style-type: none"> ✓ All relevant assets underwent environmental impact assessments at the planning stage. |   |
| <ul style="list-style-type: none"> ✓ All assets are not located in key biodiversity area sites (e.g. Ramsar, IUCN protected areas I-IV). |  |
| <ul style="list-style-type: none"> - All assets are maintenance and restructuring work, therefore environmental impact during construction phase is not applicable. |  |
| Environmental aspects of waste to energy plants | |
| <ul style="list-style-type: none"> ✓ All assets provide for high standards regarding environmentally safe operation of plants (e.g. air emissions, disposal of residues). |  |
| <ul style="list-style-type: none"> ○ Less than 50% of assets apply cogeneration technology. |  |
| Safety aspects of plants | |
| <ul style="list-style-type: none"> ✓ All assets provide for high safety standards (e.g. regarding fire, explosions), as provided for by legislation. |  |
| Controversy assessment | |
| <p>A controversy assessment on the assets did not reveal any controversies that can be attributed to Hera.</p> | |

Water supply

As a Use of Proceeds category, water supply has a strong contribution to SDG 6 “Clean Water and Sanitation” and a limited contribution to SDG 3 “Good Health and Well-Being”. Additionally, when considering the deeper ESG management, water supply can be associated with other SDGs. The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

| ASSESSMENT AGAINST ISS-OEKOM ESG KPI | ASSOCIATION WITH THE SDGs |
|---|---|
| Site selection | |
| <ul style="list-style-type: none"> ✓ 99.5% of the assets are not located on key biodiversity area sites (e.g. Ramsar, IUCN protected areas I-IV). |  |
| <ul style="list-style-type: none"> ✓ 100% of the relevant assets underwent an Environmental Impact Assessment at planning stage. |  |
| Environmental aspects of construction and operation | |
| <ul style="list-style-type: none"> ✓ 100% of assets provide for high standards regarding sustainable water withdrawal (e.g. risk assessments, monitoring, pollution prevention). |  |
| <ul style="list-style-type: none"> ✓ 100% of assets feature measures to reduce leakages from the water distribution system (e.g. regular inspections, response management). |  |
| <ul style="list-style-type: none"> ✓ 100% of assets provide for high standards regarding water quality (i.e. healthiness and purity requirements). |  |
| Social aspects of water treatment | |
| <ul style="list-style-type: none"> ✓ 100% of assets have measures in place encouraging customers to save water (e.g. water meters, information) |  |
| <ul style="list-style-type: none"> ✓ 100% of assets provide for responsible treatment of disadvantaged customers (e.g. regarding disconnection). |  |

Working conditions during construction and maintenance work

- ✓ 100% of assets are located in Italy, where high labour and health and safety standards are in place for construction and maintenance work (e.g. ILO core conventions).



Controversy assessment

A controversy assessment on the assets did not reveal any controversies that can be attributed to Hera.

Waste water treatment

As a Use of Proceeds category, waste water has a strong contribution to SDG 6 “Clean Water and Sanitation”. When considering the deeper ESG management, water supply can be associated with other SDGs. The table below presents the findings of an ISS-oekom assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

| ASSESSMENT AGAINST ISS-OEKOM ESG KPI | ASSOCIATION WITH THE SDGs |
|---|---------------------------|
| Site selection | |
| <ul style="list-style-type: none"> ✓ 99.7% of the assets are not located in key biodiversity area sites (e.g. Ramsar, IUCN protected areas I-IV). | |
| <ul style="list-style-type: none"> ✓ 100% of the relevant assets underwent an Environmental Impact Assessment at planning stage. | |
| Community dialogue | |
| <ul style="list-style-type: none"> ✓ All assets feature community dialogue as an integral part of the planning process (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation schemes). | |

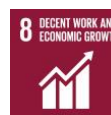
Environmental aspects of construction and operation

- ✓ 100% of assets feature measures to reduce leakages of sewerage systems (e.g. monitoring systems, adequate maintenance and repair)
- ✓ 100% of assets feature measures to reduce the environmental impacts of sewage sludge disposal (e.g. exclusion of introduction into waterways and landfill, exclusion or standards for agricultural use, utilisation of energy)
- ✓ 100% of assets provide for high standards regarding treated water quality.



Working conditions during construction and maintenance work

- ✓ 100% of assets are located in Italy, where high labour and health and safety standards are in place for construction and maintenance work (e.g. ILO core conventions).



Controversy assessment

A controversy assessment on the assets did not reveal any controversies that can be attributed to Hera.

The methodology for the asset evaluation can be found in Annex 2.

PART III: ASSESSMENT OF HERA'S ESG PERFORMANCE

The ISS-oekom Corporate Rating comprises a rating scale from A+ (excellent) to D- (poor).

| COMPANY | RATING | STATUS |
|---------|--------|--------|
| Hera | B - | PRIME |

This means that the company performed well in terms of sustainability, both compared against others in the industry and in terms of the industry-specific requirements defined by ISS-oekom. In ISS-oekom's view, the securities issued by the company therefore all meet the basic requirements for sustainable investments.

As of 17.06.2019, this rating places Hera 6th out of 43 companies rated by ISS-oekom in the Utilities / Multi Utilities sector.

Key Challenges facing companies in term of sustainability management in this sector are:

- Facilitation of the energy transition and resource efficiency
- Environmentally safe operation of plants and infrastructure
- Accessibility and reliability of energy and water supply
- Business ethics and government relations
- Worker safety and accident prevention

In all key issues, Hera rates above the average for the sector:

- A very significant outperformance was achieved in "Accessibility and reliability of energy and water supply"

The company has a minor controversy level:

- Minor controversies were identified related to anti-competitive behavior in Italy and energy generation based on natural gas.
- In comparison to the sector, Hera' controversy level is below the sector's controversy risk classified as "severe".

Details on the rating of the issuer can be found in Annex 1.

Robert Hassler, Head of ISS-oekom
London/Munich/Rockville/Zurich



DISCLAIMER

1. Validity of the SPO: For Hera's first issuance following the SPO release date.
2. ISS-oekom uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS-oekom in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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ANNEX 1: ISS-oekom Corporate Rating

The following pages contain extracts from Hera's 2019 ISS-oekom Corporate Rating.

ISS-oekom Corporate Rating

Hera S.p.A.

| | | | |
|----------|---------------------------|-----------------|--------------|
| Industry | Utilities/Multi Utilities | Status | Prime |
| Country | Italy | Rating | B- |
| ISIN | IT0001250932 | Prime Threshold | B- |



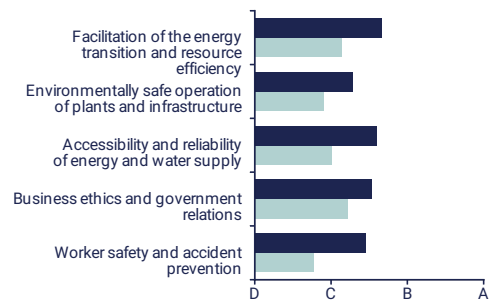
The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively.

Industry Leaders

| Company name (in alphabetical order) | Country | Grade |
|---|---------|-------|
| EnBW Energie Baden-Württemberg AG | DE | B- |
| MVV Energie AG | DE | B- |
| Veolia Environnement S.A. | FR | B |

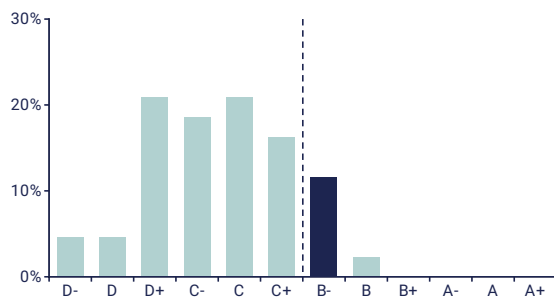
Legend: ■ Industry ■ Company --- Prime

Key Issue Performance

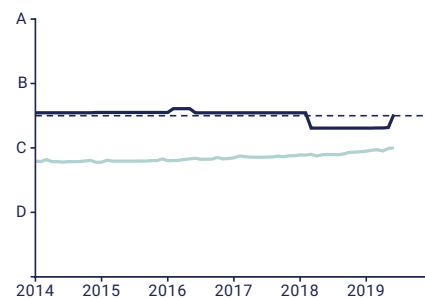


Distribution of Ratings

43 companies in the industry

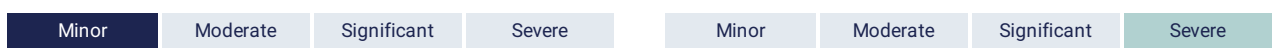


Rating History



Controversy Monitor

| | | | |
|-------------------|-------|---------------------------|--------|
| Company | | Industry | |
| Controversy Score | -2 | Maximum Controversy Score | -35 |
| Controversy Level | Minor | Controversy Risk | Severe |



Hera S.p.A.

Analyst Opinion

Susanne Marttila
Sector specialist



Sustainability Opportunities

Hera is a multi-utility company, which generates revenues based on gas distribution, waste management, water supply and treatment, electricity generation and distribution, and other services. The company only operates in Italy. With the purification of water as well as the provision of clean drinking water and sanitary services, the company responds to the global sustainability challenge of providing access to water. Yet, these activities do not account for the major share of net sales. The company's electricity and heat generation is to a large extent based on natural gas (49.2% in 2018), followed by waste incineration (24.0%), biomass (22.9%), geothermal energy (3.8%) and solar power (0.1%). If the biogenic component of waste is counted as renewable energy, the share of electricity generation is comparatively high and amounts to 36.7%. The company aims to increase the share by 8% by 2020. However, due to the strong reliance on gas and waste in energy generation, the carbon intensity is comparatively high (482 g/kWh in 2018).

Sustainability Risks

As Hera operates a large number of cogeneration plants, the thermal efficiency of its fossil-fired plants is at an above average level. The company also has established targets to reduce greenhouse gas emissions. Yet, the targeted carbon intensity is rather high and it is thus unclear if the target will result in emission reductions required to significantly limit climate change. While Hera has taken some measures to reduce water losses (30.6% in 2017), the company largely fails to demonstrate how it ensures sustainable water withdrawals. Hera complies with legal standards for treated wastewater with average pollutant concentrations being below legal limits, but there is no evidence of a comprehensive strategy to reduce environmental impacts from sewage sludge disposal. With regard to its waste business, Hera has taken sound measures to mitigate the environmental impacts of waste incineration plants. Some procedures are also in place to ensure environmental safety at landfills and to reduce landfill emissions. With regard to gas distribution, Hera has taken comprehensive measures to ensure pipeline integrity and safety. For a multi-utility company, the sound management of health and safety issues is crucial. Although Hera has established certified management systems at almost all of its sites, the accident rate among employees is rather high. With regard to business ethics, Hera has implemented a group-wide code of ethics and additional guidelines, which cover important issues such as antitrust and insider dealings, but do not clearly refer to facilitation payments. Corresponding compliance structures have been set up, but no reference is made to risk assessments and audits.

Governance Opinion

Hera's shareholders mainly include municipalities from its service territories. The vast majority of the members of Hera's board of directors are independent (as at May 2019). However, the chair of the board (Tomaso Tommasi Di Vignano) cannot be considered independent, as he is also an executive manager of the company. While Hera's board has set up fully independent committees in charge of audit and remuneration matters, there is no committee responsible for nomination issues (as at May 2019). Hera is fully transparent about its remuneration policy for executives, which, however, does not include long-term components, which could in turn incentivize sustainable value creation. The board committee in charge of overseeing the sustainability strategy consists of a majority of independent members. Sustainability performance objectives are to some extent integrated into the variable remuneration of members of the executive management team, but are not clearly specified. With regard to business ethics, Hera has implemented a group-wide code of ethics and additional guidelines, which cover important issues such as antitrust and insider dealings, but do not clearly refer to facilitation payments. Corresponding compliance structures have been set up, but no reference is made to risk assessments and audits.

Hera S.p.A.

Methodology - Overview

ISS-oekom Corporate Rating - The ISS-oekom Universe comprises more than 3,900 companies (mostly companies in important national and international indices, but also small and mid caps drawn from sectors with direct links to sustainability as well as significant non-listed bond issuers).

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance criteria, selected specifically for each industry. All criteria are individually weighted and evaluated and the results are aggregated to yield an overall score (rating), in which the key issues account for at least 50 per cent of the total weight. In case there is no relevant or up-to-date company information available on a certain criterion and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the criterion is graded with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company itself as well as information from independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

An external rating committee assists the analysts at ISS-oekom with the content-related design of industry-specific criteria and carries out a final plausibility check of the rating results at the end of the rating process.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Controversial Business Practices and Areas - In addition to the rating, ISS-oekom undertakes a comprehensive analysis of relevant controversies with respect to numerous business practices and areas for each company. Thereby, our clients have the possibility to consider, either separately or in addition to the rating, the behaviour and the activities of a company in areas they view as especially critical.

With regard to business practices, each controversial case is examined and categorised based on whether it can be clearly attributed to the company. Additionally, the extent of the company's responsibility and the severity of the case are assessed. For the classification of the severity of the misconduct, the concrete negative effects are systematically evaluated. In addition, it is considered whether, to what extent and with what success the company has taken steps to mitigate the impact, to compensate it and to prevent similar incidents from occurring in the future.

To account for the varying levels of severity of the controversies, these are classified into the following three categories: moderate controversies, severe controversies and very severe controversies. Additionally, potential controversies are presented. These constitute issues which could be reclassified into one of the three controversy categories in case new information is reported. The classification follows a clear and uniform methodology for which ISS-oekom has defined specific evaluation parameters and their possible manifestations along a scale, based on international norms and standards and its own understanding of sustainability.

In the Business Practices section, the number of relevant and active cases is displayed in the respective cells. For each criterion, the sum of all corresponding cases for each sub-category is shown in the first line. In the Business Areas section, the activity is marked "x" and summarised as "yes" or "no". The percentage thresholds in the column headers generally refer to the Net Sales of the assessed company. As Net Sales are not an adequate reference value for all companies, these thresholds can refer to other values in individual cases (e.g. for different financial service providers).

Current cases are summarised in the "Comments" field. Irrespective of active cases, criteria marked as "Risk Exposure" indicate the company's risk exposure to controversies based on its business activities.

For the assessment of cases only those sources that have been classified by ISS-oekom as reliable are used. In addition to proven misconduct or activities of companies, alleged misconduct or activities are also assessed when the facts and circumstantial evidence provided by those sources, taking into account the experience of specialised analysts for each topic, is estimated to be sufficiently reliable. This applies not only to alleged practices, but also to the alleged serious negative effects of such practices.

Hera S.p.A.

Methodology - Overview

Controversy Monitor - The Controversy Monitor is a tool for assessing and managing reputational and financial risks associated with companies' negative environmental and social impacts.

The controversy score is a unit of measurement for the number and severity of a company's current controversies. All controversial business areas and business practices receive a negative score, which can vary depending on the significance, number and severity of the controversies. Both the company's score and the maximum score obtained in the industry are displayed.

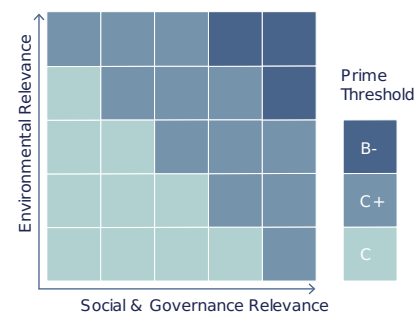
For better classification, the scores are assigned different levels: minor, moderate, significant and severe. The industry level relates to the average controversy score.

Only controversies for which reliable information from trustworthy sources is available are recorded. In addition to proven misconduct and activities of companies, alleged misconduct and activities are also assessed when the facts and circumstantial evidence provided by those sources, taking into account the experience of specialised analysts for each topic, is estimated to be sufficiently reliable. It should be noted that large international companies are more often the focus of public and media attention. Thus, the information available on those companies is often more comprehensive than for less prominent companies.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ISS-oekom Universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analysed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ISS-oekom Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS-oekom Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ISS-oekom Universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Major Shareholders & Ownership Summary - Overview of the company's major shareholders at the time of generation of this report. All data as well as the categorisation system for the investor types is based on information from S&P Capital IQ.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorised as Prime if they achieve/exceed the minimum sustainability performance requirements (Prime threshold) defined by ISS-oekom for a specific industry (absolute best-in-class approach) in the ISS-oekom Corporate Rating. Prime companies rank among the sustainability leaders in that industry.

ANNEX 2: Methodology

ISS-oekom Green Bond KPIs

The ISS-oekom Green Bond KPIs serves as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Hera’s Green Bond.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details above) who will send them directly to you.

Asset evaluation methodology

ISS-oekom evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS-oekom or that the information provided did not fulfil the requirements of the ISS-oekom Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS-oekom on a confidential basis by Hera (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS-oekom identifies the extent to which Hera’s Green Bond contributes to related SDGs and has a positive association with their respective sub-targets.

The contribution assessment is split into two Levels:

1. **Level 1:** Contribution and/or obstruction of the Use of Proceeds categories to be financed through the bond to the UN SDGs
2. **Level 2:** Association of the assets’ ESG performance with further SDGs

About ISS-oekom SPO

ISS-oekom is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, and this Green/Social Bond, contact:

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