

EIB's Contribution to the Security and Defence Union

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1. EIB Group
2. The EU defence industry
3. EIB financing of security & defence investments
4. EIB's future contribution to the Security & Defence Union
5. Conclusions



**European
Investment
Bank**

The EIB bank



**EUROPEAN
INVESTMENT
FUND**

The EIB Group

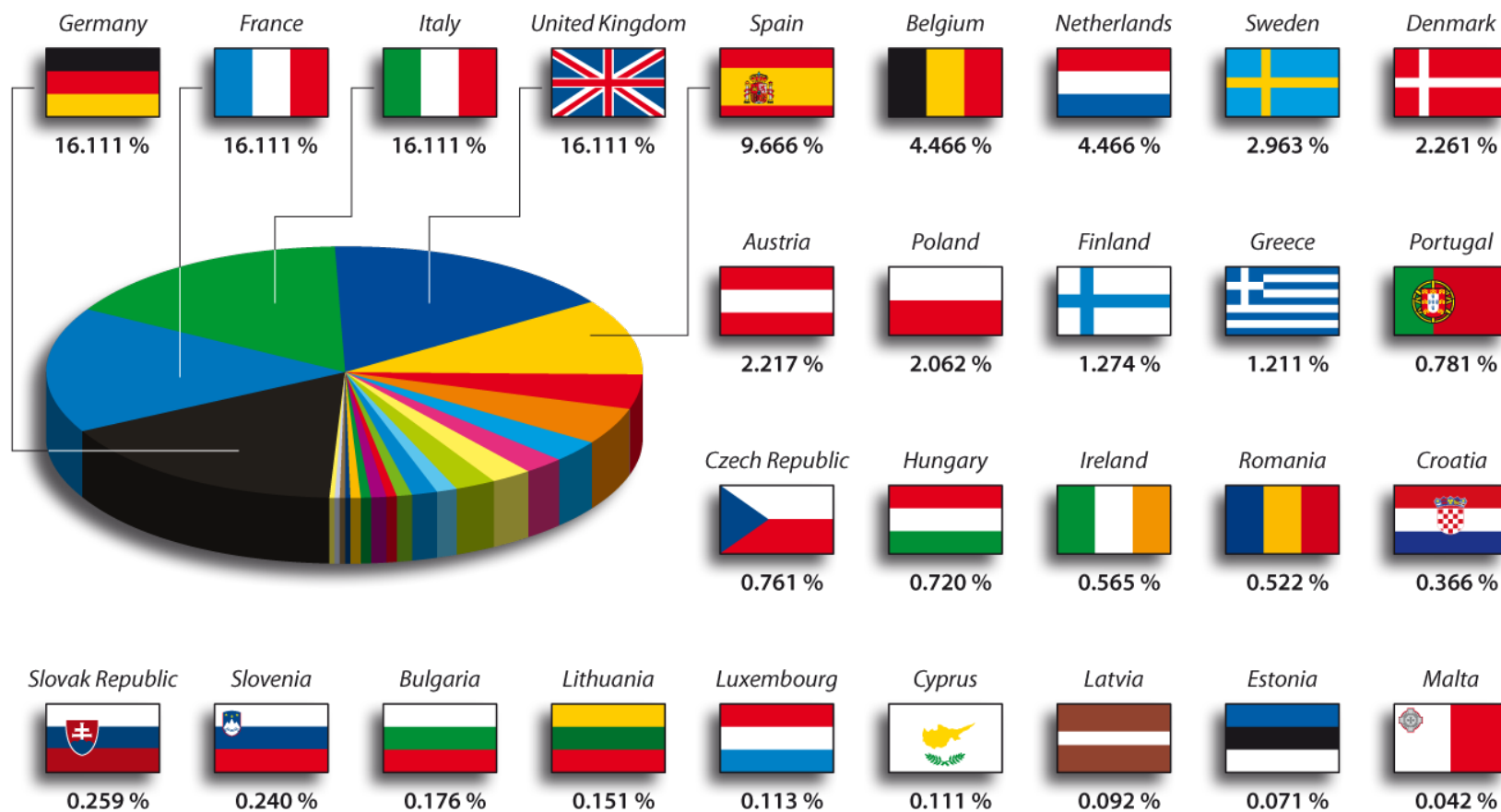
The EIB: the EU bank



- ▶ Natural financing partner for the EU institutions since 1958
- ▶ Around 90% of lending is within the EU
- ▶ Shareholders: 28 EU Member States

**Investing in
Europe's growth**

The EIB: capital breakdown



The EIB at a glance

- ▶ Largest multilateral lender and borrower in the world
 - ▶ We raise our funds on the international capital markets
 - ▶ We pass on favourable borrowing conditions to clients
- ▶ Some 450 projects each year in over 160 countries
- ▶ Headquartered in Luxembourg and has 40 local offices
- ▶ Around 3 000 staff:
 - ▶ Not only finance professionals, but also engineers, sector economists and socio-environmental experts
 - ▶ Almost 60 years of experience in financing projects

EIB Group financing in 2016



European Investment Bank
The EIB bank

EUROPEAN INVESTMENT FUND

EUR 83.8bn



European Investment Bank
The EIB bank

EUROPEAN INVESTMENT FUND

EUR 280bn

Total investment supported

Our priorities

Environment



EUR



16.9bn

Infrastructure



EUR



19.7bn

Innovation



EUR



13.5bn

SMEs



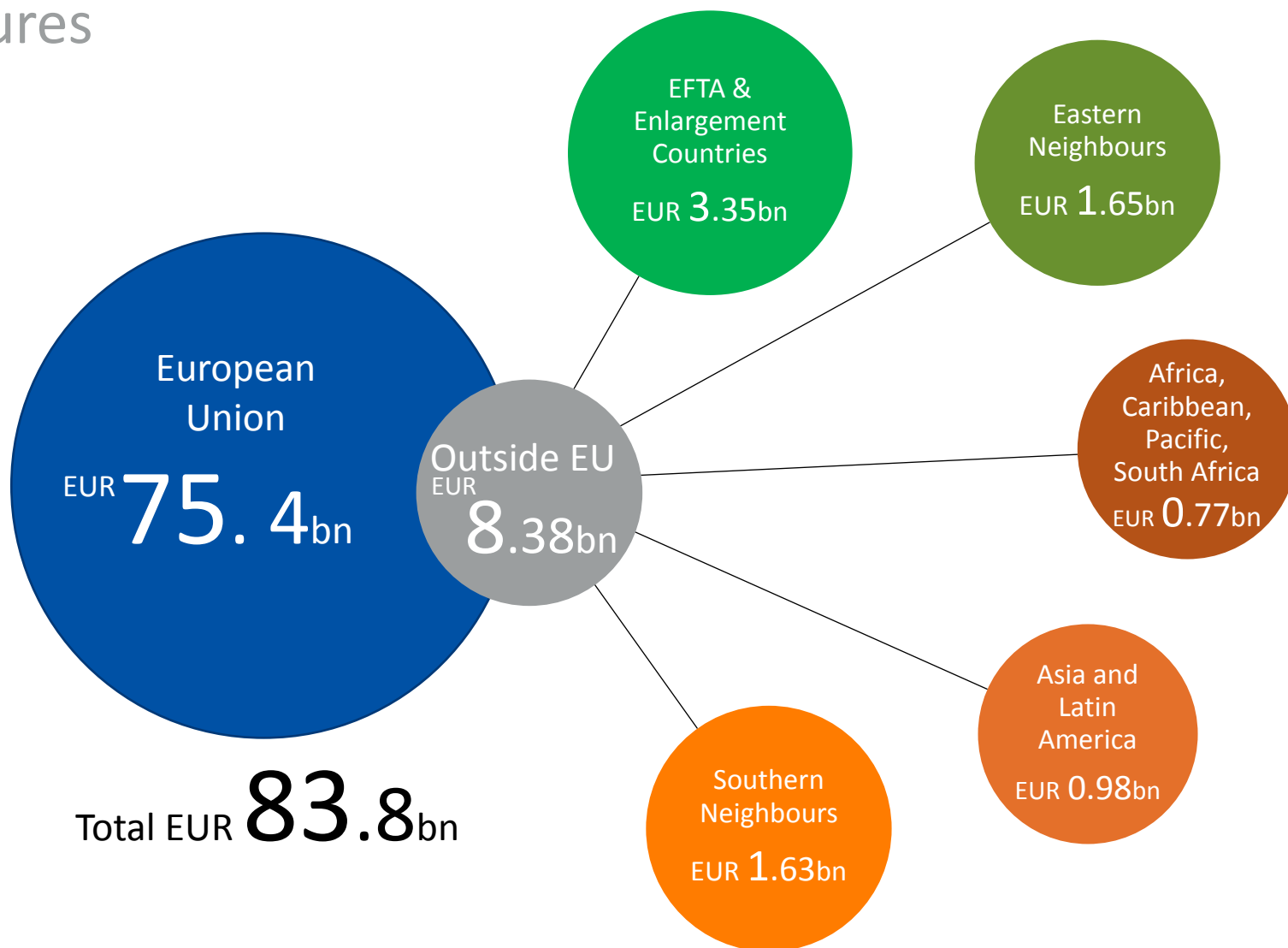
EUR



33.6bn

EIB Group financing in 2016: EUR 83.8bn

Signatures



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Global & EU defence spending 2014

Military personnel

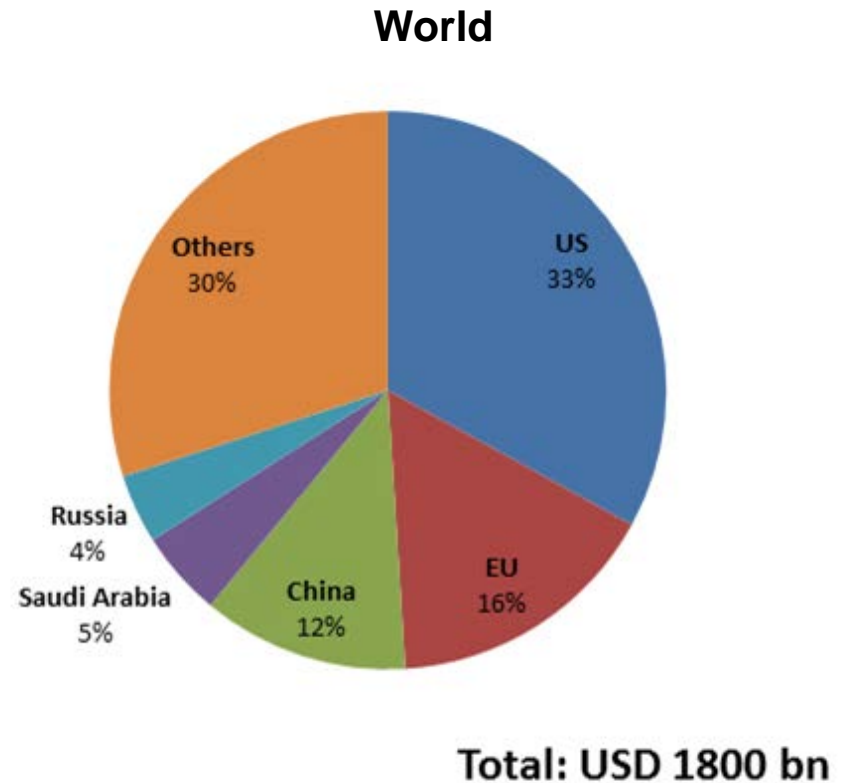
France	222,000
Germany	186,000
Italy	176,000
UK	169,000
Spain	121,000

EU 1,450,000
EU Nato 1,394,000

US 1,305,000

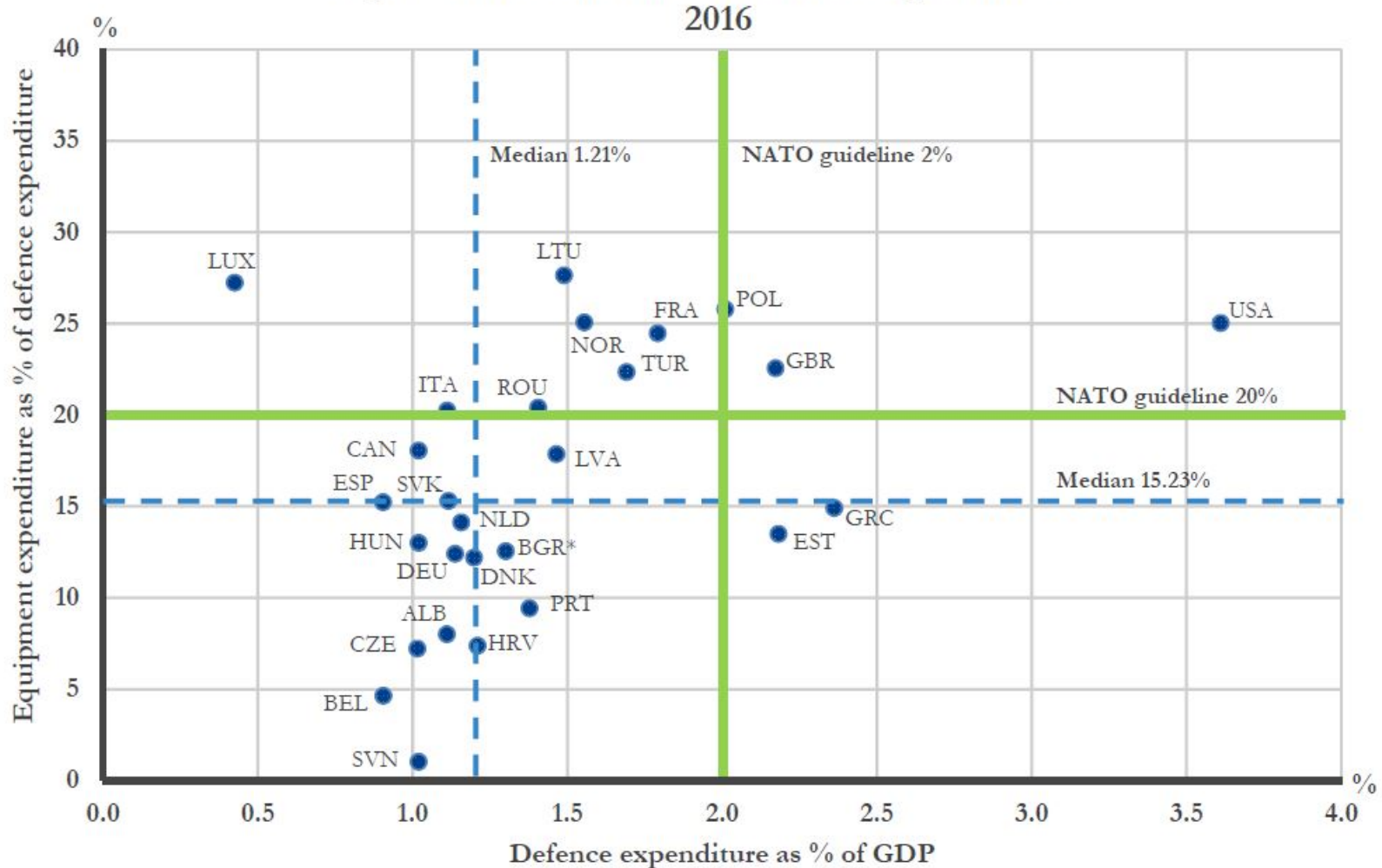
Turkey 380,000

Russia 850,000
Iran 520,000
Egypt 440,000



Source: SIPRI Yearbook 2015, NATO 2016, miscellaneous

Graph 2 : Defence expenditure as a share of GDP versus equipment expenditure as a share of defence expenditure



Source: EDA Defence Data 2014

Global & EU defence companies

World top 100 defence companies (2015)

Region	Number of companies	Defence revenues (EURm)	Total revenues (EURm)
EU	24	85,111	249,668
US	39	188,947	654,933
Rest of the world	37	59,997	190,520
World top 100	100	334,055	1,095,121

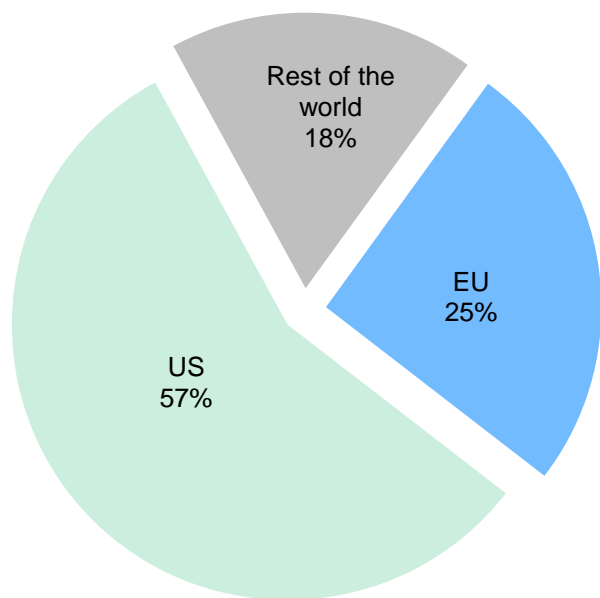
Source: Data from SIPRI Arms Industry Database (2016)

- ***A much broader range of companies sell products to the military***
- ***In addition to large companies there are about 1,100 SMEs & Mid-caps in the EU of which 190 are autonomous companies, of which 60 – 70 companies are defence-only companies***

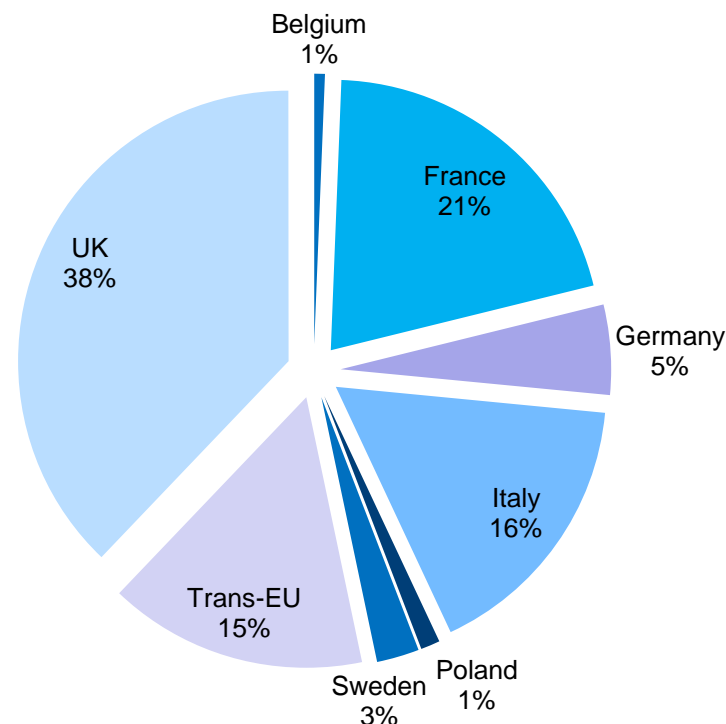


Global & EU defence companies, defence revenues 2015

Defence revenues by top 100 defence companies, by region (% total)



EU defence companies among world top 100, by country (% of EU total)



Total defence revenues by EU top 24 defence companies: **EUR 85 bn**

Funding of defence research

*«... the prevailing worldwide model of product development for large defence systems involves national **governments funding almost 100% of R&D costs...**»*

Source: EU Institute for Security Studies, European Defence Research, Feb. 2016

Approximate EU budgets for defence-related R&D

EU-28 €9 billion

~ 50% by companies

~ 50% by public research institutions

(EU-27: €5 billion)

In broad terms:

- Defence RDI is supported by public grants
- Markets are small & fragmented
- EU companies use balance sheets to commercialise the knowledge they gain

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In a nutshell: RDI – Horizon 2020 – “Innovation & Skills”

- **Civilian RDI**

As part of its “Innovation & Skills” programme, EIB only finances investments in R&D by EU security and defence companies where civilian technologies are concerned.

- **“Dual-use technologies”**

As regards R&D for dual-use technologies, the EIB is only able to support those investments that are motivated by their commercialisation in civilian applications.

- **Cybersecurity & biodefence**

R&D, facilities and equipment (hard- and software) across all sectors

EIB commitments:

- ***Excluded Sector List***

Excluded from EIB financing are:

- *Ammunition and weapons;*
- *Military/police equipment; or*
- *Military/police infrastructure.*

Same approach as for EIB's peer group of post-war international financial institutions.

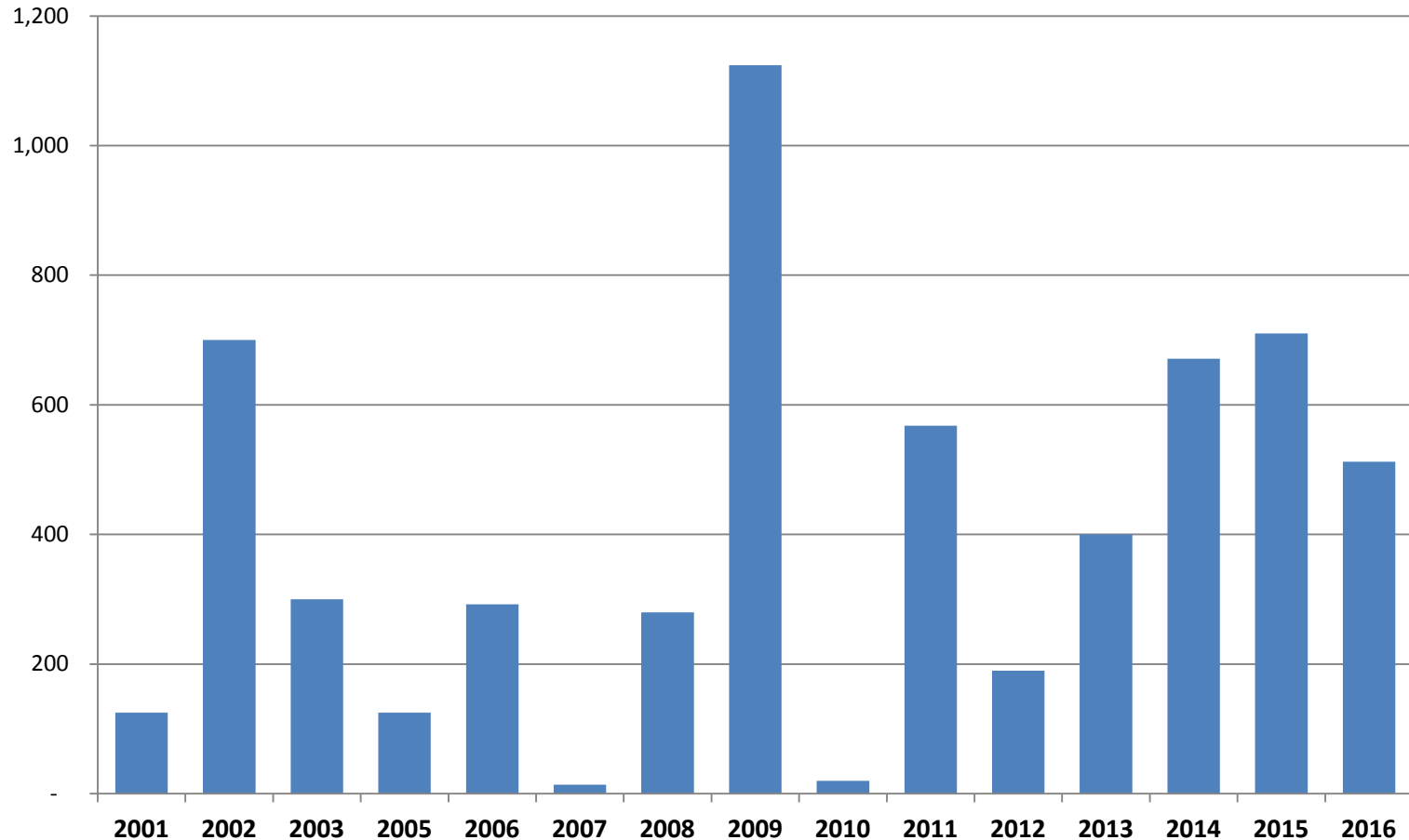
- ***Environmental and Social Principles and Standards***

It states, among other things, that "*the EIB does not finance projects that give rise to conflicts or intensify existing conflicts*".

- ***Transparency Policy***

EIB's transparency requirements for disclosure of investment plans would be difficult to accept for security and defence contractors.

EIB Lending to Aerospace, Defence & IT security



Total EIB signatures 2001 to 2016 : EUR 6 bn

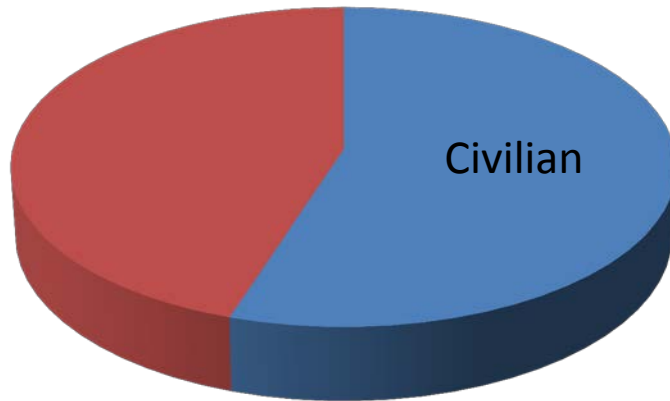
EIF support of dual technology

- Through private equity financing:
 - EUR 235m in 2015 and 2016, out of EUR 515m invested in companies since 1999
 - 76 companies in 15 EU countries
- Through loan guarantees (data available only since 2013):
 - EUR 20m guaranteed loans
 - 53 companies in 12 EU countries

EIB's definition of dual-use technologies

Project cost

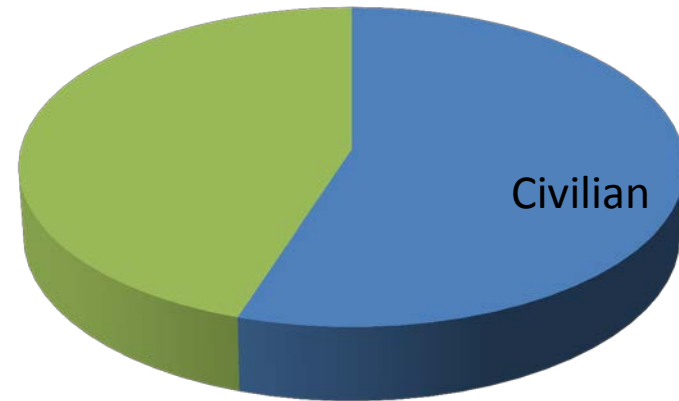
> 50%



RDI costs/investments

Project revenues

> 50%



Revenues expected

... at due diligence stage

EIB financing of the security & defence sector

Issues for the EIB in supporting security & defence investments more directly:

- Assessing project impact
- Transparency
- Monitoring and reporting
- Procurement
- Reactions of investors in EIB Bonds

The EIB is an international financial institution

EIB Project Examples

Terma



Radar technology for harbour, coastal, airport and air traffic control

Airborne self-protection systems
electronic self-protection systems for aircraft

Investment: EUR 58 million

EIB loan (EFSI): EUR 28 million

MECACHROME USINE DU FUTUR & INNOVATION France, Portugal



Project Cost: EUR 82 m



Loan Amount: EUR 40 m

Project:

- Mecachrome's "Factories of the Future" project. Two 4.0 factories: the MKAD plant in Varilhes (Ariège) manufacturing large-scale titanium components for the aeronautics industry; and the MK Aeronautica plant in Evora (Portugal), which will house the Group's first series cryogenics machining line.

Objectives:

- Contributing to innovation and fostering economic growth, particularly in job creation on the Portugal site, in an EU cohesion region. The investments will also help to disseminate knowledge in advanced manufacturing technology.

AVIO SPACE PROPULSION SYSTEMS RDI Italy



Project Cost: EUR 88 m



Loan Amount: EUR 40 m

Project:

- Development of leading-edge propulsion systems for more efficient, reliable and flexible satellite launchers.
- Modernisation and expansion of the manufacturing capacity of the promoter's main Italian production site.

Objectives:

- Contributing to strengthening the European industry R&D presence by supporting a leading mid-sized company located in Italy and helping to preserve and create new skilled employment.

SONACA R&D PROGRAMME Belgium



Project Cost: EUR 92 m



Loan Amount: EUR 40 m

Project:

- Supporting manufacturer of structural wing components for large civilian aircraft, with a particular specialisation in high-lift extendable slats, as well as fixed structures and related systems for the leading edges of wings. The project covers investments in RDI and related advanced manufacturing technology fixed capital expenditures.

Objectives:

- Helping to strengthen the promoter's technological and industrial competitiveness as a Tier-1 supplier for the European aircraft manufacturing industry.
- Preserving knowledge spill-over with reputable institutions as well as positive downstream environmental effects in the form of improved aircraft fuel efficiency.

EIB Project Examples

Bavarian Nordic



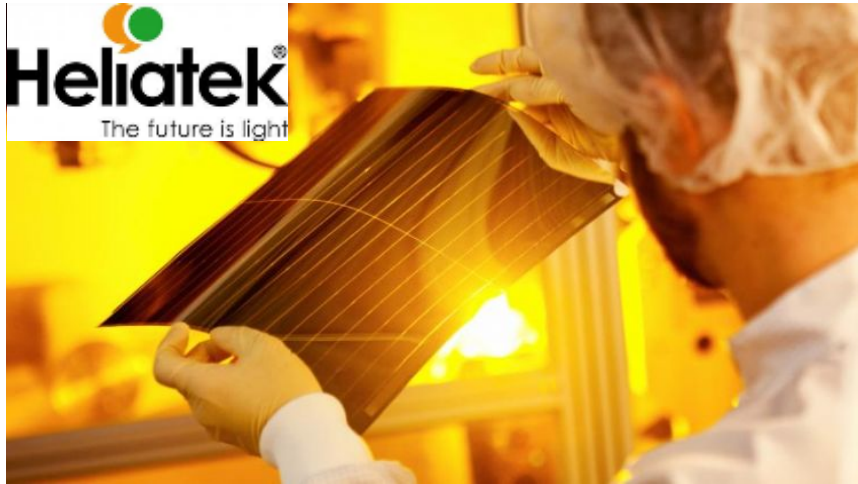
Vaccines for highly pathogenic infectious diseases and agents of potentially use in bioterrorism.

Investment: EUR 128 million

EIB loan: EUR 50 million



Case study: EUR 20m EIB financing to Heliatek



- Spin-off from Technical University of Dresden, Germany (2006)
- Developer of organic photovoltaics
- 85 employees, one test production line, no commercial sales
- By September 2014, raised EUR 46m from Bosch, BASF, Wellington Partners, Aqton SE..
- In September 2016, Heliatek raised EUR 80m from:
 - Equity – EUR 42m Series D financing from Engie, BNP, CEE Group as well as existing shareholders
 - Quasi-equity debt – EUR 20m EIB
 - Subsidies – EUR 18m from European Regional Development Fund
- Purpose: installation of new manufacturing facility with capacity of 1m² p.a.
- For more information:

<http://www.heliatek.com/en/news/news/details/heliatek-at-european-investment-bank>

Examples of supported companies

CONNECT VENTURES

London based European venture capital firm investing in mobile, Internet, and digital media businesses



Robotics startup developing AI based software for mission management of fleets of robots



London – United Kingdom

Accelerated Dynamics develops software that enables decision making capability for drone fleets. This drone technology and software potentially for military use but also for humanitarian relief, border control and security services.

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The European Council conclusions of 15 December 2016 asked the EIB:

“to examine steps with a view to supporting investments in defence research and development activities”

....recalled by the June & October Councils.

Where is the EIB needed the most?

In which areas could EIB provide maximum value added?

... long-term & patient capital, plus expertise!

Focus on:

Technology gaps

Underinvestments in infrastructure

Constraints in access to finance

Focus areas:

1. Dual-use R&D and innovation
2. Cybersecurity
3. Civilian security
4. Other activities

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Conclusions

- EIB will significantly step up its contribution
- Focus on areas where the EIB's financing & expertise are needed
- EIB ready to fully assist the EDF/EDA but should define complementary roles

... while observing its commitments as an International Financial Institution

Thank you!