Finance your growth in China with the proceeds of the Panda Bond

July 2020

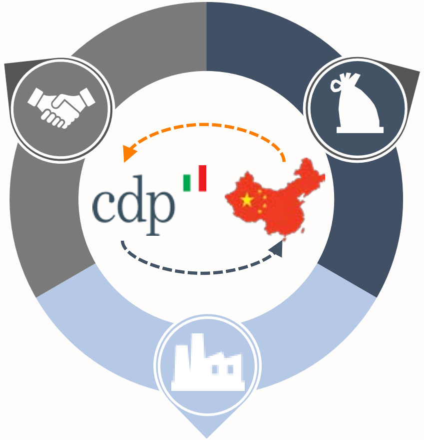
Cassa Depositi e Prestiti
Investing in tomorrow

CDP financing program for development projects in China

Mission Supporting **Italian companies** already **operating** in China or potentially **interested** in operating there

1 Agreements with local financial institutions

CDP has finalized several collaboration agreements and MoUs with leading financial institutions in China



2 Funds raising

CDP raised 1 billion Renminbi by issuing Panda Bonds for institutional investors operating in China and made them available through medium / long term credit lines

3 Structuring of financing program

The capital raised on the market will be used **to support the growth and investment made or to be made by Chinese branches or subsidiaries of Italian companies in China**, by granting Renminbi denominated medium-long term loans at fixed rate both **directly** within the co-financing programme with Bank of China and **indirectly** through Banca MPS – Shanghai Branch.

Funds raising: the Panda Bonds

Highlights

of the tool

- On 1 August 2019 CDP issued its first Panda Bonds, for a nominal value of **1 billion Renminbi**
- The bonds have a duration of **3 years** with an **annual coupon of 4.50% p.a.**
- The rating agency China Chengxin International Credit Rating Co Ltd (CCXI) has assigned CDP an on-shore **rating of AAA**
- This first tranche is part of the wider **CDP bonds issuance program** approved by the **People's Bank of China (PBoC)** for a total amount of **5 billion Renminbi**

Rational

of the transaction

- **Providing financing in local currency** to support - either directly or through Chinese branches of Italian banks or through Chinese banks - branches or subsidiaries of **Italian companies established in China**
- **Diversification of CDP's investors base** through **the opening of a new funding channel** in a market with strong potential as the Chinese one
- CDP has been the **first European National Promotional Institution** to explore this market

Medium-long term CDP financing program in Renminbi at a fixed rate

Direct lending

Actor	Activity
Bank operating in China cdp	• Check eligibility criteria • Creditworthiness assessment of the counterparty and guarantor • Preliminary due diligence, resolution, execution and drawdown of the financing
sace simest gruppo cdp	• Creditworthiness assessment • Possible support of SACE by granting a guarantee in favor of the Lender

Method of intervention

Financing in Renminbi

Guarantee up to 80%

Final beneficiary

Chinese branches/ subsidiaries controlled (also indirectly) by Italian companies

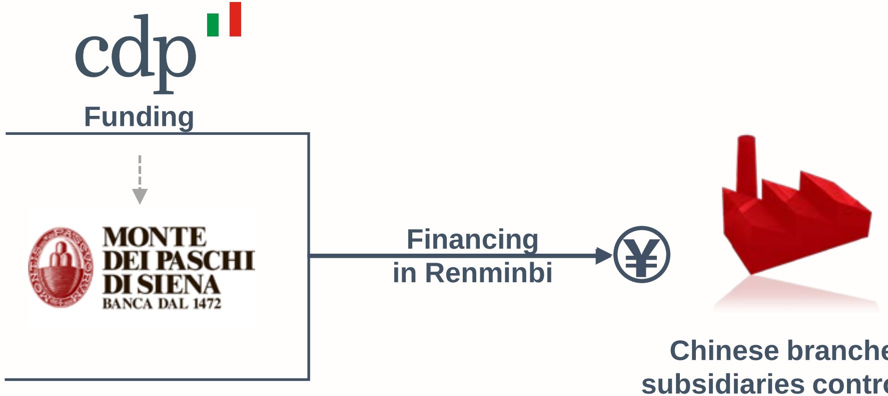
- Facilitating access **to medium-long term loans** in a mainly short-term market
- **Mitigation of foreign exchange and interest rate risks** thanks to loans denominated in local currency at a fixed rate

Medium-long term CDP financing program in Renminbi at a fixed rate

Indirect lending

Actor	Activity
cdp	Granting part of the medium-long term funding in Renminbi deriving from the issue of the Panda Bond to the MPS – Shanghai Branch
Monte dei Paschi di Siena – Banca dal 1472 **Shanghai Branch**	• Check eligibility criteria • Creditworthiness assessment of the counterparty and guarantor • Preliminary due diligence, resolution, execution and drawdown of the financing

Method of intervention



Final beneficiary

Chinese branches/ subsidiaries controlled (also indirectly) by Italian companies

Thanks to the indirect lending program, CDP also facilitates access to mid-long term financing in local currency to SMEs through Banca MPS – Shanghai Branch.

Main features of CDP financing

Direct lending

Main terms and conditions

- **Currency** → Renminbi (yuan)
- **Minimum amount** → Equivalent of 5 €/Mln*
- **Interest Rate** → Fixed: cost of funds (Panda Bond) + Guarantor credit spread
- **Beneficiary** → Chinese* branch / subsidiary of Italian company (controlled also indirectly)
- **Guarantor** → Italian Holding Company
- **Facility Agent** → Monte dei Paschi di Siena, Shanghai *Branch*
- **Duration** → Up to 2/3 years
- **Repayment** → Bullet at maturity

Financing purpose

i

Target of the initiative: growth of Chinese branches or subsidiaries of Italian companies already operating or interested in operating in China

ii

***Use of proceeds*:**

- CAPEX and investments
- M&A
- Stock of working capital for growth in China

iii

Opportunities for **refinancing** and **reimbursement** of the residual value of CAPEX already incurred with its own funds and not yet fully amortized

* CDP has the possibility to support SMEs for transactions below the RMB value of 5 €/Mln, using the indirect financing program through MPS – Shanghai Branch

** Companies resident in the People's Republic of China except Hong Kong, Macau and Taiwan

Chinese regulatory framework

- Loans granted by CDP to Chinese companies with foreign shareholders (Foreign-Invested Enterprise or "FIE") are classified as cross-border loans (c.d. **Foreign Debt**)
- Foreign Debts are subject to the administration and regulation of People's Bank of China ("**PBOC**"), the State Administration of Foreign Exchange ("**SAFE**") and the National Development and Reform Commission ("**NDRC**"). The supervisory activity of the three aforementioned authorities provides that the Chinese borrower shall comply with certain conditions, among which the most significant are listed below:

A **Limit on foreign debt** (so-called **Foreign Debt Quota**): each Chinese borrower may subscribe a loan with foreign national counterparties within certain “quotas” permitted by Chinese law (so-called foreign debt limits) based on the selected calculation model ("**Borrowing Gap**" and "**MPA Model**")

B **registration of the loan agreement with the SAFE**: one-time registration of the Foreign Debt by the debtor with consequent obtaining of a certificate of approval necessary to open a current account at the local branch of Bank of China to use the loan proceeds (**Foreign Debt Account**). The obtainment of the registration certificate is a **condition precedent** for the first utilization of the loan.

C **purpose of funding and use of funds**: CDP loans may be used for certain purposes including capital expenditures, working capital and refinancing. The consistency of the purpose of the loan is verified by the SAFE during the registration process of the loan agreement and by the agent bank during the life of the loan.

Analysis of Chinese tax treatment: CDP * foreign loans vs. domestic financing

Tax	Description	CDP Financing	Domestic Financing
Withholding tax (“WHT”)	Withholding amounting to approximately 10% of gross interest paid	✓	-
Value-added Tax (“VAT”)	Equal to 6% on interest paid	✓	✓
Local surtaxes	Calculated on VAT amount (indicative range between 0.66% and 0.75%, corresponding to 11% and 12.5% of VAT)	✓	✓
Stamp duty	Equal to 0.005% of the notional amount of the loan agreement for both Borrower and CDP (Borrower CDP share)	✓	✓

Pending the ratification of the new double taxation treaty between Italy and China ** to bridge the current tax GAP with the domestic loans, **CDP will reimburse on a best effort basis the WHT already paid by the borrower when CDP will recover the tax credit from its tax return** (mismatch of about one year).

* CDP loan agreement will provide for appropriate provisions aimed at ensuring that the applicable taxes indicated above are contractually payable by the Borrower with the gross-up and tax indemnity mechanism.
** Agreement signed on March 23, 2019 between the Governments of Italy and China envisaging the deletion of the WHT on CDP Loans

Successful cases

SDF
Farming Technology. Since 1927.

Panda Bond

RMB ~ 395 Mln

SOFIMA

Panda Bond

RMB ~ 40 Mln

Major Group in Automotive Industry

Panda Bond

RMB ~ 60 Mln

EUROMISI LAMINATIONS CHINA

Panda Bond

RMB ~ 80 Mln

FIAMM
Your World, Our Energy

Panda Bond

RMB ~ 40 Mln

METER

Panda Bond

RMB ~ 40 Mln

MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

Panda Bond

RMB ~ 230 Mln

cdp

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Thank you

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Investiamo nel domani