

# **Kingdom of Spain Green Bond Investor Presentation**

**October 2022**

# Index

---

- 1. Kingdom of Spain's environmental ambition**
- 2. Green Bond Framework presentation**
- 3. Green eligible expenditures**
- 4. Issuances and reporting**

## 1. Kingdom of Spain's environmental ambition

# The need for decisive climate action

The government of Spain has put **climate action at the centre of its agenda** with an ambitious climate framework to become a **climate neutral and resilient economy**, consistent with the Paris Agreement and the UN SDGs



## Scientific context

There is an urgent need to accelerate **global efforts** to combat climate change

- **Oct-2018: Intergovernmental Panel on Climate Change (IPCC)** published Special Report on the impacts of global warming scenarios

### Main conclusions:

1. Earth's average temperature is **already 1°C above** pre-industrial levels
2. Urgent **global need to combat climate change** to comply with Paris Agreement
3. Serious **natural, economic and political consequences**



## Spain's commitments

Spain developed an ambitious **climate action agenda**

- **2020:**
  1. Declaration of *Climate and Environmental Emergency in Spain*
  2. *The Strategic Energy and Climate Framework* including:
    - Climate Change and Energy Transition Law
    - Integrated Energy and Climate Plan
    - Climate Change Adaptation Plan
- **2021: *Recovery, Transformation and Resilience Plan***

# Spain's environmental objectives (1/3)

Spain's climate action agenda is based on two pillars: the **Strategic Energy & Climate Framework** and the **Recovery, Transformation and Resilience Plan** that represent a roadmap towards a more resilient and climate-neutral country



## Strategic Energy & Climate Framework:

- 1 Climate Change and Energy Transition Law
- 2 Integrated Energy and Climate Plan
- 3 Climate Change Adaptation Plan



## Recovery, Transformation and Resilience Plan:

- 1 **Pluriannual Program** in response to the pandemic
- 2 **Main message:** "Spain's economic recovery will be decidedly green and blue"
- 3 **40% of the funds** in investments aligned with climate action & **100%** with DNSH principle



## Main green targets



Reduce Green house gas emissions



Boost renewable energy



Improve energy efficiency



Contribute to a sustainable growth



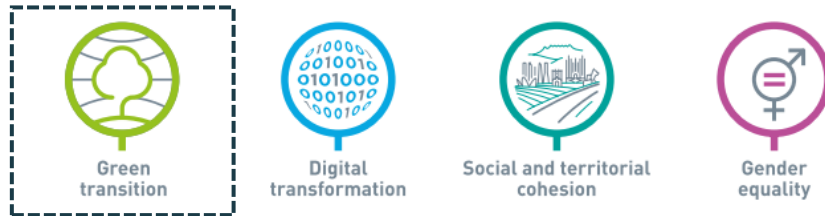
Increase climate resilience

# Spain's environmental objectives (2/3)

The **ecological transition** is an indispensable reference and **cross-cutting driver** for all RT&R Plan measures and actions. The ecological transition and climate measures are present across the board throughout the plan

## SPAIN'S RECOVERY, TRANSFORMATION AND RESILIENCE PLAN

### 4 cross-cutting lines of action



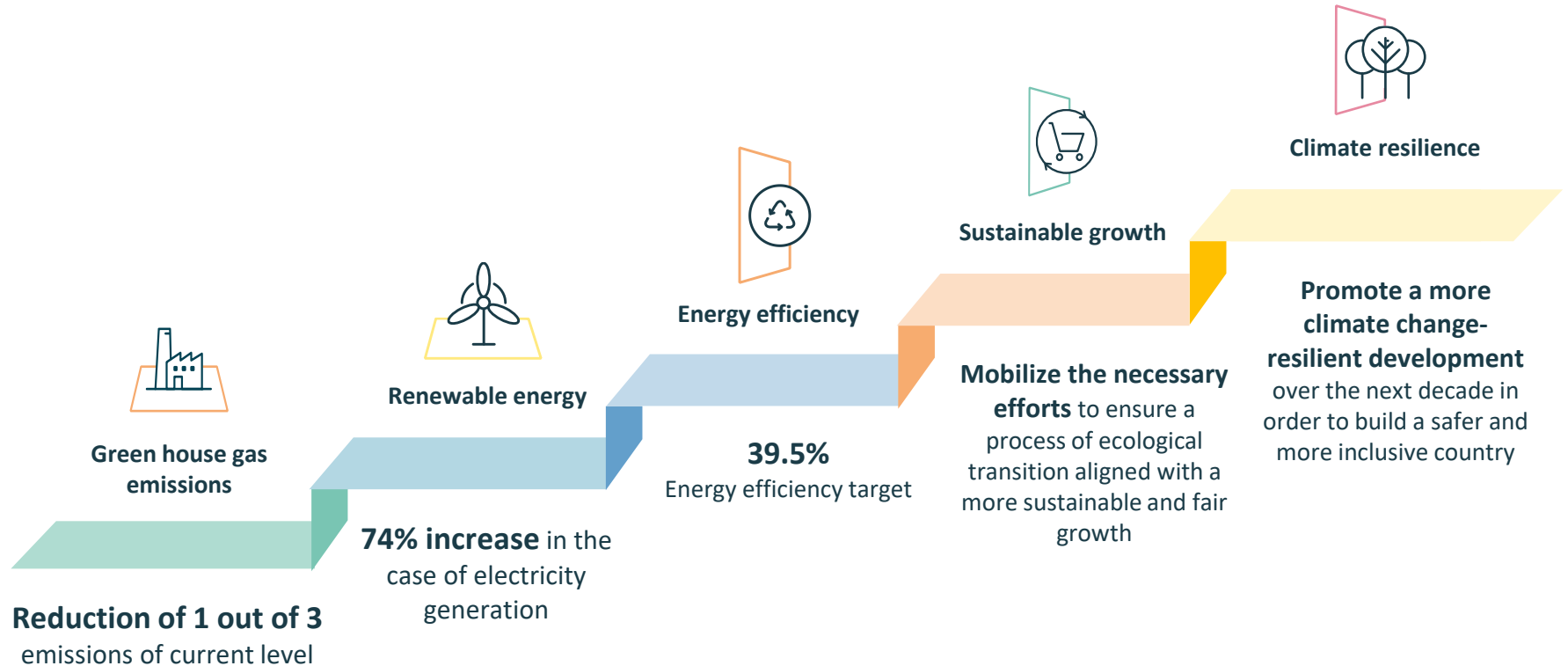
### 10 lever policies



The mainstreaming of environmental aspects in the RT&R Plan is ensured by the application of the **"do not significant harm" principle** to all reforms and investments

## Spain's environmental objectives (3/3)

Spain has committed to very **ambitious climate and energy targets** in terms of emission reductions, renewable energy, energy efficiency and enhancing our climate resilience. This is part of a clear **political priority to lead on the ecological transition** and in line with ensuring the EU is a climate leader.



Spanish objectives already **advanced the new EU climate ambition** and are **in line with the European Fit for 55 Package**

# Spain's contribution to sustainability

Spain ranked **12th in the last Global Sustainability Index**, which examines the policies and actions regarding the environment of every nation combining the most respected global indexes on pollution and climate change

Spain ranks **8<sup>th</sup> in renewable energy power capacity** worldwide



2<sup>nd</sup> European country and 5<sup>th</sup> worldwide in **wind energy facilities**



Main facts

In Spain, **66% of IBEX 35** companies already assess their suppliers under **social criteria** and **71%** do so based on **environmental criteria**



According to US think tank Pew Research, Spain is **4<sup>th</sup> most concerned country worldwide**. 81% of Spaniards believe climate change is a threat





# A strong sustainable finance market 1/2

Spain is also working intensively on the **development of sustainable finance markets**. To this effect, Spain is designing a **National Sustainable Finance Plan** and announced the issuance of **Spain's first sovereign green bond**

## Transform the financial sector

Involving economic agents, with a view to protecting the country's economy from the risks of climate change

## Improve competitiveness

Opportunity to modernize, facilitate innovation and improve competitiveness



## Reorientate capital flows

Towards a low-carbon, climate resilient and more sustainable economy and investments taking advantage of the high demand in investment community

## Attract other agents

Decisive participation by the private sector is essential

In parallel, Spain decided to issue its first sovereign **green bond**

# A strong sustainable finance market 2/2

In Spain, sustainable financing grew again in 2020 despite the unfavorable circumstances caused by the pandemic

## Amount of sustainable financing



- In 2020, a **total volume of 33 billion euros** were issued in Spain through green, social and sustainable bonds, as well as green loans. Only in 2020, **this market segment grew by 19%**

Source: OFISO (data from Bloomberg)

## 2. Green Bond Framework

# Green bonds' environmental objectives

Through the **issuance of green bonds**, Spain expects to finance public expenditure programs that **contribute to achieving several environmental objectives**



## Environmental objectives

- 1 Climate change **mitigation**
- 2 **Adaptation** to climate change
- 3 **Sustainable use** and protection of **water** and maritime resources
- 4 Transition to a **circular economy**
- 5 **Pollution prevention** and control
- 6 Protection and **recovery of biodiversity** and ecosystems

The eligible projects will also contribute substantially to the achievement of the following United Nations' **Sustainable Development Goals**:



# Governance

The Spanish Government decided to establish an inter-ministerial **Working Group (WG)** to coordinate the structuring and monitoring of Spain’s sovereign green bond program. This WG operates **under the mandate of the Governmental Delegated Commission for Economic Affairs**



# Green Bond Framework: Overview

The Kingdom of Spain's green bond framework is fully aligned with the **Green Bond Principles of the International Capital Markets Association (ICMA-2021)**



## Use of Proceeds

All designated eligible green projects provide clear environmental benefits



## Process for Project Evaluation and Selection

Only projects aligned with the green objectives of Spain are selected



## Management of Proceeds

Proceeds will be appropriately tracked by the Spanish Treasury in accordance with its fund management policy



## Reporting

Reports on the allocation and impact on an annual basis with a high level of transparency

## + 2 new recommendations

1

Publication of a **GBF explaining alignment with GBP** and Spain's overarching sustainability strategy

2

**External reviews:** pre-issuance assessment (SPO on the GBF) and post-issuance assessment (verification of allocation)



Spain will look for the best way to **incorporate the EU Green Bond Standard** content to the framework (including the implementation acts of the Taxonomy of Sustainable Finance), once it has been published and developed

# Green Bond Framework: Use of Proceeds

An amount equivalent to the net proceeds obtained through the issuance of green bonds will be allocated to expenditures **aligned with Spain's environmental objectives**



## Categories

1. Renewable Energy
2. Clean Transportation
3. Sustainable water & wastewater management
4. Energy efficiency
5. Protection & restoration of biodiversity, ecosystems & environmentally sustainable management of natural resources
6. Pollution prevention and control and circular economy
7. Adaptation to climate change



## Type of Expenditures

1. Capital expenditures
2. Current Expenditures
3. Transfers & subsidies
4. Tax benefits



## Period

Expenditures planned for:

- The **current fiscal year**
- Executed in the **two previous years** (up to three for a new benchmark)















## Exclusions

- Fossil fuels
- Nuclear energy generation by fission
- Energy generation with emissions above 100 gCO<sub>2</sub>/kWh
- Intensive livestock farming
- Alcohol and tobacco industries
- Gambling
- Arms production and contracts
- Mining

# Green Bond Framework: Use of Proceeds - (Categories 1)

The projects selected for the Kingdom of Spain's sovereign green bonds will fall under the **eligible expenditure categories**, contributing to environmental objectives and Sustainable Development Goals

Eligible categories	EU taxonomy categories	Sustainable Development Goals
 <p><b>Renewable Energy</b></p>	<ul style="list-style-type: none"> <li>Climate change mitigation</li> </ul>	 
 <p><b>Clean Transportation</b></p>	<ul style="list-style-type: none"> <li>Climate change mitigation</li> </ul>	  
 <p><b>Sustainable water &amp; wastewater management</b></p>	<ul style="list-style-type: none"> <li>Sustainable use and protection of water and marine resources</li> <li>Pollution prevention and control</li> </ul>	
 <p><b>Energy efficiency</b></p>	<ul style="list-style-type: none"> <li>Climate change mitigation</li> </ul>	 









Check examples of expenditure items





# Green Bond Framework: Use of Proceeds - (Categories 2)

The projects selected for the Kingdom of Spain’s sovereign green bonds will fall under the **eligible expenditure categories**, contributing to environmental objectives and Sustainable Development Goals

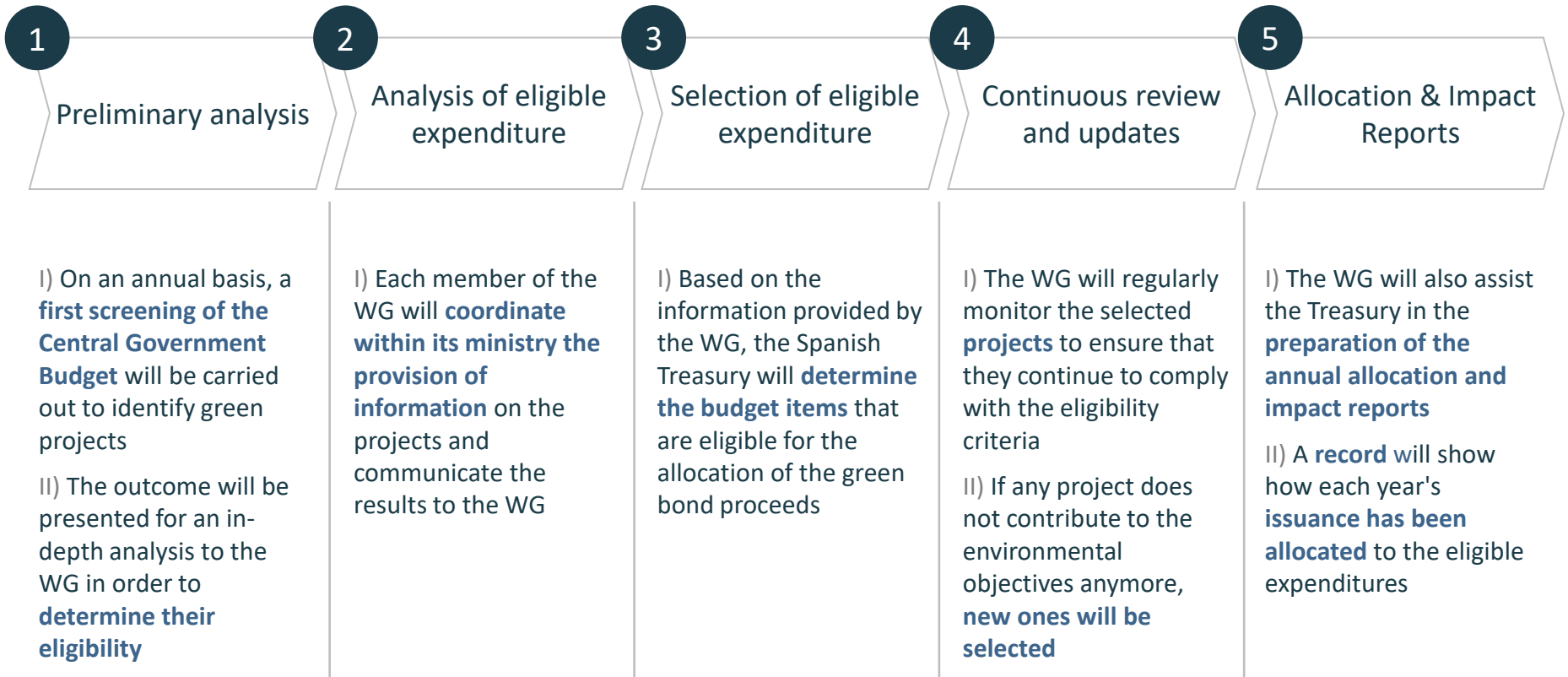
Eligible categories	EU taxonomy categories	Sustainable Development Goals
 <p><b>Protection and restoration of biodiversity and sustainable management of natural resources</b></p>	<ul style="list-style-type: none"> <li>• Climate change mitigation</li> <li>• Pollution prevention and control</li> </ul>	
 <p><b>Pollution prevention and control and circular economy</b></p>	<ul style="list-style-type: none"> <li>• Transition to a circular economy</li> <li>• Pollution prevention and control</li> </ul>	 
 <p><b>Adaptation to climate change</b></p>	<ul style="list-style-type: none"> <li>• Adaptation to climate change</li> <li>• Protection and restoration of biodiversity and ecosystems</li> </ul>	 

[Check examples of expenditure items](#)



# Green Bond Framework: Evaluation and selection of eligible budget items

The Working Group will assist the Treasury in the process of evaluating and selecting the eligible expenditure, based on ongoing cooperation between ministerial departments



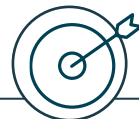
# Management of Proceeds

Green bond proceeds will form part of Spain's funding program like any other conventional Treasury's bond. The funds will be managed by the Spanish Treasury in accordance with its fund management policy



### Amount of expenditure

The Treasury will seek to ensure an allocation to eligible expenditures **equivalent to the nominal amount** of sovereign green bonds issued



### Expenditure Buffer

To facilitate the allocation of bond proceeds, eligible expenditures are identified for a **greater face value** than the amount of intended green bond issuance



### Principal & interest

The payment of principal and interest on the green bonds issued by the Kingdom of Spain **will not be conditional** upon the selection or execution of eligible expenditures.

Allocation of proceeds

REFINANCING

NEW FUNDING

2018

2019

2020

2021

2022

Eligible expenditures from budget N-3

Eligible expenditures from budget N-2

Eligible expenditures from budget N-1

Eligible expenditures from budget N

Eligible expenditures from budget N+1\*

(only for new benchmarks)

\*If necessary

Eligible expenditures

# External verification

To fully comply with the highest markets standards, the green bond documents published on the Treasury's website will be **verified by independent auditors**

## 1 Green bond framework Second Party Opinion

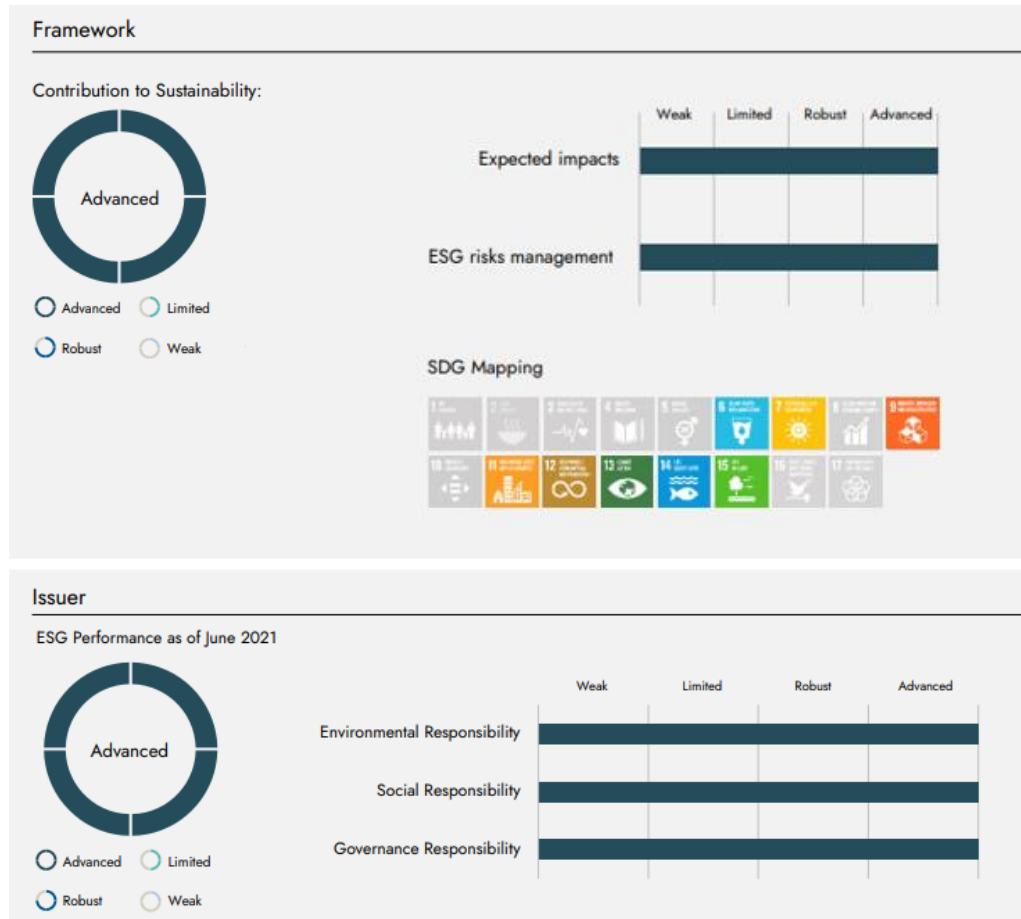
- **VE Vigeo Eiris** has carried out an external review and evaluation of the Green Bond Framework
- **The goal of this review** is to assess the consistency of the framework and its alignment with the ICMA's Green Bond Principles, taking into consideration best market practices
- **The second party opinion** is published on the Treasury's website
- **If the framework content is modified**, the second party opinion will also be updated

## 2 External verification of annual reports

- **An independent entity** will also carry out a verification and assessment of the information contained in the annual reports regarding allocation
- If necessary, this will also be done when circumstances require confirmation of the **effectiveness of such allocation**, in accordance with the criteria set forth in the green bond framework

# External verification: Second Party Opinion 1/2

According to the second party opinion (SPO) by Vigeo Eiris, Spain's Green Bond Framework meets the highest possible standards and gets the highest rating ever given to a European sovereign by Vigeo Eiris



In its *second party opinion*, V.E underlines that:

- ✓ Spain's green bond framework **is aligned** with the **four main components of ICMA's 2021 Green Bond Principles**
- ✓ Spain's framework **is considered as advanced and coherent** with Spain's **environmental policies**

# External verification: Second Party Opinion 2/2

According to the second party opinion (SPO) by Vigeo Eiris, Spain's Green Bond Framework meets the **highest possible standards** and gets the **highest rating ever given to a European sovereign by Vigeo Eiris**

## 1 Use of Proceeds

Not Aligned	Partially Aligned	Aligned	Best Practices
-------------	-------------------	---------	----------------

## 2 Evaluation and Selection of Green Eligible Expenditures

Not Aligned	Partially Aligned	Aligned	Best Practices
-------------	-------------------	---------	----------------

## 3 Management of Proceeds

Not Aligned	Partially Aligned	Aligned	Best Practices
-------------	-------------------	---------	----------------

## 4 Monitoring & Reporting

Not Aligned	Partially Aligned	Aligned	Best Practices
-------------	-------------------	---------	----------------



In its *second party opinion*, V.E states that:

- ✓ Spain's green bond framework **is aligned** with **best market practices as identified by V.E**
- ✓ Spain's green bond framework gets the **highest possible rating** in the four main components of ICMA-2021 principles

## 3. Green eligible expenditures

## Green Eligible Expenditures - Remarks on the selection process

01

Over the **period 2018-2021**, a volume of **EUR 13.6 bn** of central government green expenditures has been identified

02

This amount is still **indicative**, actual figures will be duly **reported in the annual allocation/impact report**

03

This amount only reflects **green expenditures eligible for the framework in accordance to best market practices**: it does not include all government green expenditures over the same period

- More specifically **it does not include**:
  - ✓ Expenses that may be financed by NGEU or any other EU funds/programmes
  - ✓ Expenditures financed by regional and local government
  - ✓ Expenditures financed by other green financing instruments
  - ✓ Expenditures whose monitoring/reporting is difficult to perform or with an eligibility that would not correspond to market best practices
  - ✓ Green expenditures financed by specific taxes or income sources

04

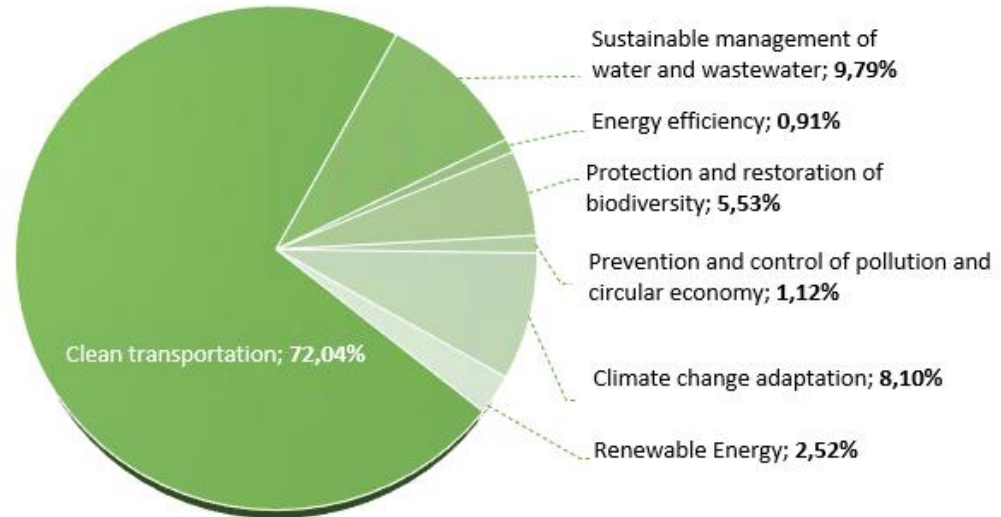
These eligible expenditures are **complemented by EUR 28 bn of green investments** foreseen in the Spanish **Recovery, Transformation and Resilience Plan**



# Green Eligible Expenditures - Period 2018-2021 (eligible for 2021 inaugural issuance)

- ❖ The Treasury has committed to disclose the breakdown of green **eligible expenditures per year** and to update the information annually.
- ❖ The eligible expenditures for the **2018-2021 period** were already released together with the publication of the Green Bond Framework.
- ❖ These have been adjusted in 2022, considering new information on **budget execution in 2021** and minor technical adjustments.
- ❖ Per our Framework, these expenditures are **eligible for our 2021 inaugural issuance**.

## Breakdown by Green Category



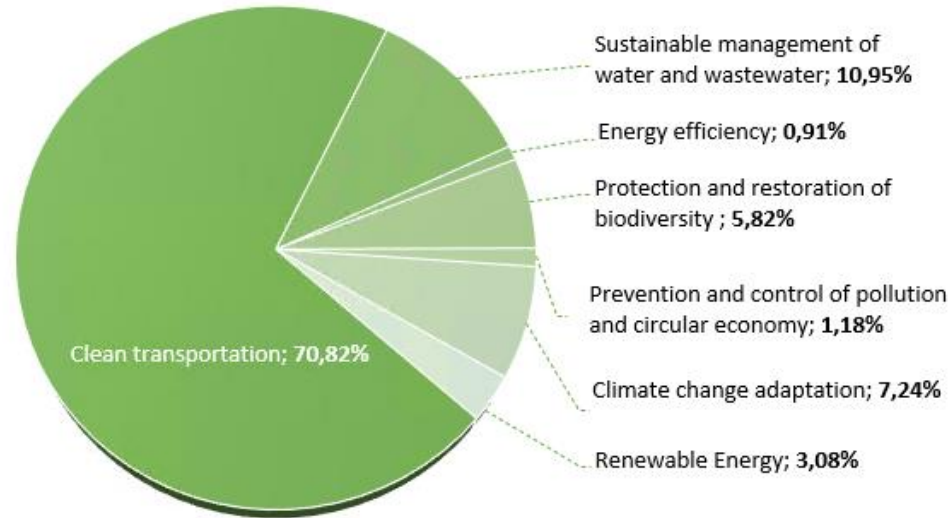
## Breakdown by Ministerial department & year

	Eligible expenditures (EUR million)				
	2018	2019	2020	2021	Total
Ministry for the Ecological Transition & Demographic Challenge	554,39	444,66	597,81	586,42	<b>2.183,28</b>
Ministry of Economic Affairs & Digital Transition	40,50	90,55	43,32	24,00	<b>198,37</b>
Ministry of Transport, Mobility and Urban Agenda	2.372,87	1.801,42	2.329,24	2.901,56	<b>9.405,09</b>
Ministry of Science and Innovation	250,83	270,01	260,32	239,44	<b>1.020,60</b>
Ministry of Industry, Trade and Tourism	0,12	0,12	0,12	0,12	<b>0,46</b>
Ministry of Agriculture, Fisheries and Food	229,12	239,44	239,11	235,43	<b>943,09</b>
<b>Total</b>	<b>3.447,82</b>	<b>2.846,18</b>	<b>3.469,92</b>	<b>3.986,97</b>	<b>13.750,89</b>

# Green Eligible Expenditures - Period 2020-2022 (eligible for 2022 taps)

- ❖ The Treasury has committed to disclose the breakdown of green **eligible expenditures per year** and to update the information annually.
- ❖ Per our green bond framework, only t-2 years can be considered for the Treasury’s green bond taps
- ❖ This slide presents the split by year, green category and Ministry of the expenditures eligible for any reopening of our green bond in 2022.

## Breakdown by Green Category



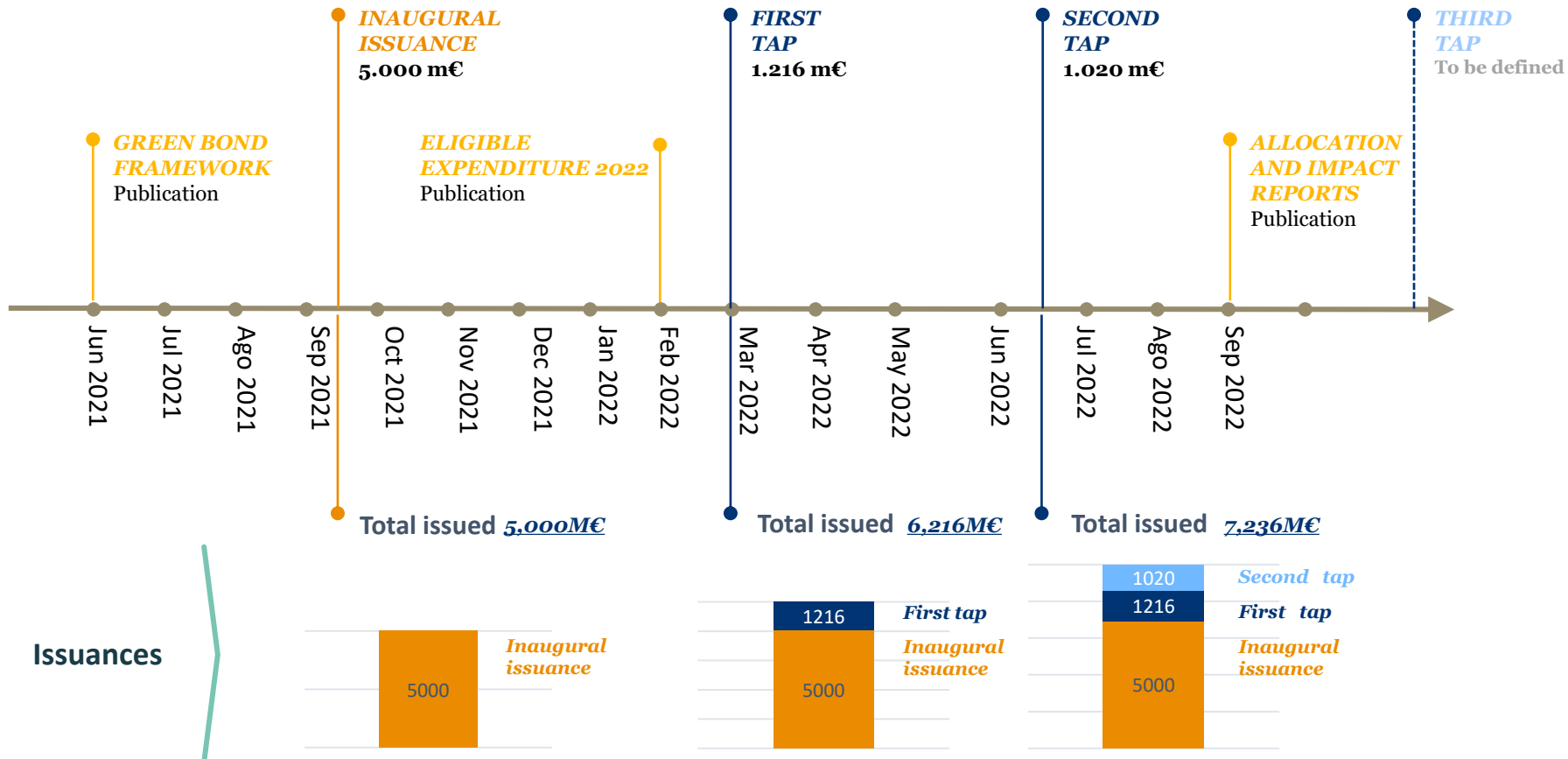
## Breakdown by Ministerial department & year

	Eligible expenditures (EUR million)			Total
	2020	2021	2022	
Ministry for the Ecological Transition & Demographic Challenge	597,81	586,42	916,72	<b>2.100,95</b>
Ministry of Economic Affairs & Digital Transition	43,32	24,00	90,71	<b>158,03</b>
Ministry of Transport, Mobility and Urban Agenda	2.329,24	2.901,56	2.608,61	<b>7.839,42</b>
Ministry of Science and Innovation	260,32	239,44	298,48	<b>798,25</b>
Ministry of Industry, Trade and Tourism	0,12	0,12	0,12	<b>0,35</b>
Ministry of Agriculture, Fisheries and Food	239,11	235,43	240,92	<b>715,45</b>
<b>Total</b>	<b>3.469,92</b>	<b>3.986,97</b>	<b>4.155,56</b>	<b>11.612,44</b>

## 4. Issuances and reporting

# Issuances and reporting- Calendar of events and total issuances

Since the inaugural issuance in September, the **Spanish Treasury has tapped the green bond twice to an outstanding of 7.216 M€**, to provide it with liquidity and to answer to the high demand from investors



# Issuances and reporting- Reporting

In its Green Bond Framework, The Spanish Treasury has committed to **publish a report on the allocation and impact of sovereign green bond proceeds** on an annual basis



## Allocation Report

- Will provide Information on the **allocation of funds raised** through the issuance of sovereign green bonds
- All allocation reports will be **verified by a specialized independent third party**



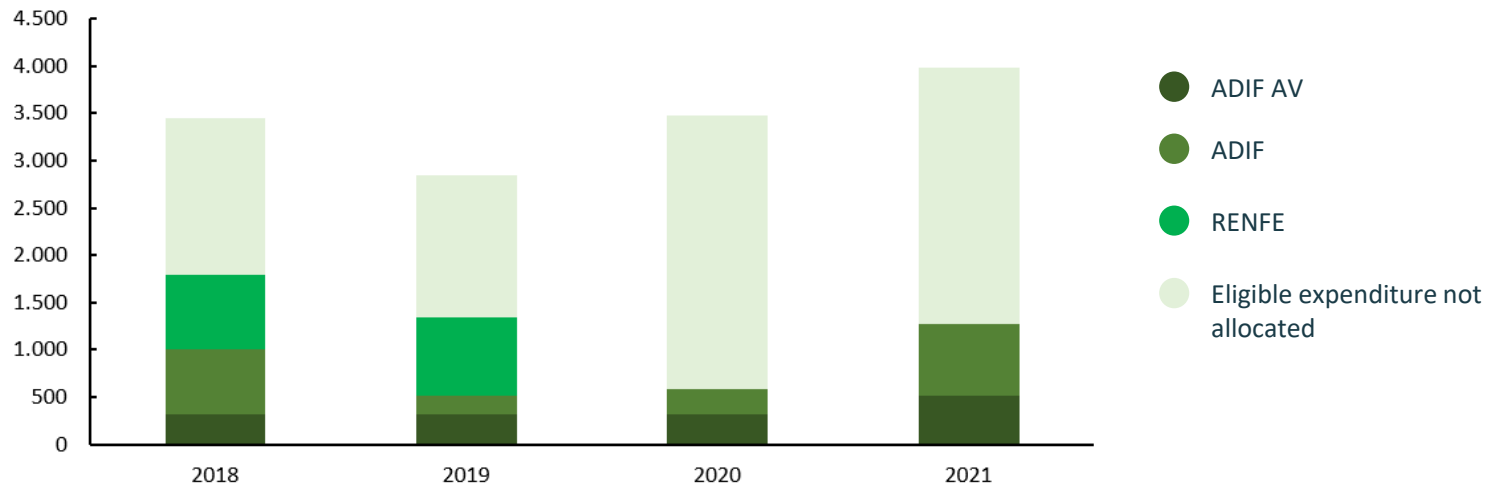
## Impact Report

- Will provide information on **environmental impacts**, including indicators and the methodologies and assumptions used

## Issuances and reporting- Allocation report

All the funds raised in 2021 (5,000 M€) have been allocated to the **category of Clean transportation**, which contributes to the objectives of **climate change mitigation** and **pollution prevention and control**.

Allocation of eligible expenditure for 2021 issuance (M€)



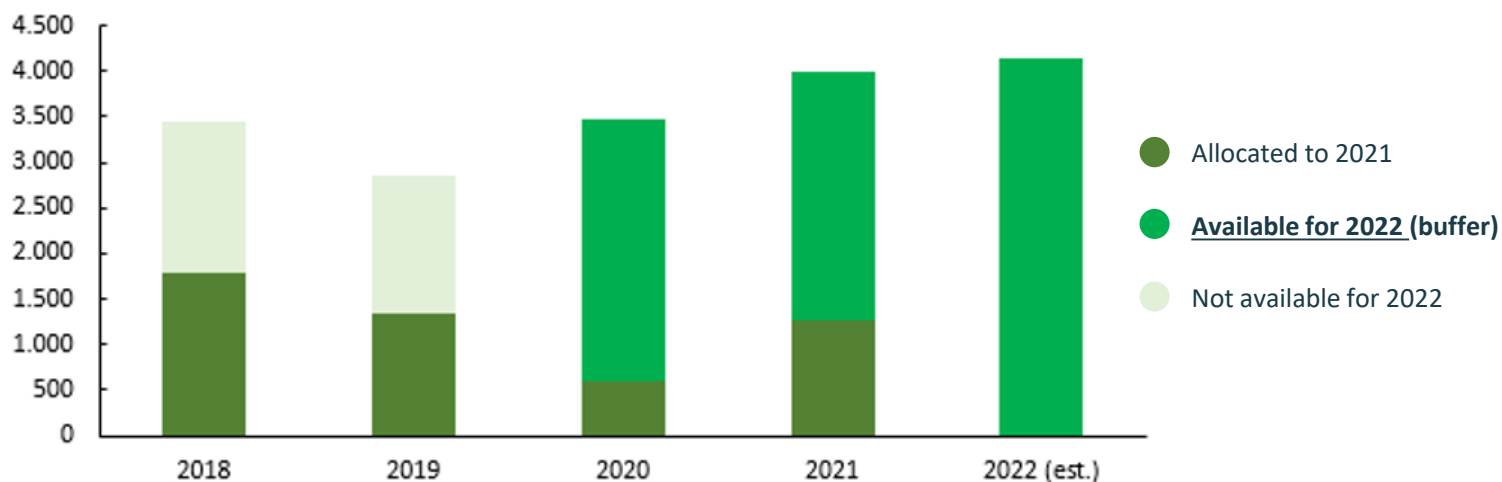
	2018	2019	2020	2021	Total
RENFE	786,73	828,57	0,00	0,00	1.615,30
ADIF	699,86	204,55	276,87	752,54	1.933,81
ADIF AV	311,57	311,57	311,57	516,17	1.450,90
Eligible expenditure not allocated	1.649,66	1.501,49	2.881,48	2.718,26	8.750,89
<b>Eligible expenditure (total)</b>	<b>3.447,82</b>	<b>2.846,18</b>	<b>3.469,92</b>	<b>3.986,97</b>	<b>13.750,89</b>

Source: allocation report (2021)

## Issuances and reporting- Allocation report

The allocation only represents a share of the eligible expenditures, and some of the amounts will still be eligible for 2022 issuances. **The eligible expenditures will be updated in T1 2023**, once the 2022 budget execution is available.

Impact of the allocation on the eligible expenditure (in M€)



	2018	2019	2020	2021	2022 (est.)	Total
Available for issuances in 2022	0,00	0,00	2.881,48	2.718,26	4.155,56	9.755,29
Allocated for issuance in 2021	1.798,16	1.344,69	588,44	1.268,71	0,00	5.000,00
Not available for issuances in 2022	1.649,66	1.501,49	0,00	0,00	0,00	3.151,15
<b>Eligible expenditure</b>	<b>3.447,82</b>	<b>2.846,18</b>	<b>3.469,92</b>	<b>3.986,97</b>	<b>4.155,56</b>	<b>17.906,45</b>

# Issuances and reporting- impact report, summary of indicators

The impact report goes beyond the framework’s commitments, including **environmental impact indicators for all the allocated funds** and widening the scope, addressing both **mitigation** and **pollution prevention and control**

<b>MAIN OUTPUT AND IMPACT INDICATORS</b>							
<b>SUSTAINABLE TRANSPORT</b>	OUTPUT INDICATORS				IMPACT INDICATORS		
	Rail built or renovated (km)	Rail electrified (km)	Trains-km benefited from reduced prices	Users - km (millions)	Emissions avoided Co2 (millions of tons)	Emissions avoided Nox (thousands of tons)	Emissions avoided PM10 (tons)
Transfers to RENFE for the compensation of Public Service Obligations				16,95	3,14	10,34	356,1
Transfers to the Railway Infraestructure Managers for the development of the infraestructure	234,1	5,9			3,74	36,93	1,071
Transfers to railway Infraestructure Managers to setoff prices reductions			1,223,052		0,03	0,14	5



# Legal notice

---

This Green Bond Framework is provided for information purposes only and does not constitute or form part of, and should not be construed as, an offer or invitation to sell bonds issued by the Kingdom of Spain, or the solicitation of an offer to underwrite, subscribe for or otherwise acquire any debt or bonds of the Kingdom of Spain, and nothing contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. Any decision to purchase any bonds issued by the Kingdom of Spain should be made solely on the basis of the information to be contained in the Offering Circular, produced in connection with the offering of such bonds. Prospective investors are required to make their own independent investment decisions.

It is the Issuer's intention to apply the proceeds of those bonds for projects that contribute to the fulfillment of the environmental objectives described in the Green Bond Framework. Nevertheless, no representation is made as to the suitability of any Spanish sovereign green bonds to fulfil environmental and sustainability criteria required by prospective investors. Each potential purchaser of Spanish sovereign green bonds should determine for itself the relevance of the information contained or referred to in this Framework or the relevant bond documentation for such Spanish sovereign green bonds and its purchase of Spanish sovereign green bonds should be based upon such investigation as it deems necessary. The Kingdom of Spain has set out its intended policy and actions in this Framework in respect of use of proceeds, project evaluation and selection, management of proceeds and investor reporting, in connection with Spanish sovereign green bonds. In addition, each environmentally focused potential purchaser of the Spanish sovereign green bonds should be aware that Eligible Green Projects may not deliver the environmental or sustainability benefits anticipated.

Furthermore, no assurance can be given that the use of proceeds from the Spanish sovereign green bonds for any Eligible Green Expenditures will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required or intended to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental impact of any projects or uses, the subject of or related to, any Eligible Green Expenditures.

While it is the intention of the Kingdom of Spain to apply the proceeds of any bonds issued as Spanish sovereign green bonds for Eligible Projects, there can be no assurance that such Eligible Projects will be available or capable of being implemented in the manner anticipated and, accordingly, that the Issuer will be able to use the proceeds for such Eligible Project as intended. In addition, there can be no assurance that Eligible Projects will be completed as expected or achieve the impacts or outcomes (environmental, social or otherwise) originally expected or anticipated. Any such failure will not constitute an Event of Default under the Spanish sovereign green bonds.

No representation or assurance is given as to the suitability or reliability of any opinion or certification of any third party made available in connection with an issue of Spanish sovereign green bonds. For the avoidance of doubt, any such opinion or certification is not incorporated in this Offering Circular. Any such opinion or certification is not a recommendation by the Issuer, any Manager or any other person to buy, sell or hold any such securities and is current only as of the date it was issued. As at the date hereof, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein.

A failure of the bonds issued as Spanish sovereign green bonds to meet investor expectations or requirements as to their "green", "sustainable" or equivalent characteristics including the failure to apply proceeds for Eligible Projects, the withdrawal of a third party opinion, the Spanish sovereign green bonds ceasing to be listed or admitted to trading on any stock exchange or securities market as aforesaid or the failure by the Issuer to report on the use of proceeds or Eligible Projects as anticipated, may have a material adverse effect on the value of such bonds and/or may have consequences for certain investors with portfolio mandates to invest in green assets (which consequences may include the need to sell the bonds as a result of the bonds not falling within the investor's investment criteria or mandate).