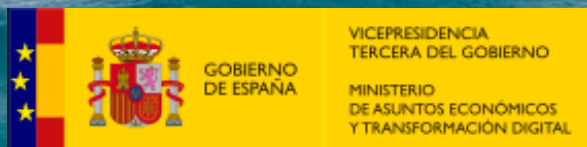


Electricity Deficit Amortisation Fund



EUR 26 billion Debt Programme
Explicitly Guaranteed by the Kingdom of Spain

Monitored by



June 2020

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Overview of the transaction

- 1 Background
- 2 FADE main features
- 3 FADE debt programme

Appendix

- 1 Details of the Kingdom of Spain guarantee
- 2 Details of the ICO credit line
- 3 Description of the flows of FADE
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The Spanish tariff deficit

- Between 2000 and 2013 the revenues of the regulated activities of the Spanish electricity system did not cover their costs, which led to the arising of the so-called “**tariff deficit**”
- Up until 2013, the tariff deficit was financed primarily by the incumbent electricity companies, which were granted a credit right to receive those amounts and interest (“**tariff deficit receivables**”¹)
- In order to allow electricity companies to cash those credit rights, the CNE (Comisión Nacional de la Energía) auctioned the tariff deficit receivables
- The outburst of the financial crisis made it increasingly difficult to sell the tariff deficit receivables through auction, making it impossible for the electricity companies to move them off balance sheet
- This situation led to a series of **reforms of the electricity system**² between 2010 and 2014 aimed at ending the tariff deficit
- **On the financial level the decision consisted on the securitization**, with the explicit guarantee of the Kingdom of Spain, **of the tariff deficit receivables**

¹ Tariff deficit receivables are included as a regulated cost of the electricity system and are collected via access tariffs payable by end consumers. The system's regulated costs also include transmission and distribution, renewable energy cost, past tariff deficit recovery, etc.

² Royal Decree-Law 6/2009, Royal Decree-Law 6/2010 and Royal Decree-law 14/2010 established limits to restrict the increase of the tariff deficit and define a path for the gradual sufficiency of access tariffs. Since then, several other measures (notably the Law 24/2013) have been adopted in order to tackle the tariff deficit.

The creation of FADE

- In order to securitize the tariff deficit receivables, **Royal Decree 437/2010 foresaw the possibility for tariff deficit receivables holders to transfer them to FADE**, a securitization vehicle created under the provisions of that same Royal Decree
- **FADE financed the acquisition of the tariff deficit receivables through the issuance of bonds in the capital markets**, emerging as a private solution sponsored by the Spanish Government to the tariff deficit problem
- In 2013 FADE completed the acquisition of tariff deficit receivables and since then every **FADE issuance is devoted to refinancing the Fund's maturities** (and **not** to acquire tariff deficit receivables)
- Formally, FADE is a securitization vehicle, although it works as an agency of the Spanish Government:
 - It is directed by active government bodies:
 - Its main governing body is the Interministerial Commission¹, a public entity formed by Secretaries of State and General Directors of the Ministry of Ecological Transition and the Ministry of Economy and Business
 - Its day to day operations are monitored by TdA, a private Fund Manager
 - All its bonds are senior and have the explicit, unconditional and irrevocable guarantee of the Kingdom of Spain
 - The totality of the Fund's assets back the totality of its liabilities
 - It has a flexible and comprehensive funding programme
- **Its debt programme is set at € 26 bn**

¹ The Interministerial Commission has delegated part of its functions to the Monitoring Committee, a public body formed by high level officials.

FADE's financial structure

Assets

- **FADE's main assets are the tariff deficit receivables** that it acquired up until 2013, which are guaranteed by the electricity system tariffs
 - Tariff deficit receivables amortise over 15 years, with the last ones maturing in 2029
- **On a monthly basis, FADE receives collections on the tariff deficit receivables** from the Spanish Regulator Authority ("CNMC"). Those collections comprise:
 - Principal
 - Interests: tariff deficit receivables yield and interest equal to the weighted average interest rate of the Bonds issued by FADE plus a 30bps¹ differential aimed at covering all the other costs of the Fund
 - Collections in excess of interest payments on the Bonds and general costs of the Fund are used to meet future payments of principal on the FADE Bonds

Liabilities

- ❗ **FADE's main liabilities are the financial instruments issued to finance the acquisition of the tariff deficit receivables or to refinance the Fund's maturities**
 - Main target: to minimize financial cost and refinancing risk

To cover temporary liquidity needs FADE has access to a €2 billion Credit Line provided by ICO

¹ The Interministerial Commission could increase (but not decrease) the differential to ensure that the yield of the tariff deficit receivables is sufficient to cover all costs of the Fund

FADE's solvency

- FADE's **solvency is strengthened** through guarantees both at the asset and liability side

Asset side

- **Payments from the tariff deficit receivables are regulated by Law**, and they ensure the recovery of the nominal and interest
- Interests are linked to the cost of funding: they are equal to the weighted average interest rate of the Bonds issued by FADE
 - A differential of 30 bps over FADE's funding cost (that could be increased if needed) is recognized to cover all the other costs of the Fund

Liability side

- **FADE Bonds have an explicit, unconditional, irrevocable and waiving the benefit of excussion guarantee by the Kingdom of Spain**
- FADE is strengthened with a €2 billion Credit Line provided by ICO

FADE offers investors exposure to Spanish sovereign risk with strengthened guarantees

FADE debt programme terms

Programme size	EUR 26,000,000,000
Guarantor	Kingdom of Spain
Ratings	Equivalent to the Kingdom of Spain's ratings : A- (stab) / Baa1 (stab) / A (stab) / A (stab) by Fitch / Moody's / S&P / DBRS
Collateral	Agency Treatment (Category III ECB)
Maturity	Benchmark maturities 2 to 10 years
Interest Rate	Fixed or floating rate, short term instruments (1 year) issued at discount
Amortisation	Expected bullet, but FADE could issue Bonds with a different amortization profile
Risk weighting	0% RWA confirmed by Bank of Spain
Financial and paying agent	ICO
Listing	AIAF Mercado de Renta Fija

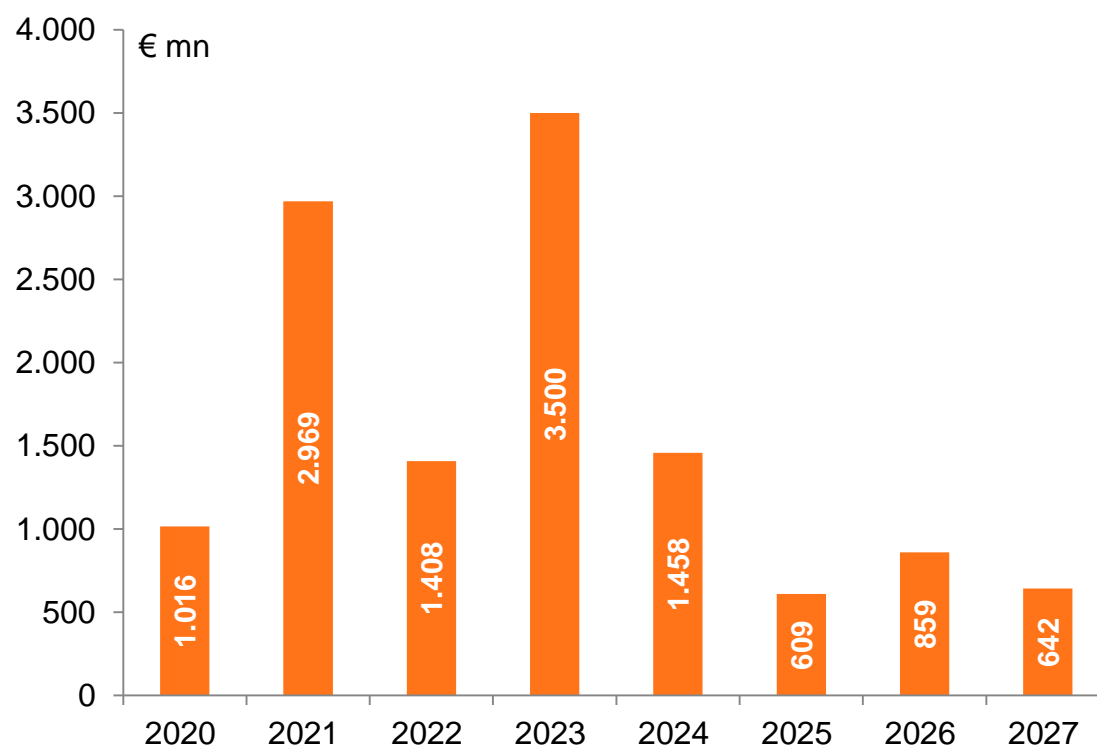
FADE funding programme 2011-2019

	Syndications		Private placements		Total
	#	Volume (€mn)	#	Volume (€mn)	€mn
2011	5	8,500	6	1,406	9,906
2012	1	1,750	18	4,007	5,757
2013	5	7,800	10	1,762	9,562
2014	1	1,500	2	350	1,850
2015	1	1,300	6	999	2,299
2016	0	-	12	2,312	2,312
2017	2	2,000	6	497	2,497
2018	2	2,500	2	182	2,682
2019	2	2,000	1	270	2,270
Total	19	27,350	63	11,785	39,135

**2020 financing needs will be used
to cover bond redemptions**

FADE debt maturity profile

Debt maturity profile



Debt outstanding

- ➔ Outstanding issues include 6 public transactions, which have been complemented by taps and private placements
- ➔ Full debt outstanding (including private placements) amounts to €12.5 bn

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Details of the Kingdom of Spain guarantee

Guarantee Key Terms	
Guarantor	<i>Ministry of Economy and Business</i> , on behalf of the State Administration of Kingdom of Spain.
Limit of Guarantee	EUR 26,000,000,000. Future bond issuances by the Fund will benefit from a Guarantee with equal terms.
Characteristics	Explicit, unconditional, irrevocable and waiving the benefit of excussion.
Guaranteed Transactions	<p>Bond issues in Euros made by the Fund in Spain and that meet the following requirements:</p> <ul style="list-style-type: none"> a) Type of security: non-subordinated debt bonds that are not guaranteed by any other type of guarantee. b) Maturity term: maximum 16 years. c) Rate of return: fixed or variable interest rate. In case of a variable interest rate, the reference rate must be widely known and used in the financial markets. d) Structure of guaranteed operations: redemption may be made in one single payment or through regular payments (agreed and fixed at issuance) over the life of the guaranteed bond. e) Admission to trading: securities must be admitted to trading on one of the Spanish official secondary markets.
Execution Procedure	<ol style="list-style-type: none"> 1. In order to speed up the disbursement process, interest and principal amounts due on each Bond Series will be paid as one payment. The Fund Manager must inform the General Secretary of the Treasury and Financial Policy 15 days prior to the Payment Date on which there will be a missed payment on the Bond. 2. Following missed payment of a Bond, the Fund Manager, representing all Bond holders, will present a written instruction for payment to the General Secretary of the Treasury and International Financing. 3. Once legitimate right of the Fund has been established, the General Secretary will immediately begin the necessary proceedings to recognise the obligation and subsequent order of payment resulting from the enforcement of the guarantee and will transfer the amount due to the Fund on its account opened at the Financial Agent exclusively for this purpose.
Interest in the Event of Execution	At the EONIA rate for the days elapsed between the maturity of the guaranteed obligation and the actual date of payment by the State, provided the execution of the Guarantee is requested within the 5 days following the maturity date.

Details of the ICO credit line

Credit Line Key Terms	
Liquidity Provider	ICO
Maximum Limit	EUR 2,000,000,000.
Uses	<p>Will be used by the Fund Manager on behalf of the Fund to meet possible gaps between income and payments of the Fund, to exclusively make payments of:</p> <ol style="list-style-type: none"> 1. Principal on the Bonds; 2. Interest on the Bonds, 3. Initial, ordinary and issuance expenses <p>If needed in light of the absence of other Available Resources, without resorting to the State Guarantee.</p>
Refund	<p>Amounts drawn will be refunded on a daily basis from amounts outstanding in the Collection Account.</p> <p>As refund takes place outside the Priority of Payments of the Fund, repayment of the Credit Line ranks senior to the Bonds. However, the Credit Line does not benefit from amounts received under the Guarantee.</p>
Available Period	From the issue date of the first issuance until the 24 th month prior to the Final Maturity Date of the Bond Series with the longest maturity.

Description of the flows of FADE

Source and application of funds on the Disbursement Date of each Bond Issue

Source:	<ul style="list-style-type: none"> i. Proceeds from the Issue of the Bonds; ii. Drawdown of the Credit Line to pay the Initial Expenses and the Issue Expenses of the First Issue; iii. For following Issues, the Available Funds, as defined below, or the credit line will be used to pay the Issue Expenses.
Application	<ul style="list-style-type: none"> 1. Payment of purchase price for Tariff Deficit Receivables, or repayment of an existing Series if the Bonds are issued to refinance a previous issuance; 2. Payment of initial and Issuance Expenses.

Source and application of funds on each Payment Date

Source ("Available Funds"):	<ul style="list-style-type: none"> i. Income from the Tariff Deficit Receivables; ii. Interest earned on amounts deposited in the Collection Account; iii. Unused amount of the Credit Line which may only be used for payments of interest and principal on the Bonds and initial, issuances and periodic expenses; iv. If applicable, amounts received from any Interest Swaps; v. Any other amounts outstanding in the Treasury or Collection Account. <p>Additionally, the holders of the guaranteed Bonds may make use of the amount drawn down from the State Guarantee that is paid to the Financial Agent in an account opened in Bank of Spain, which will be applied pursuant to the terms of the Guarantee.</p>
Application ("Priority of Payments Order")	<ul style="list-style-type: none"> 1. Initial and issuance expenses, periodic expenses and extraordinary expenses of the Fund, and payment to the State, as appropriate, of any amounts that it may have paid to the Fund by drawing down on the Guarantee for Bond interest and principal payments, together with any interest that has accrued in favour of the State; 2. Pro rata payment of net amounts due under any Interest Swaps, if applicable (except for payments in item 5 below); 3. Payment of the interest accrued by the Bonds; 4. Payment of principal of the Bonds of all the Series; 5. Pro rata liquidation payment of any Interest Swaps if the Swap is terminated due to unforeseeable objective circumstances or when the Fund is not the breaching or affected party; 6. Remaining amounts will be deposited in the Collection Account.

Summary of FADE's latest public issues

June 2017 syndicated deal

Pricing date

June 6th, 2017

Settlement date

June 16th, 2017

Maturity date

June 17th, 2020

Size

€1 billion

Coupon

**0.031% annual ACT/ACT
(short first coupon)**

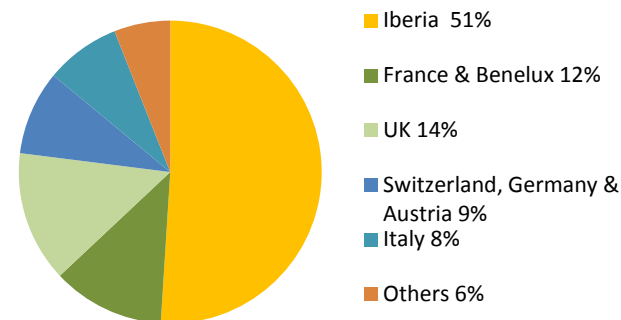
Re-offer spread

SPGB + 14 bps

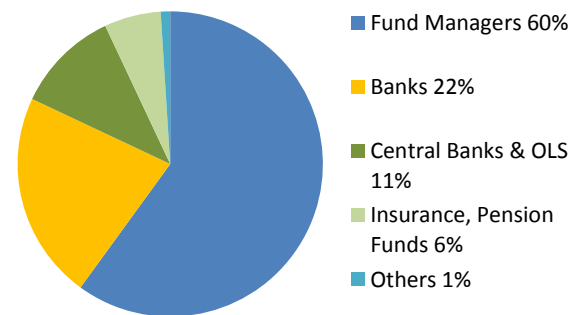
Re-offer yield

0.031%

Distribution by region



Distribution by investor type



Summary of FADE's latest public issues

January 2018 syndicated deal

Pricing date

January 30th, 2018

Settlement date

February 9th, 2018

Maturity date

March 17th, 2023

Size

€1.5 billion

Coupon

**0.5% annual ACT/ACT
(short first coupon)**

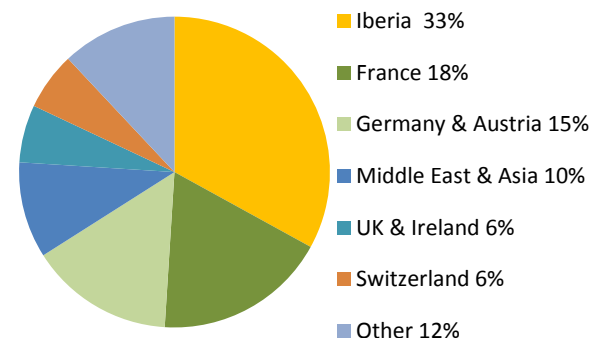
Re-offer spread

SPGB + 15 bps

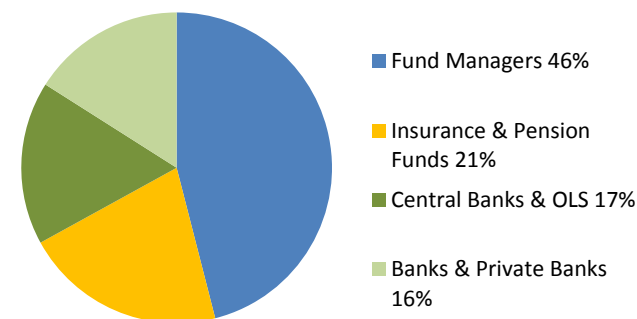
Re-offer yield

0.594%

Distribution by region



Distribution by investor type



Summary of FADE's latest public issues

October 2018 syndicated deal

Pricing date

October 10th, 2018

Settlement date

October 23th, 2018

Maturity date

December 17th, 2023

Size

€1 billion

Coupon

**0.85% annual ACT/ACT
(short first coupon)**

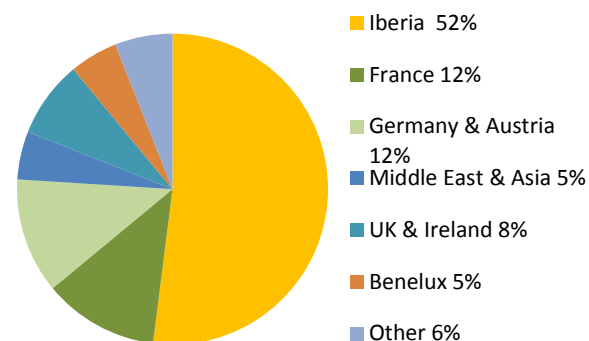
Re-offer spread

SPGB + 16 bps

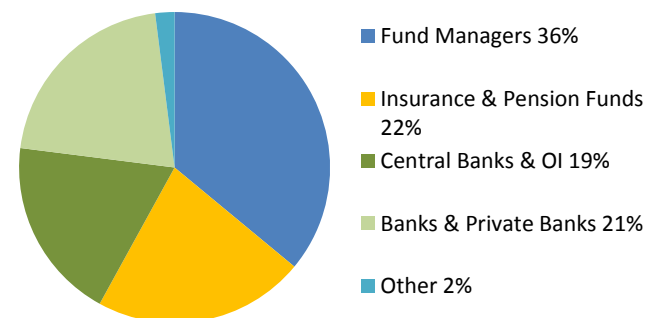
Re-offer yield

0.877%

Distribution by region



Distribution by investor type



Summary of FADE's latest public issues

January 2019 syndicated deal

Pricing date

January 10th, 2019

Settlement date

January 22nd, 2019

Maturity date

June 17th, 2023

Size

€1 billion

Coupon

**0.5% annual ACT/ACT
(short first coupon)**

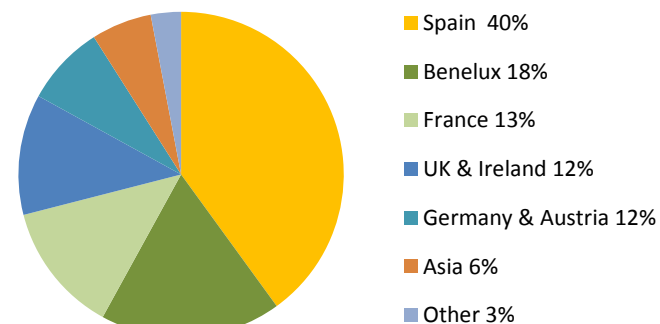
Re-offer spread

SPGB + 17 bps

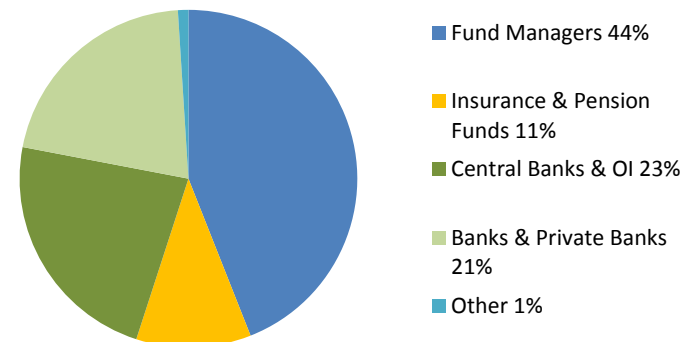
Re-offer yield

0.548%

Distribution by region



Distribution by investor type



Summary of FADE's latest public issues

September 2019 syndicated deal

Pricing date

September 11th, 2019

Settlement date

September 23th, 2019

Maturity date

September 17th, 2024

Size

€1 billion

Coupon

0.05% annual ACT/ACT
(short first coupon)

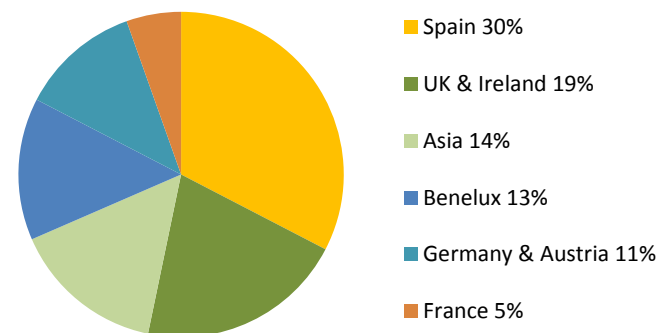
Re-offer spread

SPGB + 15 bps

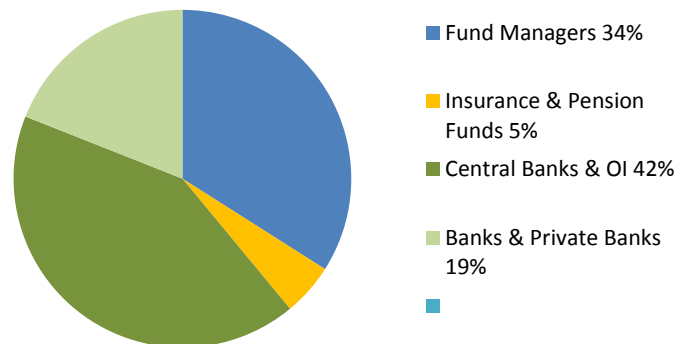
Re-offer yield

-0.107%

Distribution by region



Distribution by investor type



FADE institutional framework

Overview

Interministerial Commission

Ministry of Economy and Business

National Markets
and Competition
Commission
(CNMC)

Tariff Deficit Receivables
Collections

FADE

Ministry of
Economy and
Business

Kingdom of
Spain Guarantee

Electricity
companies
(sellers)

Tariff Deficit Receivables
Entitlement

Liquidity

Sale Proceeds

Interest and
Principal Payments

Electricity
companies
(sellers)

Fund Manager
(TdA)

Issue 1
Issue 2
Issue n

- Royal Decree 437/2010 establishes an Interministerial Commission, with members of both the Ministry of Economy and Business and the Ministry of Ecological Transition to supervise FADE

Members of the Commission

Secretary of State for Energy	Chairman of the Commission
Secretary of State for Economy and Business Support	
General Director for Energy Policy and Mining	
General Secretary of the Treasury and International Financing	
Legal department of the Ministry of Ecological Transition	Acts as Secretary

Functions of the Commission

- Supervision of FADE
- Ensure the proper compliance with all conditions to be carried out by the Fund Manager
- Supervision, approval and dismissal in the event of bad practice of the Fund Manager
- Announce the auctions of the Fund's financial instruments and determine the time frames, and their terms and conditions
- Declare the exceptional capital market circumstances that make it advisable to delay the issues
- Raise the spread Differential

- The Interministerial Commission has delegated part of its functions to the Monitoring Committee, created by the order issued by Ministry of Presidency PRE 2037/2010, of 26 July.

Members of the Committee	
General Director of the Treasury and Financial Policy	Chairman of the Committee
General Director for Energy Policy and Mining	
Deputy General Director of Electrical Energy	
Deputy General Director of Finance and Management of Public Debt	Acts as Secretary
A representative of the National Markets and Competition Commission (CNMC)	Entitled to speak, not to vote
A representative designated by the Fund Manager	Entitled to speak, not to vote

Functions of the Committee
<ul style="list-style-type: none"> i. Brief the Interministerial Commission on the performance of the Fund Manager over its duties ii. Report on whether the Fund Manager is satisfactorily complying with the terms set forth in the technical specifications and clauses iii. Approve the appointment by the Fund Manager of advisory or other similar services that cost more than €50,000 or any services hired from one same counterparty that cost more than €75,000 a year iv. Approve the price of the Bonds agreed with the financial institutions involved in the placement v. Authorise the Fund to enter into financial instruments vi. Establish the formula for calculating the internal rate of return of the Bonds without a fixed coupon at the Fund Manager's proposal

FADE institutional framework

Key parties involved and their roles

Parties		Role
Fund	Fondo de Titulización del Déficit del Sistema Eléctrico, Fondo de Titulización de Activos, <i>also known as “FADE”</i> (Fondo de Amortización del Déficit Eléctrico)	Acquisition of Tariff Deficit Receivables financed via issuance of Bonds
Guarantor	Kingdom of Spain	Guarantees payments of principal and interest on the Bonds if guarantee is executed
Interministerial Commission	Comprised of Secretaries of State and General Directors from The <i>Ministry of Ecological Transition</i> and from The <i>Ministry of Economy and Business</i>	Supervises FADE. Has powers to increase the Differential payable by the electricity system on the Tariff Deficit Receivables to cover rising costs of the Fund
Monitoring Committee	Comprised of high level officials, including General Directors from The <i>Ministry of Ecological Transition</i> and of The <i>Ministry of Economy and Business</i>	Oversees the correct functioning of the Fund
Sellers	Iberdrola, Gas Natural, Hidroeléctrica, Endesa, Endesa Generación, Elcogás, E.On Generación and E On España, Gas y Electricidad Generación, Unión Eléctrica de Canarias Generación	Sell the Tariff Deficit Receivables to the Fund
National Markets and Competition Commission (CNMC)	Comisión Nacional de los Mercados y la Competencia (“ CNMC ”), the regulator and supervisor of the markets in Spain (including the energy sector). Public body with its own corporate legal identity	Acts as paying agent of the electricity system and will pay collections of the Tariff Deficit Receivables to the Fund
Liquidity Provider, Account Bank and Financial Agent	Instituto de Crédito Oficial (“ ICO ”). State Financial Agency which reports to the <i>Ministry of Economy, Industry and Competitiveness</i>	Provides Credit Line which may be drawn to meet possible gaps between receipts and payments of the Fund. Holds the bank accounts of the Fund
Fund Manager	Titulización de Activos, S.G.F.T., S.A. (“ TdA ”)	Responsible for the safekeeping, administration and management of the Receivables and for the financial servicing of the Fund. It watches over bondholder interests

Structure of the Spanish Electricity System

Overview

Spanish legislation distinguishes between activities with regulated remuneration (transmission and distribution, specific remuneration for RES, CHP and waste, additional compensation for electricity generation in non peninsular systems) and liberalised activities (supply and generation):

Activities with regulated remuneration

Transmission	<ul style="list-style-type: none">Regulated as a natural monopoly
Distribution	<ul style="list-style-type: none">Regulated as a natural monopoly within its geographical scope of action
Specific remuneration for RES, CHP and waste	<ul style="list-style-type: none">Compensation scheme for renewables, cogeneration and waste technologies.In addition, these technologies participate in the electricity market on a level playing field with other conventional technologies.
Additional compensation non peninsular systems	<ul style="list-style-type: none">Electricity generation in non peninsular isolated electricity systems: Balearic islands, Canary islands, Ceuta and Melilla.

Liberalised activities

Generation	<ul style="list-style-type: none">Most of the wholesale supply of electricity among market players in the peninsular system takes place in the organized electricity day-ahead market established by law (the pool, managed by the <i>Operador del Mercado Ibérico de Electricidad-Polo Español, S.A. "OMIE"</i>).
Supply	<ul style="list-style-type: none">As a general rule, consumers pay a non-regulated market price that is agreed with the Suppliers who are in charge of supplying electricity to the end users;This price includes the Access Tariffs aimed to pay the system's regulated costs (such as transmission, distribution, renewable energy costs, past tariff deficit recovery, FADE, etc).

Spanish legislation also envisages for some customers the right to buy their electricity at the "Voluntary Price for Small Consumers" (PVPC), a spot-market based price calculated according to the methodology approved by the Government:

- ✓ Voluntary price (PVPC) eligible consumers are typically household consumers and non-industrial SMEs, and receive their supply from Reference Suppliers appointed by the authorities.
- ✓ Voluntary Price includes: (i) cost of electricity generation based on the spot market, (ii) Access Tariffs and charges and (iii) cost of supply set forth by the regulation on supplies at Voluntary Price.

Structure of the Spanish Electricity System

Voluntary Price Consumer's bill (2017)

A

ENERGY
36%



B

ACCESS TARIFFS
64%

Renewables¹ 39%

Transmission 9,4%

Tariff deficit 15,7%

Distribution 30%

Others 5,5%

¹ Part of the cost not covered by other revenues

Structure of the Spanish Electricity System

Principles of the reform of the electricity system: Law 24/2013

Financial Stability Rule	<ul style="list-style-type: none">• Limitation to temporary gaps between costs and revenues in a fiscal year, and obligation to increase access tariffs automatically to close the gap	Financial stability framework
Limitation of new costs	<ul style="list-style-type: none">• No new costs can be introduced into the electric power system without an equivalent revenue increase or cost reduction	
Definition of Standard Costs	<ul style="list-style-type: none">• Standards set by regulatory bodies on an homogenous basis for activities with regulated remuneration¹	
Reasonable Compensation	<ul style="list-style-type: none">• Adequate remuneration and reasonable return to investment guaranteed according to risk levels of different activities with regulated remuneration	Regulatory stability framework
Predictability	<ul style="list-style-type: none">• Regulated activities compensation based on objective, transparent and uniform criteria	
Reliability	<ul style="list-style-type: none">• Review of regulatory framework after a 6-year period: compensation parameters reviewed according to market conditions and economic situation	

¹ If local or regional authorities carry extra costs to the system, these will not be included in the electricity system revenues

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