Social Bond **Report 2021**

Our support to companies' restart and innovation

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Social Bond Report

- **On September 2020 CDP issued a new Social Bond, under the "CDP Green, Social and Sustainability Bond Framework"**
- **The proceeds of the issue were allocated to support both Italian enterprises harshly hit by the pandemic emergency, and those investing in research, development, and innovation**
- **The proceeds have been allocated among more than 70 companies**
- **51% of the issuance proceeds have been allocated to the manufacturing sector**
- **The CDP Social Bond' contribution to sustainability and its alignment to the *Social Bond Principles* have been confirmed by ISS ESG, as a Second Party Opinion Provider**

The purpose of this report is to offer full transparency regarding the allocation of the funds within one year after the issuance, as specified in the "CDP *Green, Social and Sustainability Bond Framework*" (the "Framework").

ISS ESG Corporate Solutions ("ICS") has confirmed that as of September 20 2021, CDP's Social Bond Report is aligned with the Social Bond Principles ("SBPs") and ICMA's Harmonised Framework for Impact Reporting.

72
Firms

51%
Manufacturing sector

180+
Investors

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

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Introduction

On September 2020, Cassa Depositi e Prestiti S.p.A. ("CDP") has issued its fifth **Social Bond**, from which the proceeds have been used to sustain **Italian enterprises** investing in research, development, and innovation and those harshly hit by the Coronavirus emergency, with the aim to sustain future growth and employment in Italy. The issuance is consistent with CDP's priority objectives aimed at **promoting social cohesion and sustainability development**.

In 2017 CDP lead the way, launching the first Social Bond, committing the proceeds to the support of Italian companies' growth and to employment. Since then, CDP have issued 7 sustainable bonds, the last of which in June 2021, for a total value of **over 4.5 billion of euro**, accordingly becoming the **first Social issuer in Italy**, and one of the most important in Europe.

September 2020's issuance, as is well known, occurred within a context of great distress of the Italian productive structure. Over all 2020, Italian real Gross Domestic Product registered a contraction of about 8.9%[2]. The liquidity crunch related to the pandemic containment measures has generated, firstly, a 9.1% contraction in gross fixed investments and, secondly, an increase of over 8% in bank loans to companies[3]. In this context, investments in innovation has registered a significant contraction: as a matter of fact, research and development expenditure has decreased by 4% and investment in intellectually property products contracted by 3% (more pronounced than the 6% registered in France, and the1.1% in Germany)[4].

CDP has decided to evolve the proceeds of this social issue to support enterprises and, therefore, to initiatives falling into the category ***"SMEs and Corporate Financing"***, one of the four "Eligible Categories" defined within CDP's Framework.
Said category contributes to the achievement of two of the Sustainable Development Goals set by the United Nations ("UN SDGs"), namely number 8, ***"Decent Work and Economic Growth"*** which aims to ***"promote sustained, inclusive and sustainable growth, full and productive employment and decent work for all"***, and number 9. ***"Industry, Innovation and Infrastructure"*** which objectives is to ***"build to resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation"***.

Eligibility Criteria

In accordance with the criteria established within the Framework and in compliance with the Social Bond Principles (**"SBPs"**) defined by the International Capital Market Association (**"ICMA"**), CDP's Social Bond proceeds were used to finance, directly, Italian companies which:

- invest in **research, development and innovation**;
- have found themselves in a state of temporary difficulty as a result of the pandemic caused by Covid-19 or the measures aimed at preventing and containing said pandemic, with the objective of both supporting their current liquidity needs and promoting their subsequent **economic recovery** through medium/long-term investments;

in order to support **growth** and **employment**.
None of the projects funded with the proceeds raised by the issuance of the Social Bond fall within any of the business sectors that are not eligible under the Framework.

CDP Social Bond – Principali caratteristiche

Issuer	Cassa Depositi e Prestiti S.p.A.	The issue was received by over 180 investors, with the highest proportion of foreign investors, amounting to 76% of the total, among CDP's ESG issue.
Nominal	€750 million	
Issue Date	September 21st 2020	
Maturity Date	September 21st 2028 (8Y)	
Coupon	1.00% fixed, annual	

External Review

ISS ESG has released an External Review of CDP's Social Bond Report 2021 confirming the Bond's positive contribution to sustainable development and its alignment with SBPs.

Specifically, as of September 20 2021, ISS ESG's Opinion is as follows:

1. **Alignment with the criteria established within the Framework, in line with the SBPs**: ISS ESG believes that the Social Bond Report 2021 meets CDP's commitments under the Framework and is aligned with the SBPs. All fundamental requirements defined by the SBPs have been disclosed within the Framework and therefore been met within the Social Bond Report 2021;

2. **Alignment with the best market practices, defined within the HFIR**: ISS ESG believes that the Social Bond Report 2021is in line with the Harmonized Framework for Impact Reporting settled by ICMA All key mandatory and optional requirements have been met;

3. **Robustness of KPIs**: ISS ESG notes that the KPIs used within the Social Bond Report 2021 by CDP are aligned to the market practices and to SBPs. The income allocation section appropriately shows the allocation of the issue proceeds. The indicators selected for impact reporting are relevant and aligned with market guidance metrics, and the source and methodology information are properly explained.

The Opinion released by ISS ESG of the Report is available on CDP website by the link: https://www.cdp.it/sitointernet/en/investitori.page

ISS ESG

2 Istat data, annual accounts.
3 Bank of Italy data, Annual Report 2020.The increase in bank loans to companies is mainly attributable to government guarantees made available during the year.
4 Bank of Italy data, Annual Report 2020.

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Funds allocation

During the first year of life of the Social Bond, CDP has achieved the **full allocation** of the proceeds, 53% of which have been allocated to pre-existing projects funded between 2019 and September 2020, while 47% to new initiatives underwrote after the issuance of the Social Bond.
The valuation and selection of eligible funding have been conducted and supervised by a work team specifically formed for the issuance, composed by members of the following CDP's departments: Finance, Business, Sustainability and Investor Relations.

With regard to the allocation of the Bond, some data on the portfolio underlying the issue are described below:

Number of Italian enterprises funded	72
Average amount of projects funded	circa € 16,3 millions
Average maturity of projects funded	circa 76 months

The data shows that at the overall portfolio level, **36%** of loans have been allocated to **Small and Medium** enterprises while the **64%** to Large enterprises[5]. It is worth noting in this regard that:

1. Italian medium companies are characterized by high labor productivity, which is higher than that shown by French and German companies of the same size[6];
2. Large companies realize the highest volumes of intra-muros' research and development expenditure in Italy.

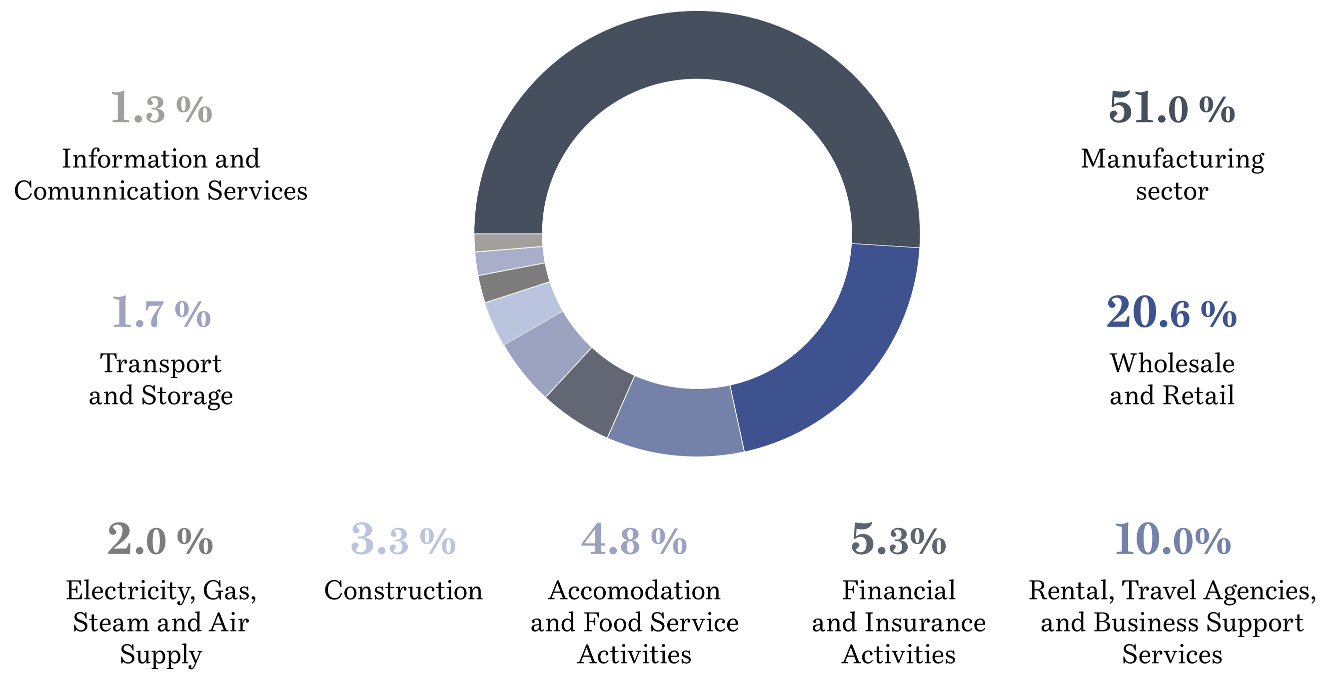
Regarding the **distribution of funds** by **business sector**, the **51%** of proceeds raised through the issue went to the manufacturing sector (approximately 384 million of euro in total).

As it is known, the manufacturing[7] sector has an **exceptionally important role** in the national economy, ranking first both in terms of employment and output. Moreover, in terms of added value, Italian manufacturing is second in Europe only to German manufacturing , and in terms of its contribution to innovation, more than 50% companies with innovative activities in Italy are manufacturing companies[8].

About 21% of the funds were allocated, instead, to the **Wholesale and Retail Sector** (a particularly important segment in the national economy, considering that it employs more than 13% of the country's total employees[9]), followed by **Rental, Travel Agencies and Business Support Services** (10%).

In terms of geographical distribution, about the **37%** of the overall funds have been allocated to companies located in **Lombardia**. **Veneto** and **Emilia-Romagna** follow with respectively the **14%** and the **12%** of the proceeds allocated. This allocation reflects how a large part of the Italian entrepreneurial structure is distributed in these areas.

Distribution of funds by business sector (%)



5 "Small enterprises" refers to companies presenting between 10 to 49 units of workers. "Medium enterprises" refers to companies presenting between 50 to 249 units of workers. "Large enterprises" refers to companies with more than 249 employees.
6 CDP Think Tank processing of Eurostat 2018 data. The figure refers to "apparent" labor productivity, i.e., not adjusted for wage differences.

7 Eurostat 2018 data. It refers to the added value at factor costs.
8 Istat 2018 data.
9 CDP Think Tank elaboration based on Istat 2018 data

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Impacts

The estimate and the measurement of the impacts generated by the CDP Social Bond involved different areas[10]. In particular, considering the underlying portfolio consisting of **72 companies**, it was decided to assess both the **liquidity need**, for the part of the portfolio that benefited from loans with medium-long term maturities to support companies in the pandemic phase, and the trend in **research and development expenditure** for remaining part of the portfolio.

Liquidity needs

The Social Bond funds have made it possible to support **67 Italian companies** in temporary difficulty due to the pandemic emergency with the aim of both supporting them in their current liquidity needs and promoting their subsequent economic recovery through medium-long term investments.

During 2020, the pandemic crisis caused the **interruption of the operations** of thousands of companies throughout Italy and a general **collapse in turnover** in many sectors. The peculiarity of the crisis caused by Covid-19 is represented on the one hand by the temporary nature of the interruption of supplies and on the other by the collapse in demand. For this reason, the contribution CDP made through this issuance to **supporting companies' liquidity need** has been essential to address the temporary decline in sales.

Adopting the methodology developed by Schivardi and Romano[11] (2020), the liquidity needs of the companies to which a loan was granted using the funds of the Social Bond issue was estimated. This methodology, in fact, allows you to estimate the trend of the company's cash flow during 2020 and to check whether the available cash at the end of the fiscal year was sufficient to cover operational needs.

By applying this methodology to the portfolio, it is estimated that:

- **about 35%** of companies were unable in 2020 to cover production costs and personnel costs and recorded negative cash flows. Of these, 50% were unable to compensate for negative cash flows even by drawing on liquid assets recorded in previous financial statements.
- the remaining **65%** of the companies in the portfolio were able to maintain positive cash flows also in 2020. However, it is estimated that the year just ended has in any case made the business activity very complex even for those who managed to maintain at least in part liquid assets. This was only possible in the face of a very substantial cost cut, with a reduction in supplies and personnel costs, especially for those hired on a fixed-term basis.

The table below summarizes the estimates of the level of liquidity of the companies benefiting from the collection of the Social Bond and the amount of funds disbursed to compensate for the erosion of liquidity caused by the reduction in turnover during 2020.

Financed companies classified based on the percentage of costs covered by cash and cash equivalents[12]	Percentage of the loan allocated to each class of companies	Jobs (total employees)
Less than 0	22%	5,616
Lower than 10%	30%	16,160
between 10% and 25%	43%	41,285
between 25% and 50%	4%	1,960
more than 50%	1%	250

10 Valuation and assessment made by CDP Sustainability Team. For further information about the methodology adopted, please see the dedicated document published on CDP website.
11 Schivardi, Fabiano and Romano Guido. "A simple method to estimate firms' liquidity needs during the Covid-19 crisis with an application to Italy." (2020): 51-69.
12 The column classifies the beneficiary companies based on the ratio between annual production and personnel costs and the amount of estimated available liquid resources. By way of example, a percentage of less than 10% indicates that a company is able to cover less than 10% of annual costs with available cash.

The CDP Social Bond therefore contributed to **ensuring liquidity** for those companies in trouble, allowing them t**o cover production and personnel costs** and at the same time to maintain employment levels. In many cases, ensuring liquidity for companies to meet their operating costs is what can make the difference between a company's survival and the risk of crisis, especially in the context of the current Covid-19 emergency. Furthermore, since these are loans with an average duration of approximately 6 years, the companies have been able to lighten the capital structure with a consequent **potential recovery in investments**. In fact, a decrease in company performance associated with an increase in the debt situation would contribute to weakening the capital structure of companies and consequently their ability to invest and compete on the markets[13].

Research, development and innovation

The Social Bond funds allowed to support **5 companies**, operating mainly in the manufacturing sector, to invest in research, development and innovation. Among the various funded projects there are, for instance, projects for the research of new solutions for the electrification of vehicles in the automotive sector; for the technological renewal and optimization of processes in companies operating in the food industry, as well as projects for the identification of increasingly sustainable solutions in the agriculture field.
Based on available data, due to the pandemic, that has reduced the operability of laboratories, workshops, and research centers, **research, development and innovation expenditure** in relation to the turnover of the companies financed through CDP issuance **reduced between 5% and 7%**[14] , to a lesser extent than the national average which stands at around 13% [15].

13 Brunori, Francesca e Rapacciuolo Ciro. "Debito e oneri finanziari molto pesanti nei settori di industria e servizi a causa della pandemia". Nota dal CSC. Numero 1/21 – 4 gennaio 2021.
14 Evaluation made by CDP Sustainability Team, on the basis of data received from the companies contacted.
15 Evaluation made by CDP Sustainability Team, on the basis of Istat and IHS data.

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