PRESS RELEASE

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# European Investment Bank Group 2004

In 2004, the European Investment Bank lent a total of EUR 43.2bn (2003: 42.3bn) for projects furthering the European Union's political objectives. Financing in the EU-25 Member States totalled EUR 39.7bn (of which EUR 3.8bn in the 10 new Member States), and EUR 3.5bn was made available in non-EU countries.

Lending in the Accession Countries (Bulgaria, Romania) amounted to EUR 119 million, and in the Western Balkan countries the EIB assisted development projects to the tune of EUR 461 million.

Lending in support of EU development policy totalled EUR 2.9bn. Under the Facility for Euro-Mediterranean Investment and Partnership, loans amounting to EUR 2.2bn were made available. EUR 440 million went to the Cotonou partners (the African, Caribbean and Pacific countries), EUR 100 million to South Africa and EUR 233 million to Asia and Latin America.

In 2004 the European Investment Fund (EIF) – the EIB group's specialised venture capital arm and guarantee instrument – acquired holdings worth EUR 358 million in venture capital funds, bringing its aggregate portfolio to EUR 2.8bn, and provided a total of EUR 1.4bn in guarantees for SME portfolios of financial intermediaries.

To fund its lending, the EIB raised an aggregate amount of EUR 50bn on the international capital markets through 282 bond issues in 15 currencies.

As at 31 December 2004, the EIB's outstanding lending amounted to EUR 265.8bn and outstanding debt to EUR 214.8bn.

## Economic and social cohesion in the enlarged EU (EUR 28.5bn)

Fostering the EU's cohesion by contributing to the reduction of imbalances between regions is the EIB's prime task and its first operational priority. With the Union's eastward enlargement, this priority has become even more important since all of the new Member States qualify as designated assisted areas.

| Examples | |
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| • | *Stainless steel mill in Tornio (northern Finland)* |
| • | *Road and urban infrastructure improvements in Brandenburg (Germany)* |
| • | *Renovation of social housing in urban renewal areas in Wallonia (Belgium)* |

Within the EU-25 countries, individual loans (loans for individual projects appraised by the Bank) worth EUR 21.5bn were granted in 2004 for investment contributing to the strengthening of the economic potential of assisted areas. A further EUR 7bn was made available as credit lines (global loans) to partner banks for the financing of SME ventures and smaller-scale public investment. The total lending of EUR 28.5bn for regional development represents some 72% of the EIB's aggregate lending within the EU-25.

***• Top financing priority for cohesion***

The main sectors of lending in regional development areas were transport and telecommunications infrastructure (accounting for 39% of the individual loans granted), investment in industry and the services sector (20%), urban infrastructure (14%) and health and education infrastructure (11%). In the new Member States the EIB continued its efforts to support foreign direct investment, as this contributes to the transfer of both know-how and capital into the region and, therefore, to the modernisation and restructuring of industry.

The cooperation with the European Commission's Regional Policy Directorate-General has been further intensified, notably in order to improve coordination of the EIB's activities with the operations of the Structural Funds that are now also available to the new Member States.

## Innovative and knowledge-based European economy (EUR 7bn)

Through its "Innovation 2010 Initiative" ("i2i"), the EIB supports the EU's Lisbon Strategy for an information and knowledge-based economy. The EIB's target is to mobilise EUR 50bn by the end of the decade to increase the EU's innovative capacity and enhance its longer-term competitiveness.

For the period 2004-2006 alone, the EIB's target is to provide EUR 20bn in medium or long-term financing in the key fields of education and training, R&D and the dissemination of knowledge (launch of innovative products, processes and services, particularly in the private sector), and the creation and dissemination of ICT (hardware, content and applications, notably e-services). This package includes lending for the Quick Start Programme of the innovation part of the European Action for Growth.

***• Financing the creation and dissemination of knowledge***

So far the EIB has lived up to its commitments under i2i. By the end of 2004, total loans approved since the start of i2i in 2000 amounted to EUR 34.4bn, and loan contracts actually signed stood at EUR 24.1bn. In 2004, some 60 i2i loans totalling EUR 7bn were provided (2003: EUR 6.2bn; 2002: EUR 3.6bn).

Lending under i2i since 2000 has been divided between the three key fields: R&D and downstream investment (42%); education and training for furthering employability (29%); and ICT (29%). Projects have been distributed throughout the EU-25. About three quarters of total lending has been within regional development areas, in order to help bring these less developed regions into the knowledge-based economic fold. Some 80% of the total lending has been in the private sector. With a full "i2i" pipeline at present, the EIB is set to meet its objective of mobilising EUR 50bn in support of the Lisbon Strategy by 2010.

***• Shifting smoothly from financing tangible assets to financing intangible assets***

Financing R&D and innovation involves different risks from those encountered in financing physical assets. The EIB has therefore gradually reinforced its capacity to grant loans that entail a higher lending risk by increasing the provisioning reserve for its Structured Finance Facility (SFF). Loans under the SFF will be made available more widely for higher-than-usual risk operations in the field of R&D and innovation.

***• Financing innovation triggers innovation in financing***

The EIB has also taken the initiative to make better provision for the specific financing needs of medium sized-

| Examples | |
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| • | *Pharmaceutical R&D - Schering AG (Germany)* |
| • | *R&D activities focusing on diabetes treatment - Novo Nordisk A/S (Denmark)* |
| • | *Broadband cable telecom network Galicia (Spain)* |
| • | *Laser for large electron-accelerating synchrotron - Sincotrone Trieste Scpa (Italy)* |

enterprises (mid-caps, i.e. businesses with more than 250 but less than 3 000 employees), particularly for financing R&D. Efforts are currently being made to further develop new financial instruments that combine loans and grants (typically from the EU, but also from national budgets) and will therefore enable more resources to be mobilised for R&D and innovation.

The European Investment Fund (EIF) supports the Innovation 2010 Initiative by taking equity stakes in venture capital funds. In 2004, the EIF acquired holdings worth EUR 358 million (2003: EUR 135 million), expanding its portfolio of participations to EUR 2.8bn, spread over some 200 funds operating in the EU-25. Last year's commitments, involving 15 venture capital funds, represented a good range of operations in Italy, Spain, France, the UK and Germany, as well as some operations in the new Member States. The EIF operates as a fund of funds, with a bias (two thirds of its portfolio) towards funds specialising in early-stage financing (primarily ICT and life sciences) and the high-tech sector. It is now one of Europe's largest venture capital providers in this segment. Recently, the EIF has broadened its investment policy to include also mid and later-stage funds. Over 80% of the resources it has invested to date has been provided by the EIB, with further capital coming from the Commission.

***• EIF: financing early-stage and high-tech companies***

The venture capital market still faces a difficult environment, particularly in the early-stage segment. The presence of private investors remains fragmented, mainly because of the uncertain economic situation and strong risk aversion. In such difficult times the EIF's presence in the market is all the more important as a stable source of funds and thus in helping to attract private sector funding.

The EIF further assists the investment activity of SMEs indirectly by providing guarantees for the SME loan portfolios of financial institutions and public guarantee agencies. In 2004, the EIF provided a total of EUR 1.4bn in guarantees for SME portfolios, bringing its guarantee portfolio to EUR 7.7bn. These guarantees facilitate the securitisation of such portfolios or reduce regulatory capital allocation to such assets, which gives banks greater scope for lending to SMEs.

## Trans-European Networks (EUR 7.9bn)

Efficient transport, energy and information networks are vital for the economic integration of the enlarged EU. In response to the successive EU initiatives identifying Trans-European Networks (TENs) in the EU-25 and the remaining Accession States, the EIB has scaled up its lending in support of TENs, after having already been heavily involved in financing TENs over the last 10 years. The EIB is giving particular attention to the TENs-related part of the Quick Start Programme (QSP) of the European Action for Growth. Up to EUR 25bn will be made available in the period 2004-2006 for transport TENs, particularly for projects under the QSP. In special cases it will be possible for loans to be granted for up to 75% of the investment costs and for periods of up to 35 years, with flexible repayment terms.

In 2004, signed loans in support of TEN projects within the enlarged EU totalled EUR 7.9bn, of which EUR 6.6bn for transport and EUR 1.3bn for energy projects.

Examples

- *High-speed rail line Milan-Naples*
- *Motorway Austria - Croatia (Corridor X)*
- *Motorway Prague - Dresden (on Pan-European Corridor IV Berlin - Istanbul)*
- *High-speed rail line Madrid - Barcelona - French border*

## Environmental protection (EUR 10.9bn)

In 2004, the EIB signed individual loans for environmental projects totalling EUR 10.9bn, of which EUR 10.4bn in the EU-25 (EUR 9.8bn in the EU-15). The EIB's target of devoting 30-35% of its total annual individual loans in the EU-25 and the Accession Countries to environmental projects was reached. Most of the lending was directed to the urban environment (EUR 6bn), i.e. urban transport and urban renewal.

***• Emphasis on renewable energy***

The EIB has attached greater importance to renewable energy. At the International Conference for Renewable Energy in Bonn (2004), the EIB pledged to increase renewable energy's share of total new electricity genera-

Examples

- *Extension and upgrading of Vienna's main wastewater treatment plant (Austria)*
- *Offshore wind farm in south-east Denmark*
- *Modernisation and extension of public transport network in greater Lyon area (France)*

tion capacity financed by the Bank in the EU from some 15% at present to 50% by 2010, including a greater share for non-wind power. This is in line with the EU's target to increase renewable energy's share of electricity generation in the EU-25 to 22% by that time. The EIB, in support of the EU's Lisbon Agenda, is also considering funding renewable energy projects involving new and innovative technologies that, although not meeting the Bank's standard criteria for economic viability, can demonstrate that they have the potential to become economically viable within a reasonable timeframe.

In support of climate change policies, the EIB launched new initiatives in 2004: the EUR 500 million Climate Change Financing Facility to assist European businesses participating in the EU's Emissions Trading Scheme starting in January 2005; the EUR 10 million Climate Change Technical Assistance Facility, providing conditional grant finance for the identification of projects in transition and developing countries that are linked to the Emissions Trading System; and the Pan-European Carbon Fund, which should support the trading of emissions rights and is still under detailed discussion with the EIB's cooperation partner, the World Bank.

The EIB's approach to environmental protection and climate change is set out in the Bank's Environmental Statements (2003 and 2004), which have been published on the Bank's website.

## Support for EU development and cooperation policies (EUR 3.5bn)

In 2004, lending under FEMIP totalled a record EUR 2.2bn, split between four key fields: the private sector (33%), transport (30%), energy (25%) and the environment (8%).

### • *Facility for Euro-Mediterranean Investment and Partnership ("FEMIP")*

FEMIP aims to develop the private sector and social and economic infrastructure in the Mediterranean Partner Countries, with a view to preparing them for the Euro-Mediterranean free trade area envisaged by the Barcelona Process for 2010. The Facility provides the business community (including foreign investors) with access to financial products that are not easily available in the region (long-term loans, risk-sharing finance, risk capital and funding for technical assistance).

### • *Cotonou Partnership Agreement*

In the ACP (African, Caribbean and Pacific) countries, 2004 was characterised by a slowdown in activity, reflecting the economic situation in the ACPs, a halt to lending in countries such as Côte d'Ivoire and Zimbabwe, and the constraints linked to the Cotonou Agreement. Perceptions of high risk and administrative obstacles hampered foreign direct investment. However, potential projects are increasingly being identified and the environment for private sector investment in the ACP countries is steadily but surely improving.

Examples

- *Construction of a gas pipeline between Egypt and Jordan*
- *New power plant in Mauritania*

## Borrowing activities in 2004

The EIB strengthened its leading role in the international bond markets. The volume of borrowing increased by 19% to EUR 50bn, raised through 282 transactions in 15 currencies. Issuance in EUR (35% of total funding) and USD (36%) accounted for the largest share, followed by GBP (19%). The three core currencies (EUR, GBP, USD) thus together accounted for 90% of funding. Currency diversification continued, with issuance in 12 additional currencies (10% of funding), mainly currencies of new and future EU Member States.

In its funding strategy, the EIB continued to pay close attention to quality of execution and secondary market performance, which helped EIB bonds remain a stable

*• Consistent and innovative strategy well received by the market*

store of value. In addition, the Bank remained responsive to opportunities for targeted and structured issuance. This strategy enabled the Bank to increase its issuing activity substantially, while playing a pathfinder role, notably by developing new areas of long-dated issuance, inaugurating issuance in new currencies and reviving issuance in dormant segments. The market's positive reception to the Bank's funding strategy was underlined by the Bank's receipt of an exceptional range of top awards for its funding activities, including IFR's 'Borrower of the Year', 'Most Impressive Borrower' in the Euroweek poll and 'Best Supranational Borrower' from Euromoney.

*• Top awards for funding performance*

Benchmark issuance delivered improved liquidity and a wider range of maturities for investors. About 25% of total funding in 2004 was in maturities of ten years or longer. In EUR, a pioneering new 15-year issue for EUR 4bn created a long-dated benchmark segment alongside leading sovereigns. It contributed significantly to diversification of the investor base in Europe, notably among long-dated investors such as insurers and pension funds. In USD, the Bank was unique among international borrowers in issuing in all key benchmark maturities from two to ten years. This also helped to diversify the investor base. USD placings with US investors grew, with on average one third of USD benchmark issues being placed with US accounts. In GBP, the Bank doubled the number of benchmark taps and provided liquidity in maturities up to 2054.

*• Growth and diversification of borrowing*

The Japanese market remained a large source of funding, both for issues in JPY and in foreign currencies. The stronger regional presence in certain other markets benefited from the revival of dormant segments, notably in AUD and CAD. The Bank also doubled its issuance in ZAR, reinforcing its position as the largest foreign issuer. A further source of diversification came from issues in synthetic Turkish liras and Russian roubles, where cash flows are denominated in USD.

*•Largest non-government issuer in new and future Member States*

Another important area of development was in currencies of new and future EU Member States, where issuance amounted to EUR 1.2bn. In this region the Bank not only strengthened liquidity and offered a wider range of maturities, but also issued in three new currencies (the Maltese lira, Slovenian tolar and Bulgarian lev), in each case being the first AAA-rated or sovereign class issuer other than the national government. As in previous years, the Bank was the largest issuer in the new and future Member States other than local sovereigns. The further growth in local currency borrowing has also supported EIB lending activity and the Bank's position as the largest lender in the region.

## Overall outlook

The EIB does not strive for growth for the sake of growth. Rather, it will intensify its strategy to focus on value added, i.e. more quality than quantity. Value added means:

1. consistency between lending operations and the priority objectives of the EU,
2. quality and soundness of each investment project,
3. particular financial benefits obtained by the use of EIB funds and the need for such benefits in order to accelerate desired investment.

*• Quality instead of quantity*

In practical terms, the EIB's objective is to limit lending growth within the EU-15 to a nominal 2% per annum, while lending in the new Member States should increase more rapidly, to reinforce the EIB's contribution to these countries' economic catching-up process. Likewise, lending to Accession and Candidate Countries as well as to non-EU countries could continue to grow at a more sustained pace. The main lending priorities will remain the same as outlined above.

*• More transparency*

The EIB, as the European Union's finance institution contributing to the achievement of the Union's policy objectives, feels duty-bound to be highly transparent and provide a maximum of information. As a bank, however, it also has a duty to protect the legitimate commercial and market-sensitive interests of its clients. Between these two interests, the EIB has to strike a balance. Establishing transparency is an ongoing process. In recent years the EIB has made great progress; efforts to improve transparency will continue.

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## Additional sources of information

*Further details may be obtained from the briefing notes on the following topics:*

1. Economic and Social Cohesion - Regional Development
2. i2i (Innovation 2010 Initiative)
3. Development of the Trans-European Networks (TENs)
4. The EIB's environmental activities in 2004
5. EIB Group support for SMEs
6. Human Capital
7. FEMIP - Mediterranean Partner Countries
8. EIB activity in the future Member States in 2004
9. Western Balkans region
10. ACP/Cotonou Agreement
11. Asia and Latin America (ALA)
12. EIB's activities in Russia
13. EIB Capital Market Operations in 2004
14. Transparency policy, Governance and relations with NGOs
15. European Investment Fund

The briefing notes, together with the press release and the brochure "The EIB Group in 2004: projects financed", are accessible on the EIB's website www.eib.org. For further information, please contact the EIB Press Office: press@eib.org; +352 43 79 31 89 – +352 43 79 31 49.