



2019 Green Bond Report

(Report on the allocation of the funding and on the environmental impact indicators of the 2019-2027 Green Bond)

This report is dedicated to reporting on the funds allocated and the environmental performance achieved by the measures financed by the 2019-2027 Green Bond placed on the market on 5 July 2019.

The Green bonds

Green bonds are those which associate environmental-type investments and activities with the funds raised. The first financial instrument of this type was issued by the World Bank in 2008.

Interest in Green bonds has grown over time and in 2019, according to the Climate Bonds Initiative, 1,788 bonds were issued for a total value of US\$ 257.7 billion, up 51% over the previous year.

Percentage growth was seen in all regions but the increase in Europe represents the most significant share of the volume increase in 2019 compared to 2018. European issues reached US\$ 116.7 billion, up by 74% compared with 2018. Asia-Pacific has seen growth of 29%, remaining the second largest region although the 46% growth in North America has begun to close the gap between the two regions.

With regard to the type of issuers, there are considerable differences between the various regions. In Europe, the mix of types of issuers is the most balanced among governments, financial companies, non-financial companies and public companies. In Asia-Pacific, on the other hand, issues by financial and non-financial companies and in North America issues linked to assets (asset-backed security) prevail.

With regard to the industrial sectors, 31% of total issues concern the energy sector, followed by construction (30%), transport (20%) and water (9%); the remaining 10% of issues concern the waste, land use, industry and IT sectors.

The Green financing framework

The **Green financing framework** is the policy document prepared by Hera that defines the categories of green projects, the project selection process and the criteria used for the selection, the process of managing the funding received, and the commitments in terms of reporting and external verification.

Green projects are projects designed to achieve five environmental objectives: climate change mitigation, adaptation to climate change, conservation of natural resources, preservation of biodiversity, and prevention and control of pollution.

The Green financing framework was drafted in line with the Green Bond Principles published by ICMA (2018 edition) and the Green Loan Principles published by the Loan Market Association (LMA) in December 2018.






This framework can be used by Hera to issue of various types of green financing instruments including:

- Green bonds;
- green loans, including, for example, term loans, project finance loans, asset finance, and revolving credit facilities;
- any other financial instrument for financing green projects.

Eligible green projects may include new, ongoing or existing projects, as long as they are financed no more than two years before each green financing instrument is issued.

The definition of the funded projects was validated by a "Second Party Opinion", drawn up by ISS-Oekom, which ranked Hera "Prime" in terms of ESG performance (sixth in a panel of 43 global companies) and highlighted its particular excellence in the water sector.

According to the framework, Hera considers green projects to be those projects aligned with the eligibility criteria indicated in the following table.

Eligible categories	Description of the eligible green projects	Environmental goals	Contribution to the UN SDGs
Energy efficiency and electricity infrastructures, district heating and public lighting	<ul style="list-style-type: none"> Improvement of the lighting, heating and insulation of private and public buildings Smart networks for distributed energy generation and climate change adaptation Smart meters District heating networks Public lighting and smart cities Charging stations for electric mobility High efficiency cogeneration and combined heat and power generation 	<ul style="list-style-type: none"> Increase of energy generated from non-fossil fuels Contribution to the mitigation of climate change 	 <p>Clean and accessible energy</p>  <p>Fight against climate change</p>
Circular economy and sustainable waste management	<ul style="list-style-type: none"> Municipal waste collection systems: separate collection centres, bins and containers for separate collection, quantity-based tariff projects, vehicles for separate waste collection Facilities and installations for the recycling of materials (plastic, glass, etc.) and improvements in the sorting of waste Waste-to-energy treatment Biological and chemical treatment and other waste treatment plants 	<ul style="list-style-type: none"> Increase of separate waste collection and reduction in waste disposed of in landfills Contribution to the mitigation of climate change 	 <p>Responsible consumption and production</p>
Sustainable management of the water service	<ul style="list-style-type: none"> Type of projects: purification, sewage and water infrastructures for resilience and adaptation to climate change 	<ul style="list-style-type: none"> Improvement of wastewater treatment plants Contribution to the mitigation of climate change 	 <p>Clean water and sanitation services</p>  <p>Life under water</p>

The projects eligible for the green financing framework are aligned with the following UN SDGs:



Clean water and sanitation services

Ensure the availability and sustainable management of water and sanitation for all



Clean and accessible energy

Ensure access to affordable, reliable, sustainable and modern energy systems for all



Responsible consumption and production

Ensure sustainable production and consumption models



Fight against climate change

Adopt urgent measures to combat climate change and its consequences



Life under water

Conserve and sustainably use the oceans, seas and marine resources for sustainable development

The characteristics of the bond

The Hera Group's second green bond (Baa2 rating with stable Outlook for Moody's and BBB with positive Outlook for Standard & Poor's) was placed on the market on 5 July 2019. The bond amounts in total to Euro 500 million, is repayable over 8 years with a coupon of 0.875% and a return of 1.084%.

The issue was co-ordinated by BNP Paribas, Credit Agricole CIB, Mediobanca and UniCredit as Joint Bookrunners, and BBVA as Bookrunner. The legal firm Legance assisted Hera, while the firm Linklaters supported the Bookrunners.

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

Allocation reporting

The following table shows the **allocation of funds received** with respect to the various categories identified in the Green financing framework. At 31 December 2019, all the funds received had been allocated to green projects. 71% of the funds were allocated to the refinancing of investments made in 2017 and 2018, and 29% of the funds were allocated to the financing of investments made in 2019.

2019-2027 Green Bond: allocation of the funds

Thousands of Euro	2017	2018	2019	Total collection	% of total
Sewage and purification	44,277	33,980	67,345	145,602	29.1%
Aqueduct (adaptation to climate change)	6,978	35,843	-	42,821	8.6%
<i>Sustainable management of the water service Total</i>	<i>51,255</i>	<i>69,824</i>	<i>67,345</i>	<i>188,423</i>	<i>37.7%</i>
Waste collection	10,545	8,279	12,653	31,477	6.3%
Waste recycling plants	91,726	3,765	5,178	100,668	20.1%
Waste-to-Energy Plants	5,168	5,087	6,993	17,248	3.4%
Anaerobic digesters and other waste treatment plants	14,533	17,185	7,479	39,197	7.8%
<i>Circular economy and sustainable waste management Total</i>	<i>121,972</i>	<i>34,316</i>	<i>32,302</i>	<i>188,590</i>	<i>37.7%</i>
Electronic gas meters	11,825	11,990	11,790	35,604	7.1%
Smart gas networks	10,250			10,250	2.1%
<i>Energy efficiency and gas infrastructures Total</i>	<i>22,075</i>	<i>11,990</i>	<i>11,790</i>	<i>45,854</i>	<i>9.2%</i>
Smart grids electricity	12,165	10,572	12,767	35,503	7.1%
Electronic electricity meters	229	628	20	876	0.2%
District heating	5,051	4,102	6,281	15,434	3.1%
Public lighting and Smart cities	1,745	10,799	12,754	25,298	5.1%

Thousands of Euro	2017	2018	2019	Total collection	% of total
Charging systems for electric cars	14	7	-	20	0.0%
<i>Energy efficiency and electricity infrastructures, district heating and public lighting Total</i>	<i>19,203</i>	<i>26,107</i>	<i>31,821</i>	<i>77,132</i>	<i>15.4%</i>
Total	214,505	142,237	143,258	500,000	100.0%

Impact reporting

The following table shows the **indicators that measure the environmental benefits deriving from the measures financed** with Green Bonds and the reference to the sections of this Sustainability Report that describes them.

2019-2027 Green bond: indicators for measuring environmental benefits

		2017	2018	2019
Infrastructures in the water sector				
Citizens serviced by the integrated water service (thousands)	Pages 96 and 119	3,648.4	3,651.8	3,653.6
Length of the aqueduct network (km)	Page 96	34,641	34,928	35,056
Water withdrawn and injected into the network (thousands of m ³)	Page 96	430,076	421,749	418,155
Water distributed using tankers (m ³)	Page 98	-	-	726
Quality of purified water (%)	Page 104	39.0%	34.7%	35.1%
Urban areas >2000 P.E. that achieved compliance with wastewater purification legislation (% of population equivalents)	Page 106	-	92.2%	97.3%
Circular economy and sustainable waste management				
Volumes of recycled plastic sold by Aliplast (thousands of tonnes)	Page 85	59.6	63.7	72.8
GHG emissions avoided by selling recycled plastic (thousands of t CO ₂ e)	Page 66	-	150	170
Compliance of atmospheric emissions of waste-to-energy plants with regulatory limits (%)	Page 168	14.5%	13.8%	14.1%
Energy produced by waste treatment plants (MWh)	Page 52 and 53	972,132	912,608	905,849
Waste treated (tonnes)	Page 93	6,802	7,293	7,175
Separate waste collection (%)	Page 72	57.7%	62.5%	64.6%
Percentage of waste sent for recovery at selection plants (%)	Page 85	76.2%	77.2%	83.3%
Energy efficiency and energy infrastructures				
District heating - Energy saved (toe)	Page 170	37,450	36,495	35,132
District heating – GHG emissions avoided (thousands of t CO ₂ e)	Page 170	125,684	121,022	119,639
District heating - Length of district heating network (km)	Page 170	261.1	261.1	264.6
Electronic gas meters installed (qty)	Page 250	371,561	627,953	710,072
Average number of power outages per customer (qty)	Page 256	2.10	1.54	2.00
Citizens served by the electricity distribution service (qty)	Page 255	632.3	632.7	634.2
Percentage of public lighting points using LEDs (%)	Page 47	14.2%	14.9%	27.4%

HERA S.P.A.

**INDEPENDENT AUDITOR'S REPORT ON THE GREEN BOND
REPORT 2019**

INDEPENDENT AUDITOR'S REPORT ON THE GREEN BOND REPORT 2019

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

We have performed a limited assurance engagement on the Green Bond Report of Hera S.p.A. for the year ended 31 December 2019, prepared pursuant to the Hera – Green Financing Framework (hereafter the “Framework”) published by Hera S.p.A. in June 2019 in connection with the “Green Bond - €500,000,000 0.875 per cent Notes due 5 July 2027” (“Green Bond”) issued on 5 July 2019. We have performed the limited assurance engagement with respect to:

- the allocation of the financial resources obtained through the Green Bond in accordance with the criteria defined in the Framework, i.e. the allocation of such resources for the financing or refinancing the investments (“Elegible categories and projects”) set out in that Framework;
- the verification of sustainability indicators (“environmental impact metrics”) related to the projects financed with the proceeds from the Green Bond issue.

As required by the Framework, the Green Bond Report summary has been attached to the Hera Group “Consolidated Non-Financial Disclosure” for the year ended 31 December 2019.

Responsibility of the Directors

The Directors are responsible for the preparation, the contents and for issuing the “Green Bond Report”, pursuant the Framework that describes the criteria for eligibility, allocation of the proceeds and sustainability indicators.

The Directors are responsible for such internal control as management determines is necessary to enable the preparation of a Green Bond Report that is free from material misstatement, whether due to fraud or unintentional errors.

The Directors, furthermore, are responsible for defining, implementing, and maintaining systems through which the information necessary for the preparation of the Green Bond Report are obtained.

Auditor's Independence and Quality Control

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

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the Green Bond Report with the Framework. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereafter “ISAE 3000 Revised”), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the Green Bond Report is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance

with ISAE 3000 Revised and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the Gren Bond Report were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the Green Bond Report, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. meetings with the personnel of Hera S.p.A. functions that were involved in preparing the Green Bond Report, in order to understand the characteristics of the financed and refinanced projects by the Green Bond, and to evaluate the reasonableness of the process and of the internal data management procedures and information;
2. the verification of the application of the eligibility criteria to the financed and refinanced projects by the Green Bond as disclosed in the Framework;
3. the verification of the traceability in the allocation of the proceeds obtained through the Green Bond to the projects financed or refinanced by them and the attribution to the Green Bond of the capital in the projects themselves;
4. the verification of collection, aggregation, processing, and transmission process of data relating to the sustainability indicators included in the Green Bond Report and their verification through sample tests.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the Green Bond Report of Hera SpA as of 31 December 2019 has not been prepared, in all material respects, in compliance with the Framework, with reference to:

- the allocation of the financial resources obtained through the Green Bond in accordance with the criteria defined in the Framework, i.e. the allocation of such resources for the financing or refinancing of the investments ("Elegible categories and projects") set out in that Framework;
- the verification of sustainability indicators ("environmental impact metrics") related to the projects financed with the proceeds raised from the issue of the Green Bond.

Drafting criteria, use and distribution

Without changing our conclusions, we draw attention to the Hera Green Financing Framework, where the criteria of project eligibility, allocation of proceeds and sustainability indicators are disclosed. The Green Bond Report has been prepared for the purposes illustrated in the first paragraph. As a result, the Green Bond Report may not be suitable for other purposes.

Bologna, 7 April 2020

Audirevi S.p.A.

Antonio Cocco
Partner