



EUROPEAN INVESTMENT BANK

European Fund for Strategic Investments

**RATIONALES FOR THE DECISIONS TAKEN BY
THE EFSI INVESTMENT COMMITTEE IN DECEMBER 2018**

EFSI Investment Committee
7th December 2018

Those attending

Chairman:

Mr. Wilhelm MOLTERER, Managing Director
Ms. Iliyana TSANOVA, Deputy Managing Director

Members:

Mr. Gordon BAJNAI
Mr. Thierry DEAU
Ms. Dalia DUBOVSKA
Ms. Vicky D. KEFALAS
Ms. Andreja KODRIN
Mr. Fabio PAMMOLI
Ms. Nieves RODRIGUEZ VARELA
Mr. Manfred SCHEPERS

Experts:

Mr. Marcus SCHLUECHTER, Advisor to the Managing Director
Mr. Juan Jose FEBLES, Advisor to the Deputy Managing Director

EFSI Secretariat:

Ms. Emilie BOIS-WILLAERT, Head of EFSI Secretariat
Mr. Renko WOUTERS, Corporate Secretariat Officer

Rationales for the decisions taken by the Investment Committee in December 2018

This document should be read in conjunction with the document: Decisions taken by the EFSI Investment Committee in December 2018.

In accordance with article 7.12 of Regulation (EU) 2017/2396, the rationales for the decisions taken by the Investment Committee to approve the use of the EU guarantee for EIB operations are made publicly available, except for projects subject to a confidentiality agreement between the EIB and the promoters.

In line with article 30 of the EFSI Agreement and the Transparency Policy of the Bank, the rationales of the Investment Committee decisions for such projects will be disclosed at a later stage by including them in a list of the rationales of Investment Committee decisions taken throughout the year, which is published, in general, twice a year. This is after the projects have been signed or if these projects are not subject to a confidentiality agreement between the EIB and the promoters anymore.

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The rationales of the Investment Committee to approve the availability of the EU guarantee for the following EIB operations in September 2018 are as follow:

RIVERROCK SENIOR LOAN I FUND (Regional - EU countries)

The Investment Committee approved the use of the EFSI guarantee for the proposed EUR100m participation in a pan-European debt fund providing senior financing to MidCaps across the EU.

The IC noted the innovative structuring which combines EFSI support to a debt fund providing eligible financing for capex and working capital, crowding in institutional investors at the fund level, with a systematic co-investment arrangement with ING Bank group. The proposal thereby combines the established expertise and wide market access of ING throughout Europe with investment capacity of other investors that do not support the financing needs of MidCaps, so far.

The IC welcomed the resulting high impact of the proposal, which at full deployment is expected to benefit underlying beneficiaries with a combined 25,000 permanent jobs.

Despite the welcome stabilisation of the economic environment in Europe access to finance for entities up to 3,000 employees remains constrained, both quantitatively and qualitatively in terms of available terms, tenors and collateral requirements, and its continued support therefore a self-standing purpose of the EFSI in line with Article 3 (b) of the Regulation.

The risk profile of the EFSI intervention is Special Activity in line with the EIB's Statute, which is a strong indicator of Additionality in the EFSI Regulation.

EIB-CDC CO-INVESTMENT PLATFORM URBAN DEVELOPMENT (France)

The IC approved the use of the EFSI guarantee for a proposal concerning an Investment Platform, in the form of a co-investment vehicle, developed in partnership with the French National Promotional Bank Caisse des Dépôts et Consignations (CDC). The operation aims at providing financing to a number of greenfield urban development, urban regeneration and urban remediation projects, some of which to be implemented in deprived areas. The platform will address the EU and EFSI objectives of supporting sustainable urban development and environment and resource efficiency. The projects are expected to have a positive impact on climate change mitigation as Near-Zero Energy building standard will be reached for most of the newly constructed buildings.

The platform will address a number of market failures and sub-optimal investment situations related to the insufficient investment levels in greenfield urban regeneration in France. Moreover, the underlying projects shall generate positive externalities through an improved provision of facilities, amenities and services, which will result in positive economic and social externalities, in the form of a higher quality of enabling services for businesses and economic activities. These positive externalities cannot be monetised by the market and the risk-return balance makes it difficult for private investors to intervene without the support of public institutions. This first EIB operation of this kind in a co-investment vehicle in France, will address the lack of long-term equity in the sector. EIB and CDC collaborating both as anchor investors shall have an important signalling effect to other market participants, providing comfort to other public and private investors about the financial, economic as well as environmental and social sustainability targets of the operation. Furthermore, the underlying investments will be implemented through different local and regional special investment vehicles across France thus supporting local promoters. Finally, the construction activities resulting from the investments are expected to have a positive effect on job creation and growth, with employment during construction estimated at around 6,000 person-years.

BLACK SEA GAS CONNECTION (Romania)

The Investment Committee approved the use EFSI guarantee for the designated Project of Common interest, which supports the security and resilience of the European energy supply by diversifying the sources of gas supply from European sources.

The Investment Committee highlighted the cross-border characteristics of the underlying infrastructure investment, which while located in solely in Romania does not target the domestic gas markets but the resilience of the wider European gas network, benefitting a number of member states.

The Investment Committee welcomed the crowding in of private investors to the predecessor project, which provides the interconnection to Bulgaria, Romania, Hungary and Austria, and the Trans Adriatic Pipeline, and the targeted match financing from private sector resources also for the current proposal. It also highlighted the importance of providing financing denominated alternatively in local currency and EUR to lessen the dependence of the EU energy sector from the impact of foreign currency risks.

KARAVANKE TUNNEL SAFETY UPGRADE (Slovenia)

The Investment Committee approved the proposal for financing investments into the second tube of the Karavanke tunnel, which alleviates a persisting bottleneck on the TEN-T network and addresses not only capacity but also urgent safety issues (escape route) in line with EU regulation.

While the scope of the financing proposal is only for investments on the Slovenian-side, with corresponding financing requirements for the Austrian investments outside of EFSI, the tunnel is an important piece of intra-EU cross-border infrastructure between Slovenia and Austria.

The Investment Committee acknowledged that while not located in a Cohesion region itself, the tunnel provides important connectivity and economic benefit to neighboring Cohesion regions. It also recognized that the proposed financing of the tunnel is subordinated to EUR 2.4bn of the borrower's existing indebtedness that benefits from a continued Member State Guarantee, which is no longer available for new investments of the promoter.

Both the cross-border nature of the investment and the Special Activities risk profile of the proposal are strong indicators of Additionality in line with Article 5 of the EFSI Regulation.

ULMA RDI AND CONVERGENCE (Poland, Spain)

The IC approved the use of the EFSI guarantee for a proposal concerning research, development and innovation (RDI) and investments in advanced manufacturing of industrialized systems of formwork, shoring and scaffolding for building construction, civil engineering and restoration. The project shall enable developing innovative, higher added-value and cost-competitive product technology solutions, addressing relevant industry and demand trends, supporting EFSI objectives of RDI in the construction sector, in particular in the field of industrialized systems. The operation also supports investments in Cohesion regions of Poland and Spain, contributing to strengthening EU's economic, social and territorial cohesion.

The industries in which the promoter operates are cyclical, as they are strongly driven by the demand in volatile end markets and sectors. To the inherent risk of financing RDI activities in particular in the construction sector, the cyclicity of the business segment entails raising debt financing challenging, moreover if long tenor as well as unsecured format are required, leading to a sub-optimal investment situation. The borrower is backed by a conglomerate of companies, grouped under cooperative associations. This association modality has a unique business mode, putting the workers, who are also the company's owners, at the same rank as profits. Economic benefits are prioritized, in parallel to other social goals, such as the use of democratic methods in its business organization, the creation of jobs, the human and professional development of its workers and the improvement of the social environment in the area. However, commercial banks do not automatically see the benefit of the existence of these social objectives, as these could decrease the cooperatives' debt service capacity, creating a very specific market failure. The proposed long-term EIB loan indicates the EIB's confidence in the group's strategy, and will provide a strong signalling effect to the group's existing and potentially new bank lenders.

SALZGITTER STEEL RDI (Germany)

The IC approved the use of the EFSI guarantee for a proposal concerning the RDI and digitalisation of iron and steelmaking, beverage filling and packaging equipment

processes. The project leads into new manufacturing processes with an improved resource efficiency and productivity, including new higher value added steel products with increased performance, quality and reliability. The European Commission encourages the European steel companies to invest in innovation, technology and modernisation for a sustainable and more competitive industry, as also to become a prime example of circular economy. Among others, roughly 41% of the European yearly production based on recycled steel.

The operation is addressing the market failure in relation to financing crucial RDI activities, which generate significant positive knowledge, technology and environmental externalities, through the creation of innovative processes, products and services, but inherently with uncertainty in results in terms of derived revenues. The EFSI support shall help the promoter to face a sub-optimal investment situation, which is due in particular because of the cyclical nature of the industry and the volatile commodities markets. This will be the first operation with the promoter for the EIB, and is expected to fall under the EIB Special Activity category, for which the support of EFSI is required. The EIB financing under EFSI shall provide comfort and a positive signalling effect to the market on the soundness of the borrower's strategy, and a catalytic effect strengthening commercial lenders' confidence in the borrower's capacity to pursue its strategic objective and investment plan. The operation is also partially financed by national and EU grant support (Horizon 2020).

JSW COKE PRODUCTION EFFICIENCY (Poland)

The IC approved the use of the EFSI guarantee for a proposal concerning modernisation of the promoter's industrial facilities, with a focus on reduction of emissions (including GHG) and on energy efficiency. The project supports EFSI's objective of energy efficiency and energy savings, through the utilization of energy of waste gases, which will otherwise be lost during production, and targets EU Cohesion policy. The investments are expected to contribute towards the company's self-sufficiency in covering its demand for electricity, heat and steam.

The project addresses a market failure by supporting the strengthening of the EU's economic, social and territorial cohesion. In addition, through saving demand, energy efficiency projects reduce carbon externalities, as well in most cases air pollution and other negative externalities. The project addresses a sub-optimal investment situation of the promoter caused by insufficient access to finance in a less developed region. The operation has an increased risk profile principally due to high sector risk, the substantial outlay the investments represent - which is significant compared to their very long economic life and payback period requiring long-term funding generally not available to the promoter, as well as the effective subordination of the EIB loan with the EFSI support to other lenders. The loan provided by the EIB under EFSI shall demonstrate its confidence in the company's strategic plan and will be putting the quality stamp on its capex programme. Therefore, the EIB's participation in the project is expected to have a strong signalling effect to other potential lenders. The operation will be the first for the EIB with the promoter and is expected to accelerate the borrower's investment projects under the scale and timeline that would be appropriate.

CABLE RACCORDEMENT GUYANE (France)

The IC approved the use of the EFSI guarantee for a proposal that will greatly enhance the digital connectivity of French Guiana, a Cohesion Region, with mainland Europe and the rest of the world by supporting investments in the construction, installation, commissioning and operation of a transmission system. The IC observed that the project is expected to generate positive externalities on the local economy such as increased

scope for job creation and will help protecting European strategic communications. The project will contribute to the European Security Initiative and secure the operations of Europe's only access to space, thereby generating further positive externalities by supporting innovation and competitiveness of the European based space industry.

The proposed operation addresses a clear market failure arising from the failure of the private sector to provide high-speed broadband in remote areas, such as Guiana, due to high costs and limited returns. The EIB loan, with EFSI support, will secure the realisation of the project and accelerate its implementation.

The risk profile of the EFSI intervention is Special Activity in line with the EIB's Statute, which is a strong indicator of Additionality in the EFSI Regulation. Due to its high risk, the project could not have been supported by the EIB to the same extent without EFSI support.

Wilhelm MOLTERER
Managing Director