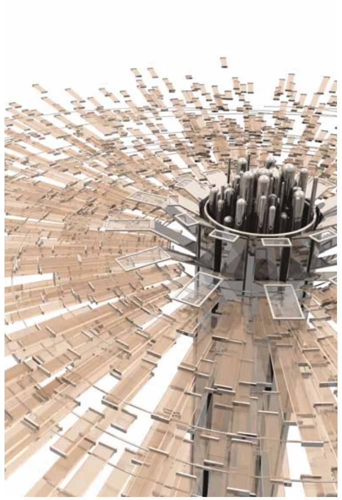


European Investment Bank

Innovation 2010 Initiative

Financing ETP Projects

New EIB financing opportunities

2nd General Assembly of the
European Technology Platform on Industrial Safety
13th February 2007, Stuttgart

Gunnar Münt

Table of Content

European Investment Bank

Innovation 2010 Initiative

Financing RDI –
the EIB's Innovation 2010 Initiative

Innovation 2010 initiative (i2i) launched in 2000 (Lisbon Agenda)
Four strategic areas of i2i lending activities:

Human Capital Formation

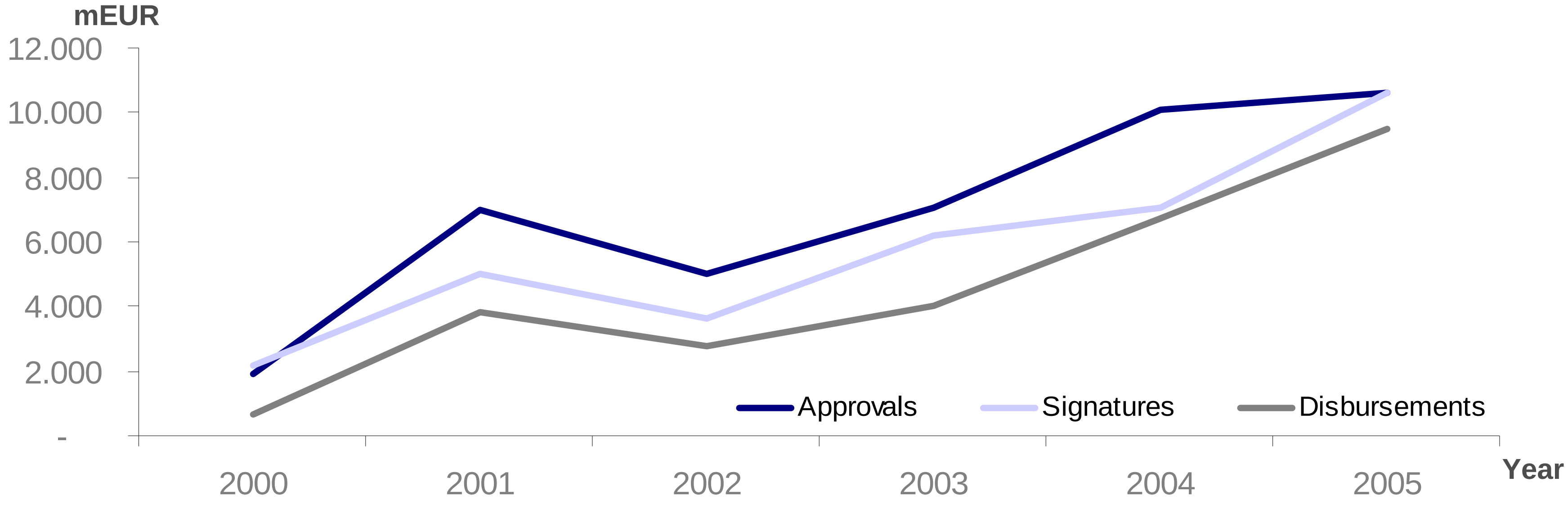
Development of Information and Communication Technology (ICT)

SME/VC Financing (EIF)

Private and Public Sector Investment in R&D (and downstream investments), including Research Infrastructures

RDI financing – a strategic objective for the EIB

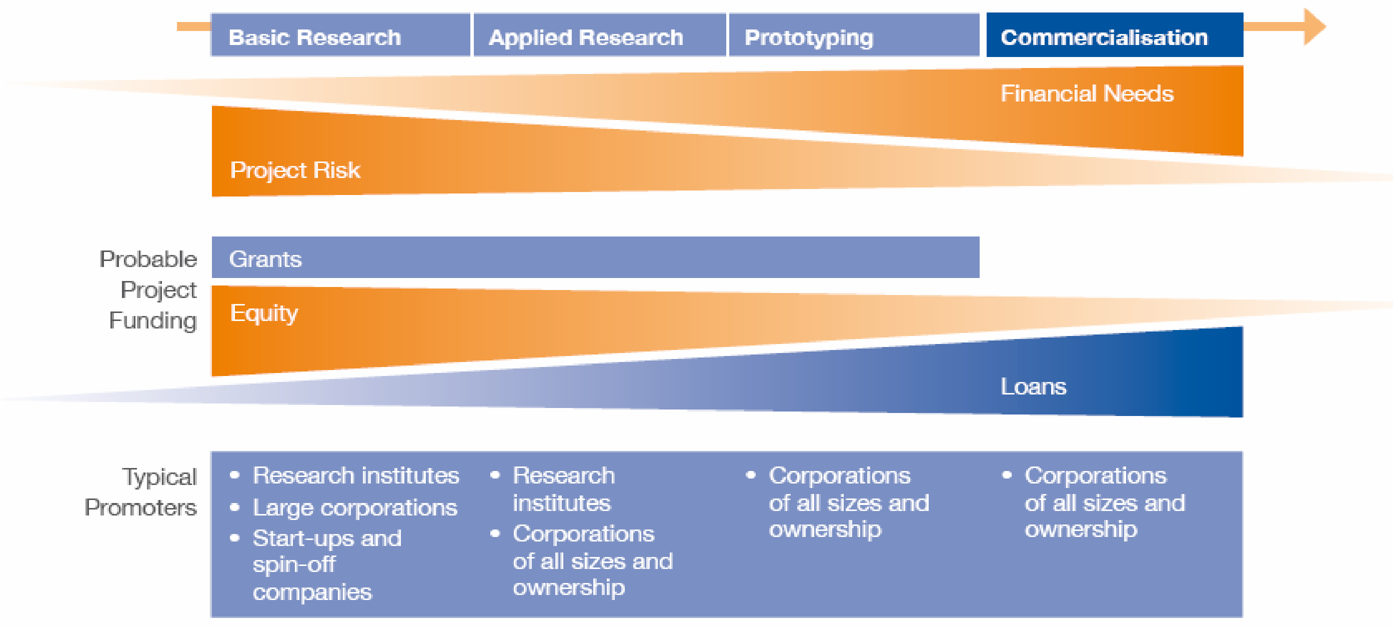
Financing activity 2000 - 2006



- EIB i2i financing : EUR 11bn in 2006 (+ 34.4% 2000-2006)
- EIB's i2i objective : lend **EUR 50bn** by 2010 to foster innovation over current decade. **EUR 46bn** (92%) already achieved in 2006, half of which in RDI.
- Plus: **Growth Initiative**
    - TENs: € 50 bn by 2010
    - RDI: € 50 bn over decade 2000-2010
    - QSP: Quick Start Programme

Financing RDI Projects

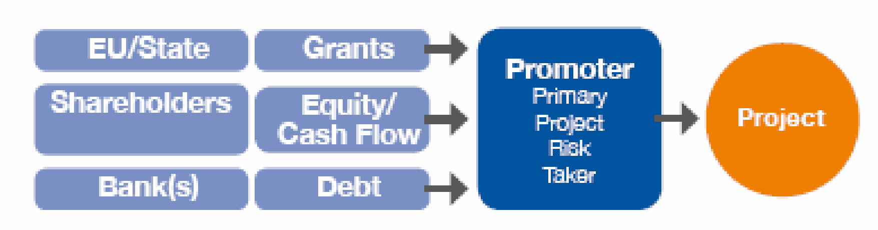
Can RDI investments be financed by loans?



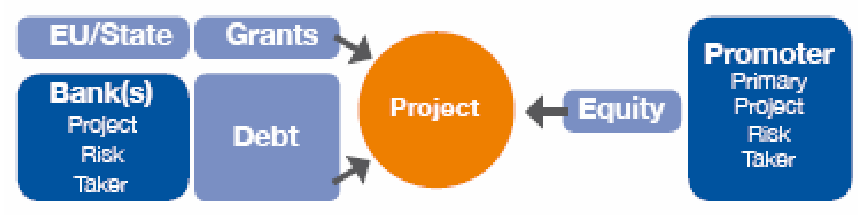
- As a project evolves, the **project risk** will generally decrease against an increase in **financial needs**.
- Consequently, loan financing is generally more appropriate as the project matures.
- Different generic stages of an RDI project usually involve different types of project promoters ranging from research institutes to corporations.

Financing RDI Projects -
Financing models

Promoter Finance Model	Project Finance Model



- Financing partners provide funding to the promoter on the basis of its financial strength.
- A promoter can be a company, a consortium of companies or an institution
- The financing partners are thereby exposed to the **credit risk of the promoter, not of the project**.



- In the Project Finance Model, the project is realized and financed via a legally and financially standalone project company.
- The promoter(s) usually have the role of a strategic partner (e.g shareholder).
- **The financing partners are thereby exposed to the credit risk project only .**

Financing RDI projects

How EIB can finance RDI investments

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Innovation 2010 Initiative

Direct Loan to the promoter for projects > € 10m of investment	Indirect (intermediated) loans for small projects / SMEs

Direct Loan to the promoter for projects > € 10m of investment

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Guarantee
(Risk Sharing)

Commercial Bank

Loan

Loan

Borrower(s)
(Promoter / SPV)

Indirect (intermediated) loans for small projects / SMEs

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Financing Facility / Risk Sharing

EIB Partner (Commercial Bank)

Onlending

Borrower(s)
(SME)

Financing RDI Projects Large European RI SFF/RSFF

European Investment Bank

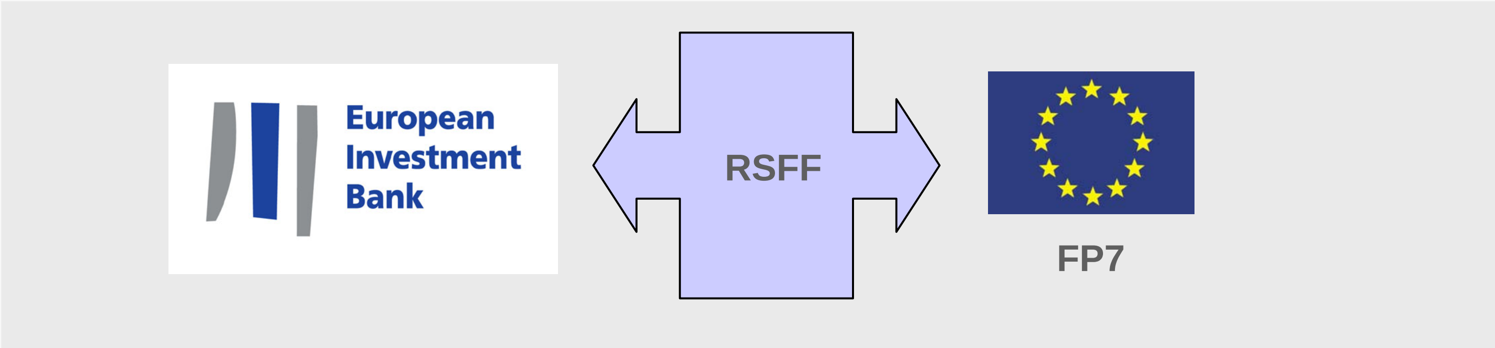
- SFF: A ring-fenced facility, created from Bank surpluses for taking more risk;

- Applicable to both promoter and project financing models, when of **sub-investment grade;**

- Allows new product developments for RDI finance:
  - Risk sharing with banks for the financing of low/subinvestment grade SMEs and MidCaps;
  - Risk sharing with Corporates for subinvestment grade RDI projects;
  - Risk sharing with Universities, as for instance a royalties fund for scientific research projects;
  - Financing R&D consortia based on SPV structures

The Risk Sharing Finance Facility (RSFF)

Rationale (I)



An innovative **joint EIB and EU facility** to improve access to **debt financing** with a **higher** than average **risk profile** for RDI projects.

The beneficiaries can be **private and public** project promoters of all size and nature

Excess demand for grant funds: EIB makes up to EUR 10bn of **complementary** financing available for RDI

The Risk Sharing Finance Facility (RSFF)

Rationale (II)

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RSFF is complementary to grants under FP7

Eligible RDI investments can be collaborative or stand-alone by each promoter

Eligible investments include FP7 projects but also other

EIB provides debt based financing or guarantees, not grants nor straight equity

The Risk Sharing Finance Facility (RSFF)

Objectives

Develop new financing solutions / products to :

Extend the capacity of beneficiaries to take up debt to expand investments (demand side)

Improve the financing sector‘s lending capacity to RDI (supply side)

The EIB‘s existing products will remain available.

The Risk Sharing Finance Facility (RSFF)

EIB products for different types of counterparts

European Investment Bank

Corporate /Project Finance

- **Targeted beneficiaries**: Mid-sized and large corporations (low/sub-investmentgrade),
- **Product Ideas**: Structured individual corporate loans for R&D projects (senior/junior debt, mezzanine)
- **EIB value added**: Lower Financing Cost, increase of debt capacity (in case of subordination), project risk sharing

Risk Sharing with Banks

- **Targeted beneficiaries**: SMEs & MidCaps (low/sub-investmentgrade)
- **Product Ideas**: RSFF Facilites; Interest Contingent Supplier Facility, Co-financing, Global Authorisations
- **EIB value added**: Banks: risk sharing, capital relief, new customers/cross selling, Beneficiaries: risk sharing, higher debt capacity, lower financing cost

NEW PRODUCT DEVELOPMENTS

- **Targeted beneficiaries**: Universities
- **Product Idea**: Royalty fund for scientific research projects
- **EIB value added**: Facilitate financing for universities, utilize royalty streams of research results (e.g. patents, lower financing cost

Risk Sharing with Universities

- **Targeted beneficiaries**: JTIs, Technology Platforms, EUREKA Joint Ventures,…
- **Product Ideas**: SPV based structures for individual R&D consortia
- **EIB value added**: Provide structuring know-how (Project Financing) and facilitate private sector funding

Financing Technology Platforms

RSFF Background

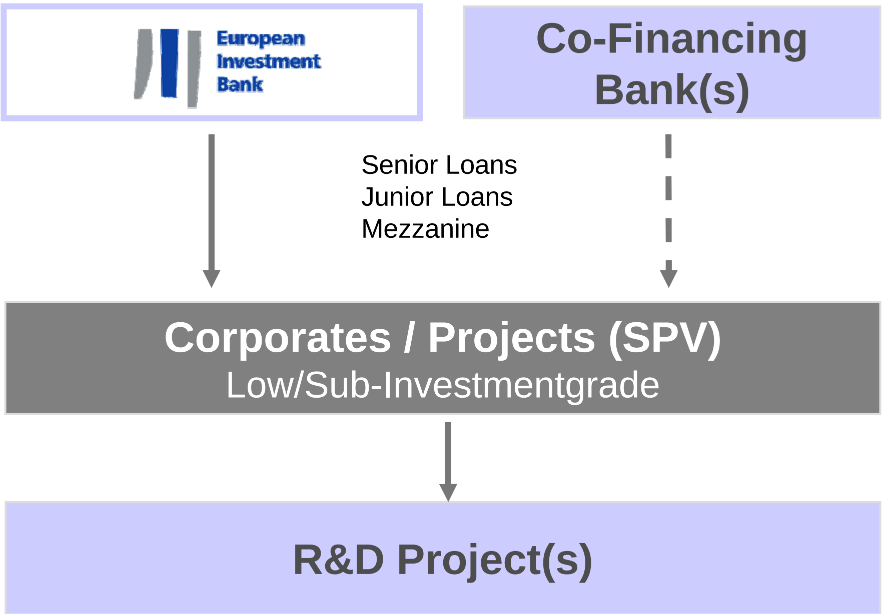
The strategic importance of ETPs

EIB will seek to be the "house bank" to the ETPs to support them in identifying and meeting financial R&D needs of low/subinvestment grade ETP participants and in financing JTI projects.

Thematic / sector approach contributes to efficiency and scaleability of RSFF implementation	SRA support provides a coherent framework for RDI financing
EIB value added is created through its sector knowledge, pan-EU focus and ability to build custom-made solutions for each sector.	Projects receiving FP7 grants will be eligible for EIB loans/guarantees

New Product Concepts

Financing companies and projects (I)

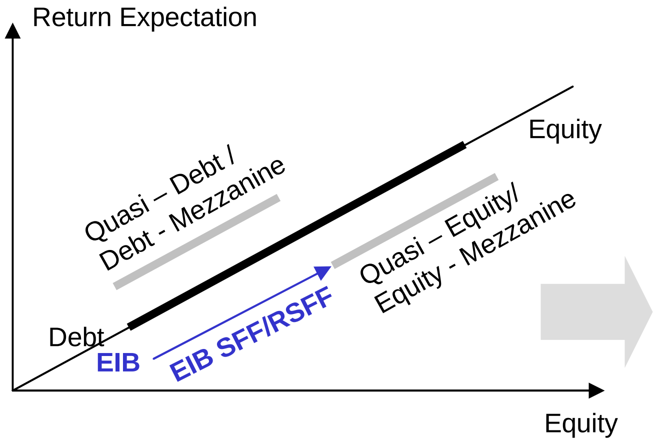


- **Loan Size**: min. EUR 7.5m (max. 75% of Project Cost)
- **Size of eligible R&D Project**: min. EUR 10m
- **Financing Structures**: Senior/Junior Loans, Mezzanine Financing, Full/Limited/Non Recourse
- **Due Diligence**: Financial, Technical, Market & Legal DD performed by EIB services and/or external consultants.
- **Pricing**: based on EIB analysis and commensurate to risk
- **Relationship to Co-Financing Partner**: Typically “Pari-Passu”

- EIB co-financing with commercial banks in individual corporate/project finance transactions possible for low/sub-investment grade corporates and Special Purpose Vehicles (project finance);
- Role of EIB can range from senior loan provider to mezzanine investor;
- Max. EIB loan depends on the definition of eligible costs (max. 75% can be financed) and the due diligence results.

New Product Concepts

Financing companies and Projects (II) – Mezzanine Debt



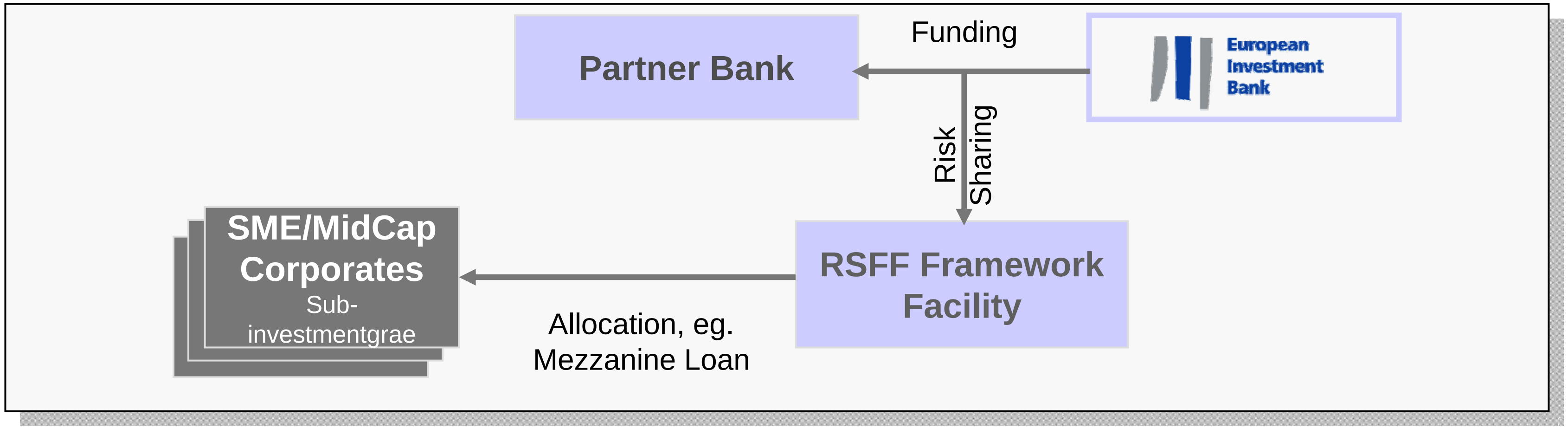
Equity Features	Mezzanine	Debt Features
Participation in value gains / future success of the borrower	Mezzanine	Obligation to repay
Interest/dividend payments are sub-ordinated to debt payments		Obligation to pay interest
Ranks after debt in liquidation scenarios		Ranks before equity in liquidation scenarios
Investors have strong information/ control rights		Obligation to provide financial information
Interest/dividends are not tax-deductable		Interest exp. are tax-deductable

- With RSFF, the EIB can also take structural risks through subordinated debt (e.g. Mezzanine Debt).
- Mezzanine loans combine debt features with equity features. Typically 5-6 years duration and "bullet" repayment. Cash interest payments lower, but compensated by equity/cash-"kicker" at repayment.
- Mezzanine debt strengthens borrower's economic capital without dilution of existing shareholders; positive impact on rating and hence overall financing costs of the borrower.

New Product Concepts

SME financing through Bank cooperation

European Investment Bank



Partner bank assesses credit risk and provides financing

Sub-projects : small/medium sized RDI investments

Promoters : SMEs (< 250 staff), Mid Caps (< 3.000 staff)

Individual allocations : EUR 20.000 – 12.5M (25M)

Risk Sharing (typically on the basis of a guarantee or refinancing)

Thank You !

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