

The green bond

Hera's financial policy serving the environment and sustainability

In July 2014, the Hera Group launched a green bond, with the aim of financing the sustainability investments, so as to contribute via its activities to an improved environmental quality.

The bond issue, availing of the euro medium term notes programme, for a total of 500 million repayable in 10 years, was illustrated to the investors and analysts via a roadshow which was staged in the main European financial marketplaces. The instrument is destined to finance or refinance projects linked to sustainability in 4

main spheres: the fight against climate change, reduction in emissions, quality in water treatment and the waste cycle.

The instrument envisages a coupon of 2.375% and a return on 2.436%. The orders received were mainly taken from investors resident outside Italy (75%) with France, Germany and the UK which reported the greatest percentages, and a predominance of asset managers. 69% of demand came from investors who have Environment, Social and Governance (ESG) among their investment criteria, so-called “sustainable” investors.

The Hera Group thus unveils, in Italy as well, a form of financing already used in Europe by other leading utilities, which places funding at the service of the environment, with resources which will then be specifically allocated to investments linked to improving the environmental performance in the area.

The list of the projects eligible for funding has been established by Hera on the basis of precise environmental criteria and subsequently confirmed by DNV GL to ensure the correct allocation of the funds. With regard to each sphere of the project, a set of indicators have been identified which reflect the environmental benefits associated with the individual initiatives. These indicators are shown within the various sections of the chapter “Environment and future generations” in this Sustainability Report.

Use of the funds received via the Green Bond (in millions of Euro)

%	Total funds raised	Number of projects	2006-2013 investments	Investments 2014	Unallocated funds
Increase in energy generation from non-fossil sources	53.8	9	53.2	0.6	-
Increase in energy efficiency	219.0	7	177.0	10.8	31.5
Increase in the use of waste-to-energy plants for the treatment of waste	173.1	4	173.1	-	-
Improvement of the water treatment plants	31.8	4	18.4	3.1	10.3
Increase in separate waste collection and reduction in the use of landfills	22.0	1	-	4.7	17.3
Total	500.0	25	421.6	19.2	59.1

Downstream from the fund raising, 25 projects were financed/refinanced, belonging to the categories indicated in the table presented above. The overall increase in projects financed in 2014 amounts to Euro 440.9 million, or 88% of total funding. The remaining portion shall be allocated in the next 9 years.

The Green Bond in Italy and Europe

Green bonds are those which associate environmental-type investments and activities with the funds raised in a clear manner. The investments are identified by very specific sustainability criteria: for example, the reduction in climate change, the efficient use of resources and renewable energy.

The first financial instrument of this type was issued by the World Bank in 2008 and for a modest amount, an equivalent value of US\$ 10 million. The success of this instrument was not so immediate: at least until the attention of the analysts was gained by the same World Bank, which via the IFC generated a US\$ 1 billion issue in 2013. Once again in 2013, the first green bonds issued by leading companies and the first European Green bonds appeared: Edf in France (for an equivalent value of Euro 1.4 billion) and Toyota (for an equivalent

value of US\$ 1.75 billion). In detail, the projects financed renewable energies and the production of electric vehicles.

2014 saw the proliferation of this trend, involving Europe in an important manner, where Gdf Suez issued a bond for US\$ 3.4 billion.

In Italy, the Hera Group was the first to launch this new financial instrument (for an equivalent value of 500 million) and opened the way up for other operators in the sector or otherwise. The bond was very successful, with applications for an equivalent value of around three times the amount of the bond. The applications for issues of this type doubled in 2014 when compared with 2013.