1 EXECUTIVE SUMMARY

European infrastructure investment is still to reach pre-crisis levels, yet Europe remains a global infrastructure giant, offering favourable opportunities to private investors looking for assets yielding long-term, steady returns. With investor appetite growing, the conditions look right for a revival in the European infrastructure market.

A rush of new private money has entered the market in recent years, as an increasing number of institutional investors such as pension funds, insurers and sovereign wealth funds target the sector, recognising the infrastructure asset class as a good match for their long-term liabilities. Our research indicates that these investors alone will have an estimated US$1trn available for infrastructure investment in Europe over the next decade. This additional financial capacity and its ability to attract leverage is changing market dynamics, driving up prices and encouraging both governments and companies to provide investment opportunities in greenfield projects and to boost the pipeline of brownfield assets for sale.

If those opportunities are created and the available funds are actually invested into building and upgrading Europe's infrastructure, the impact on the economy could be substantial. To find out just how substantial, we commissioned analysis firm Oxford Analytica to calculate the possible impact of this investment on the EU economy.

The findings suggest that European Union countries could see a further 1.4% improvement in their level of annual GDP over the period between 2014 and 2023.

The cumulative GDP impact of the additional spending in European economies translates into more than US$3trn by 2023, triple the total outlay on infrastructure assets of US$1trn. In terms of the wider economy, the positive effects of infrastructure investment will have a multiplier effect spanning supplier industries, such as construction and raw materials, consumer spending and increased tax revenues.

While the case for infrastructure investment is strong, however, the big question remains whether there will be enough projects and assets on the market to absorb these available funds.

In researching this report, we interviewed 40 leading infrastructure players to find out where they expect deals to come from in an environment that remains challenging – and how far they are willing to stretch their risk appetite to unlock new deals.

By and large, investors prefer the stable economies of northern European and regulated assets, such as utilities. However, with few available assets leading to high prices across northern Europe, most of the investors we spoke to are willing to consider accepting higher levels of risk in order to unlock new assets at more palatable prices in the troubled markets of southern and emerging Europe.

Governments have an opportunity to secure investment which can boost their national GDP by launching new projects, releasing assets for sale and providing a stable regulatory landscape. But while political will hangs in the balance, we are more likely to see deals flow from corporate disposals as companies seek to cash in on high prices in an effort to reduce debt or fund expansion.

We hope you find this report interesting. This study is part of Linklaters' Infrastructure Series. If you would like to find out more, please get in touch with your usual Linklaters contact.

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KEY FINDINGS

IMPROVEMENT IN THE LEVEL OF ANNUAL EU GDP BETWEEN 2014-2023

- **The financial crisis has resulted in a decline in infrastructure M&A activity and the number of public-private partnerships (PPPs) launched. However, Europe remains an infrastructure giant.**
- **Our research shows that global institutional investors have funds of US$1trn at their disposal for potential investments in European infrastructure assets over the next 10 years.**
- **If fully invested, this capital could improve the level of annual EU GDP by 1.4% between 2014 and 2023.**
- **Global investors from Canada, China/Hong Kong, the GCC region, Japan and South Korea are helping to fuel this cash mountain. Their investment in European infrastructure assets between 2010 and 2013 rose by 465% compared with the previous four years.**
- **Increased investor interest for regulated assets and those which are not linked to a country's economic performance is inflating prices, sparking fears amongst some of an eventual bubble.**
- **Corporate disposals are likely to provide investment opportunities as higher valuations encourage companies to sell subsidiaries or stakes in them, often in a bid to reduce debt.**
- **High prices in northern Europe are encouraging corporate investors to stretch their risk appetite and look to the markets of southern and emerging Europe in order to unlock deals at more palatable prices.**
- **It is not a lack of private finance that is the obstacle to a revival in European infrastructure, but the lack of assets to buy or appropriately structured projects to invest in.**
- **If European governments can provide a pipeline of new projects, release assets for sale and provide a stable regulatory landscape, they have the opportunity to secure investment which can significantly boost their national GDP.**

US$1TRN

PRIVATE FUNDS AVAILABLE FOR EUROPEAN INFRASTRUCTURE OVER THE NEXT DECADE

ECONOMIC IMPACT OF INFRASTRUCTURE INVESTMENT IN EUROPE

Linklaters commissioned global analysis and advisory firm, Oxford Analytica, to calculate the impact of US$1trn of infrastructure investment over the next 10 years (2014-2023) on the EU economy.

As highlighted in Figure 1.1, in a high impact scenario, the EU could expect to see a 1.4% improvement in its annual GDP between 2014 and 2023. This translates into a potential cumulative GDP impact of more than US$3trn by 2023, triple the US$1trn outlay.

In the central scenario, the cumulative impact of the additional infrastructure spending on EU GDP is estimated at just over US$2trn by 2023, effectively doubling return on investment over the 10 year period. Even in the conservative low scenario, the cumulative impact on GDP is still markedly greater than the trillion dollar cumulative investment outlay, at almost US$1.3trn.

The incremental GDP is calculated on the basis of two types of economic impact: firstly, the spill over effects of infrastructure investment into the wider economy within supplier industries, such as construction and raw materials, and indirect benefits, including a boost to consumer spending and tax revenues; secondly, from the rise in productive capacity generated by the extra investment.

Fig. 1.1 Impact of additional EU infrastructure spending of US$100bn per annum over a 10-year period (as a percentage of EU GDP).
SOURCE: OXFORD ANALYTICA

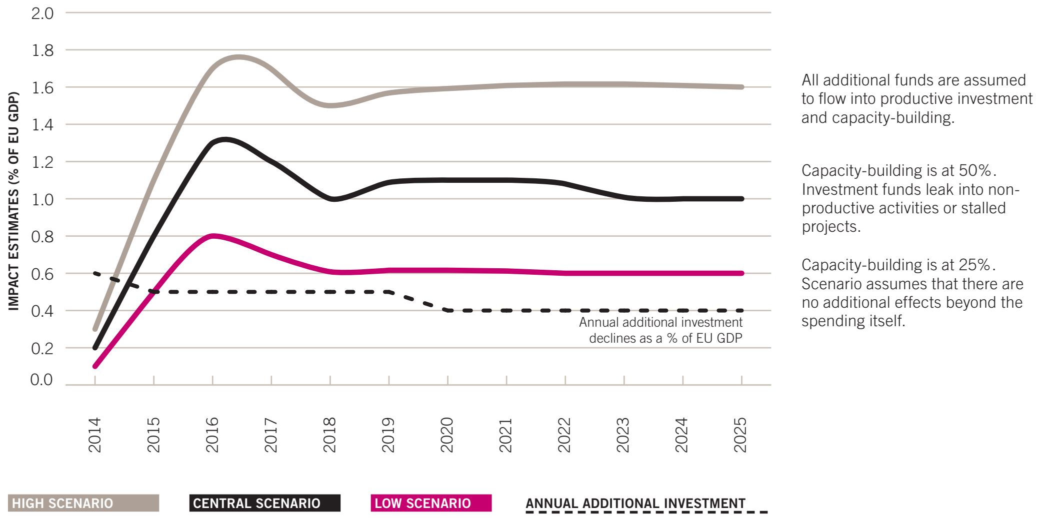

Fig. 1.2 Total cumulative impact of additional EU infrastructure spending under various scenarios (US$trn).
SOURCE: OXFORD ANALYTICA