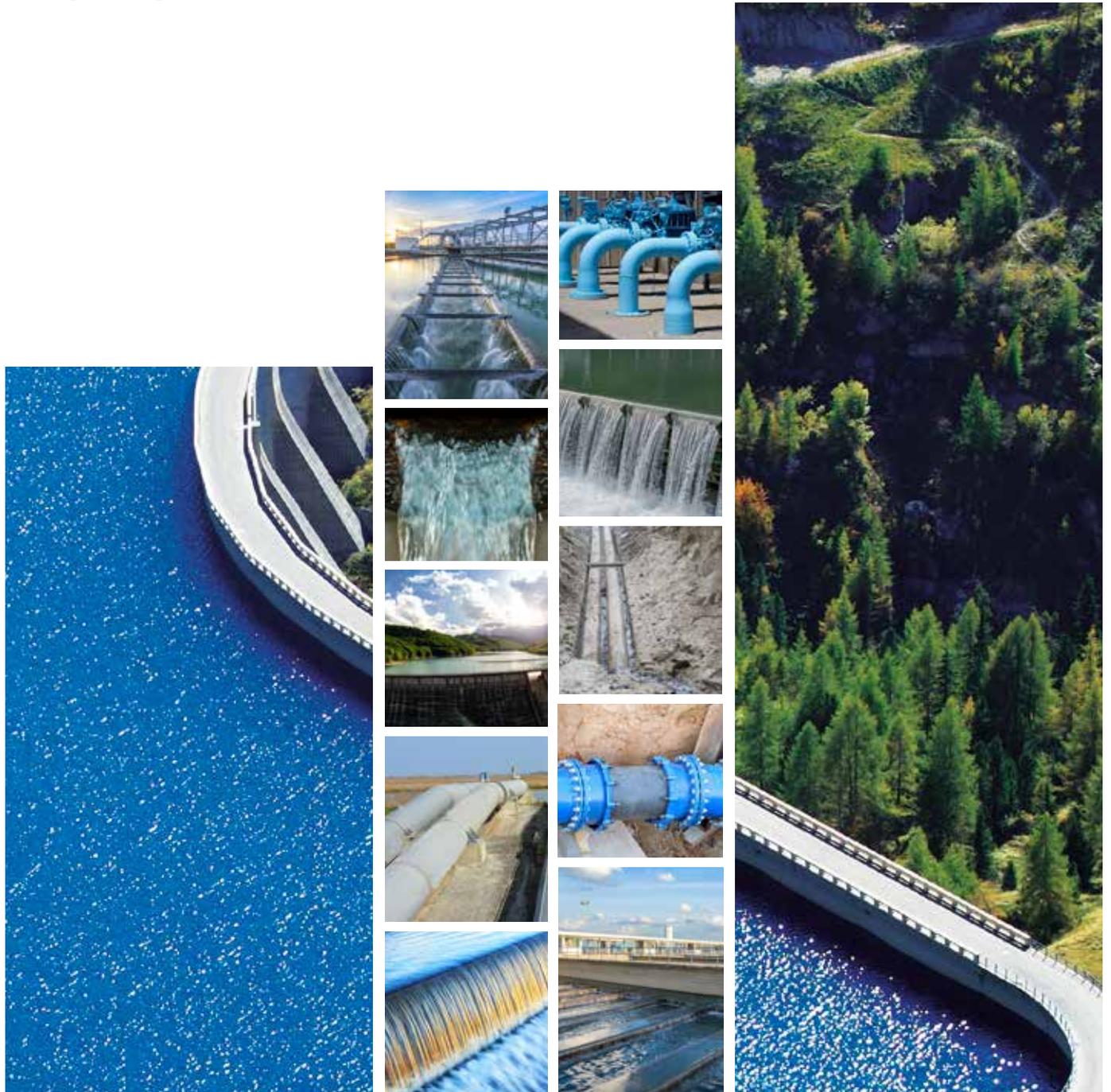


Sustainability Bond Report 2019



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CDP Sustainability Bond Report

- **Following the inaugural Social Bond Issuance in 2017, in September 2018 CDP placed its first “Sustainability Bond”, issued in accordance with the “CDP Green, Social and Sustainability Bond Framework”**
- **The proceeds raised from the issuance have been mainly allocated to financing the construction and modernisation of Italy’s water infrastructure**
- **The funds have been allocated in full, with 1,212 public entities financed**
- **The Sustainability Bond has had an impact on the efficiency of the water system, which can be estimated in a reduction of the water dispersion of over 40 million cubic meters and an estimated employment impact of about 10,314 full-time jobs created and retained**
- **The CDP Sustainability Bond’s contribution to sustainability and its alignment to the Sustainability Bond Guidelines have been confirmed by Vigeo Eiris, as a Second Party Opinion Provider**

The purpose of this document is to provide investors full transparency regarding the allocation of funds one year after issuance, as specified in the “CDP Green, Social and Sustainability Bond Framework”¹ (the “Framework”).

Vigeo Eiris has confirmed that as at 27 September 2019, the proceeds of CDP’s inaugural Sustainability Bond had been entirely allocated to loans that met the eligibility criteria set out in the Framework.

¹ Available on the CDP website at: www.cdp.it/sitointernet/en/investitori/page.

1. Introduction

In September 2018, Cassa Depositi e Prestiti S.p.A. (“CDP”) issued its first Sustainability Bond, which was also the first of its kind in Italy, aimed at supporting mainly investments for the construction and modernisation of Italy’s water infrastructure, in addition to bridging the significant infrastructural gap in this sector and promoting the resumption of investments and the increase in the operating efficiency of the national water network. Furthermore, part of the proceeds were also allocated to the financing of interventions aimed to safeguarding the territory as well as to restoring damage caused by hydrogeological instability. This financing has been destined to Municipalities and Unions of Municipalities, Provinces, Regions, Mountain Communities and “Consorzi di Bonifica”, throughout Italy.

Since its establishment, CDP has been providing financial support to the Government and local authorities, using funds raised mainly through postal funding and also through the issuances on the capital markets. This activity is classed as a “service of general economic interest” and is therefore carried out on the basis of absolute transparency, accessibility and equality of treatment.

With the issue of the Sustainability Bond, CDP wanted

Eligibility Criteria

In accordance with the criteria established in the Framework and in compliance with the Sustainability Bond Guidelines (“SBGs”) issued by the International Capital Market Association (“ICMA”), the proceeds of the CDP Sustainability Bond have been used to finance/re-finance loans dedicated to the:

- realisation of water sector-related projects, such as the installation of new water pipelines or the efficiency enhancement of existing infrastructure;

External Review

Vigeo Eiris has released a Second Party Opinion on the CDP Sustainability Bond in which it confirms its positive contribution to the sustainable development and its

to allocate the proceeds of the issue to the financing of projects included in the first of the four “*Eligible Categories*” defined within the Framework, namely “*Infrastructure and Development of Cities*”.



This category, which also includes the CDP’s activity to support public entities, contributes to the achievement of the UN Sustainable Development Goals (“UN SDGs”) goal number 6. “**Clean Water and Sanitation**” which aims to “*ensure availability and sustainable management of water and sanitation for all*”.

CDP Sustainability Bond – Main characteristics

Issuer	Cassa Depositi e Prestiti S.p.A.	The issue was well received by the market, with over 70 institutional investors involved, of which around 60% from outside Italy. The final book collected orders of around 1.1 billion Euro, 2x the offer.
Nominal amount	500 million Euro	
Issue date	27 September 2018	
Maturity date	27 September 2023 (5Y)	
Coupon	2.125% fixed, annual	
Second Party Opinion	Vigeo Eiris	

- prevention of the hydrogeological instability and protection of the territory, for example, through watercourses’ maintenance and management and measures for hydrogeological restructuring, stabilisation and safety of the soil;
- realisation of interventions on sewerage networks, such as the rainwater regimation and the maintenance and the restructuring of the depuration plants.



alignment with the SBG and with a “reasonable level of assurance”² noticed that:

- CDP shows overall good ESG performance, with an advanced level in the Social domain;

² Assessment scale used by Vigeo Eiris for the level of assurance of opinions issued: Reasonable, Moderate, Weak.

- the “CDP Green, Social and Sustainability Bond Framework” is consistent with CDP’s main ESG strategic priorities, contributes to achieving the sustainable objectives set at corporate level, and is aligned to the SBGs.

As established within the Framework, CDP has appointed a Second Party Opinion Provider, Vigeo Eiris, to verify the compliance of the financing with the eligibility criteria described in the Framework and the related allocation process.

Vigeo Eiris has reviewed the financing portfolio and, based on the assurance procedures conducted, has confirmed that, as at 27 September 2019, **the proceeds of CDP’s inaugural Sustainability Bond had been fully allocated to loans that met the eligibility criteria defined in the Framework.**

The Opinion issued by Vigeo Eiris on the Report is available on the CDP website at the link: www.cdp.it/sitointernet/en/investitori/page.

2. Funds allocation

The allocation of the proceeds has been carried out on the basis of the reports provided by the involved business unit, relating to the financing provided to **Municipalities, Unions of Municipalities, Mountain Communities, Provinces, Regions and “ConSORZI di Bonifica”**.

The assessment and selection of eligible financing has been carried out and supervised by a Working Group mainly made up of members of CDP’s Finance, Business and Sustainability departments.

After one year from the issuance, CDP has achieved the **full allocation** of the proceeds, which have been assigned to existing³ and new⁴ loans.

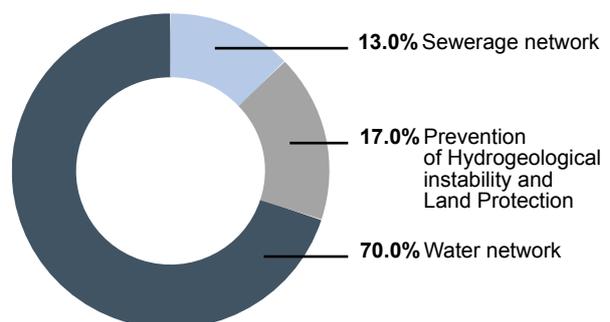
In terms of type of Entities financed, about **70% of the loans (around 345 million euro)** has been provided to **ConSORZI di bonifica** located throughout Italy. These are followed by **Municipalities** and **Regions**, which have been allocated **24%** and **6%** of the proceeds from the issuance, respectively.

In terms of volumes disbursed, **70%** of the entire portfolio is represented by interventions on the **Water Network** with different objectives: creation of new pipelines; completion, modernisation and renovation of existing water networks; connection of different distribution networks. This involved a total of **745 interventions**, accounting for about **350 million euros**.

Another **17% (109 interventions)** of the portfolio was allocated to projects related to **Prevention of Hydrogeological Instability and Land Protection**. These interventions consist, for example, of maintenance of canals and watercourses or investments needed after damages caused by important atmospheric events such as floods and landslides.

The remaining **13% (1,109 interventions)** is represented by interventions on the **Sewerage Network**, including all the wastewater management such as rainwater regulation, treatment plants, maintenance and renovation of the sewerage networks.

Breakdown by type of intervention



³ “Existing loans” are loans granted from 2014 until September 2018 (about 92% of the total).
⁴ “New loans” are loans granted after the issuance of the Sustainability Bond (about 8% of the total).

Geographical breakdown of the financing provided



Regions	%
Piedmont	13.10
Veneto	11.60
Emilia-Romagna	9.90
Tuscany	9.50
Campania	7.90
Lombardy	6.30
Calabria	5.90
Sicily	5.80
Basilicata	5.60
Friuli V.G.	4.80
Lazio	4.20
Apulia	4.10
Liguria	3.00
Sardinia	3.00
Molise	2.10
Abruzzo	2.10
Trentino-South Tyrol	0.60
Marche	0.20
Aosta Valley	0.20
Umbria	0.10

In terms of geographical distribution, **50%** of the financing was allocated to the **Northern regions**, both in the West (Piedmont shows the highest figure, in absolute terms, 13.10%) and in the East part (Veneto received 12% of the loans). In the **South (28%)**, the largest disbursements went to Campania (8%) and Calabria (6%), while in the **Central Regions (14%)**, Tuscany (9.5%) represents the main beneficiary. Of the remaining **9%** allocated to the **Islands**, around 70% went to Sicily.

Matching the breakdown for geographical distribution and type of interventions, it is possible to underline the following:

- **Water Network:** 54% of funds went to the Northern regions, 38% to the South and the Islands (regions showing the highest rate of water dispersion), while the remaining 8% to Central Italy.

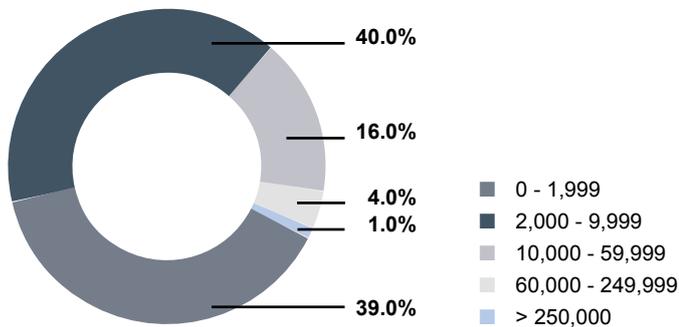
- **Prevention of Hydrogeological Instability and Land Protection:** 47% of the financing was allocated to the **Northern regions** (in particular Piedmont and Liguria, which respectively accounted for 62% and 30% of the total interventions carried out in the North); 40% went to **Central Italy**, with a very significant proportion to Tuscany, which hosts almost all the funding for this type of intervention in Central Italy (96%); the remaining 12% went to the South and the Islands.
- **Sewerage Network:** 60% of the financing went to the **South and the Islands**, where the gap, in terms of infrastructure, is most significant⁵. These were followed by the North (21%) and the Centre (13%).

5 Source: Blue Book 2017; ARERA.

The **Italian municipalities financed** (directly or indirectly through Unions of Municipalities, Provinces, Regions, Mountain Communities and “Consorti di Bonifica”) were **1,212** resulting in the realization of **1,963 projects**.

About **80%** of these municipalities have a **population of less than 10,000 inhabitants**, the most prevalent size class in Italy. Following the sovereign debt crisis, CDP essentially represents the only reference operator for these municipalities, ensuring accessibility to funds, transparency and equality of treatment.

Breakdown by size class of the Municipalities



The **median per capita amount disbursed** is **12.1 euro**. This figure increases as the size class decreases and it reaches a maximum for municipalities with a population less than 2,000 inhabitants, which received the largest part of the funds. The interventions carried out in these municipalities are particularly effective because the resulting benefits (in terms, for example, of modernisation of the water network or renovation of sewage systems) extend to a very high percentage, if not the all, of the inhabitants of the individual municipality.

Breakdown by number of municipalities financed and median amount disbursed per capita

Municipality size class	Number of municipalities financed	Median amount disbursed (Euro/per capita)
0-1,999	474	27.3
2,000-9,999	488	10.4
10,000-59,999	198	3.9
60,000-249,999	45	11.3
>250,000	7	2.7
Grand total	1,212	12.1

3. Impacts

The following table shows some portfolio highlights:

Number of projects financed	1,963
Number of Municipalities financed	1,212
Average amount of financing provided	100,509.01 Euro
Median amount per capita of financing provided	12.1 (Euro/inh.)

a. Employment

The employment impact generated by the financing of the entire portfolio is estimated at around **10,314 full-time jobs created and retained**, of which 51% in municipalities with less than 10,000 inhabitants.

Municipality size class	Volume of financing (million Euro)	Volume of financing (%)	Estimated number of jobs created and maintained	Jobs created and retained on average per municipality
0-1,999	51.0	10	1,051	2
2,000-9,999	204.7	41	4,222	9
10,000-59,999	124.7	25	2,570	13
60,000-249,999	94.9	19	1,956	43
>250,000	25.0	5	515	74
Total	500	100	10,314	8

The impact assessment of CDP Sustainability Bond has been carried out with respect to the following dimensions⁶:

- employment;
- water use efficiency;
- beneficiaries of interventions for the prevention of hydrogeological instability and land protection;
- wastewater treatment management.

b. Water use efficiency

Estimates of the impact on water use efficiency were carried out specifically on projects involving the Water Network, which accounts for the majority of the investments financed (70% of the portfolio). This estimate focuses on the improvement in the efficiency of the Water Network in terms of lower water dispersion. Official data on water dispersion are provided by ISTAT (the Italian National Statistics Institute). The latest available figure is updated to 2015. Water dispersion is defined as the difference between the volumes of water transfer into the system and the volumes of water distributed (about 3,5 billion cubic meters). Based on these figures and assuming that, in 2019, the water dispersion has remained constant, the estimate shows that investments sustained through CDP's Sustainability Bond have contributed to reduce water dispersion by about **48 million cubic metres**, which represents an improvement in the water use efficiency of about **1.4% at national level**. This estimate was computed taking into account the disbursements made by CDP between 2014 and May 2019 and was **particularly positive for the municipalities with up to 2,000 inhabitants**, which received the majority of the financing. In fact, in these municipalities the estimated reduction in water dispersion was **over 40 million cubic metres**, representing an **improvement in efficiency of about 16%**.

⁶ Estimate by CDP's Sustainability area. For more information on the methodology used, see the document published on the CDP website.

c. Beneficiaries of the interventions for the prevention of hydrogeological instability and land protection

The social impact of funding for the prevention of hydrogeological instability and land protection (about 17% of the total portfolio), was measured in terms of the **number of beneficiaries reached**⁷. In fact, given the nature of the investments financed, aimed at maintaining the relevant infrastructures in water management and for the safety of the territories, the benefits deriving from them are extended to the entire population present in the municipalities reached. With a total of almost **84 million euros disbursed**, between 2014 and May 2019, in favour of **81 municipalities spread over 15 Italian regions**, the population that benefited from these interventions is approximately **3.5 million inhabitants**, of which over 30% in Piedmont. Liguria and Sicilia follow, with around 20% of beneficiaries each. A further 20% is distributed over five regions: Friuli-Venezia Giulia (5.9%), Lazio (4.3%), Tuscany (4.2%), Umbria (3.7%) and Calabria (3.2 %). Over **60% of the beneficiaries live in the larger municipalities**, with a population greater than 250,000 inhabitants, while **about 35% are located in the municipalities with inhabitants ranging from 10,000 to 249,000 inhabitants**.

d. Wastewater treatment management

The estimation on the treatment of wastewater was carried out on the portfolio portion related to the Sewerage Network, which accounts for about 13% of the total.

This estimation has focused on the indicator relating to the percentage share of pollutant loads flowing into secondary or advanced plants, in terms of equivalent inhabitants⁸, compared to the total urban loads (“Aetu”) generated⁹. The official statistic data relating to this indicator can be deduced from the ISTAT census of the waters for civil use and it’s also present in the ASviS SDG database¹⁰. The indicator is aggregated at regional level and also in this case the last available data is updated to 2015¹¹. Based on these data, appropriate estimation and extrapolation procedures have highlighted that the investments made with the funds raised from the issue of the CDP Sustainability Bond, **have contributed to the improvement of the percentage of polluting loads that have flowed into secondary plants**¹², compared to the total loads. In the period under review (2014 – May 2019), **the improvement is estimated at around 1.6 percentage points**. The best results were recorded in **Lombardy, Lazio and Veneto** with positive impacts of 2.5, 2.4 and 2.2 percentage points respectively.

7 This indicator is consistent with those reported in the Handbook - Harmonized Framework for Impact Reporting (2019) - ICMA; see in particular on pp.14 Other Sustainable Indicators # 3 Improved measures to reduce risk from adverse flooding impact.

8 The “equivalent inhabitant” is a measure conventionally defined as the quantity of polluting load produced and introduced into the wastewater by an inhabitant. According to the definition given by the current legislation regarding the protection and purification of the water from the pollution (Directive 91/271/EEC), 1 equivalent inhabitant = 60grams/day of BOD5 (biochemical demand for oxygen at 5 days).

9 This indicator is consistent with those reported in the Handbook - Harmonized Framework for Impact Reporting (2019) - ICMA; see in particular on pp.13 Wastewater Treatment Projects, Core indicator B, # 3.

10 Cfr. <https://asvis.it/dati/>.

11 By way of comparison, it can be observed that in 2015 (the latest data available according to the ISTAT census), the percentage of pollutant loads flowing into secondary or advanced plants at national level, compared to total loads, was 59.6%.

12 The impact is statistically significant at a level of 10%.

4. Case Study

Consorzio di Bonifica Adige Euganeo



The “Consorzio di bonifica Adige Euganeo”, established by the Regional Law 12/2009, carries out its activities in an area covering 119,207 hectares, within the provinces of Padua, Verona, Venice and Vicenza and involving 70 municipalities. The area covered, overlooking the large towns, mainly consists of small inhabited centres of 3,000-5,000 inhabitants, with a total population of over 260,000 people. This is a particularly fragile area in terms of water management, characterized by a series of problems and criticalities, to which the Consortium responds with its activity also in collaboration with local authorities.

The Consortium is currently the most important local organisation for social and economic development and has taken a key role for the control and protection of the environment, for the implementation of programs for the conservation, the protection and the hydraulic arrangement of the soil and for the efficient use of the water resources in order to meet the ever-increasing need for water security in the area.

The funds raised from the issuance have been allocated to two projects related to the modernization and the efficiency improvements of the water intakes and also to adaptation, completion and extension works on the water network in the basins using the waters of the Adige, Guà-Frassine and Fratta-Gorzone rivers, in order to allow a more efficient use of water resources. In particular:

- the first project, which benefited from the disbursement of funds in the period 2014-2019 of **around 3.6 million euro** (on a granted amount of 3.9 million euro), has reorganised the water infrastructure, through the **renovation and opening of existing drains, to improve their efficiency, within an area of around 2,242 hectares** covering

Registered office	Este (Padua) - Veneto
Area covered	Provinces of Padua, Verona, Venice and Vicenza
Municipalities involved	70
Number of employees	102
Amount disbursed	5,095,261.01
Type of intervention	Water network efficiency enhancement

the municipalities of Ospedaletto Euganeo, Saletto, S. Margherita d'Adige, Ponso and Piacenza d'Adige, in the province of Padua;

- the second project, funded through disbursements in the period 2014-2016 for a total of **around 1.5 million euro** (on a granted amount of 1.9 million euro), involved the **completion, renovation and modernisation of the water infrastructure** for the supply and distribution within the basins serving the municipalities of Barbona and Boara Pisani, in the province of Padua.

Canale Santa Margherita (near Santa Margherita d'Adige)



- Around **1,550 inhabitants** have benefited from these projects.
- The two projects have enabled the repair of around **10,237 metres of channels** and the laying of **new water pipes**, for a total length of **2,560 metres**.

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