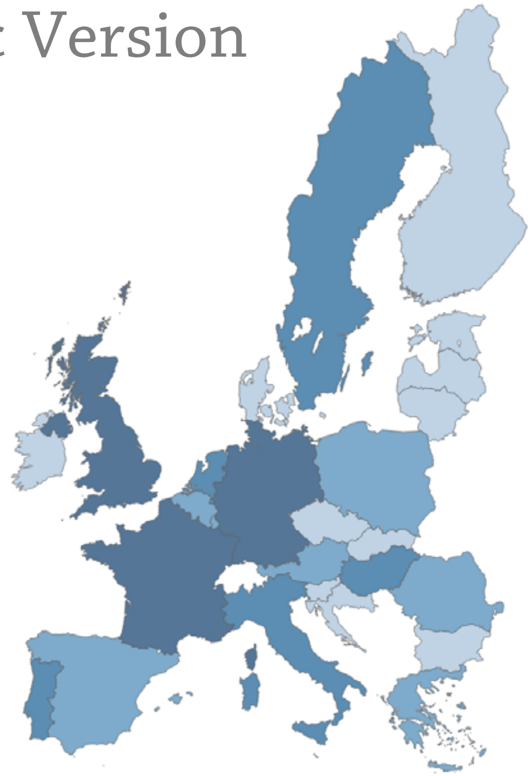
EU-China FDI Monitor

1Q 2015 Update: Public Version



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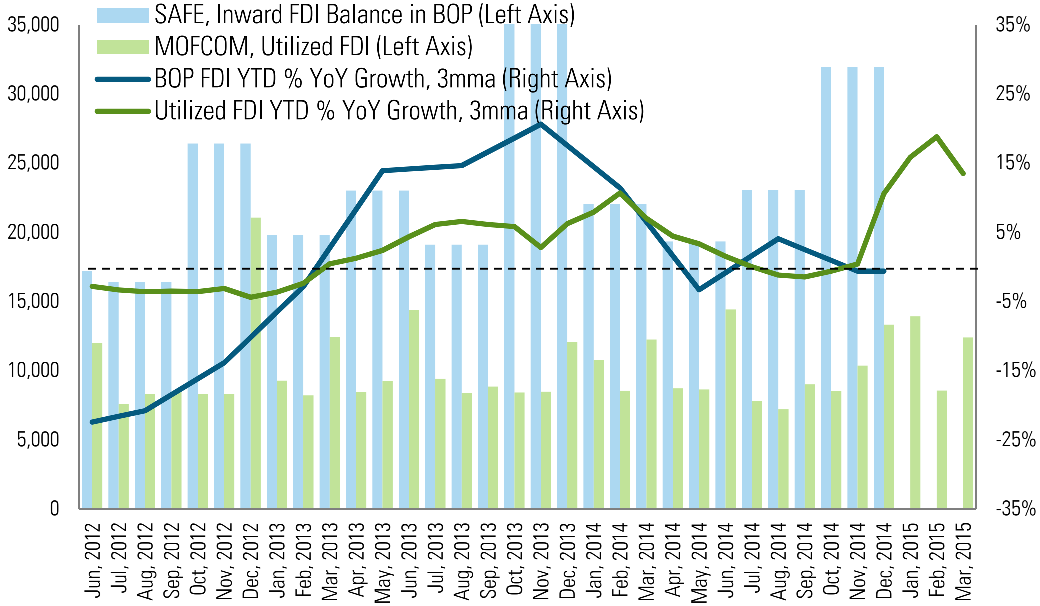
Foreign Investment in China: Global Trends

Foreign Direct Investment Flows in China, Q2 2012–Q1 2015

Monthly FDI flows in USD million*, percent year-on-year growth



Source: Ministry of Commerce (MOFCOM), State Administration of Foreign Exchange (SAFE). *Monthly BOP figures are derived from quarterly figures.

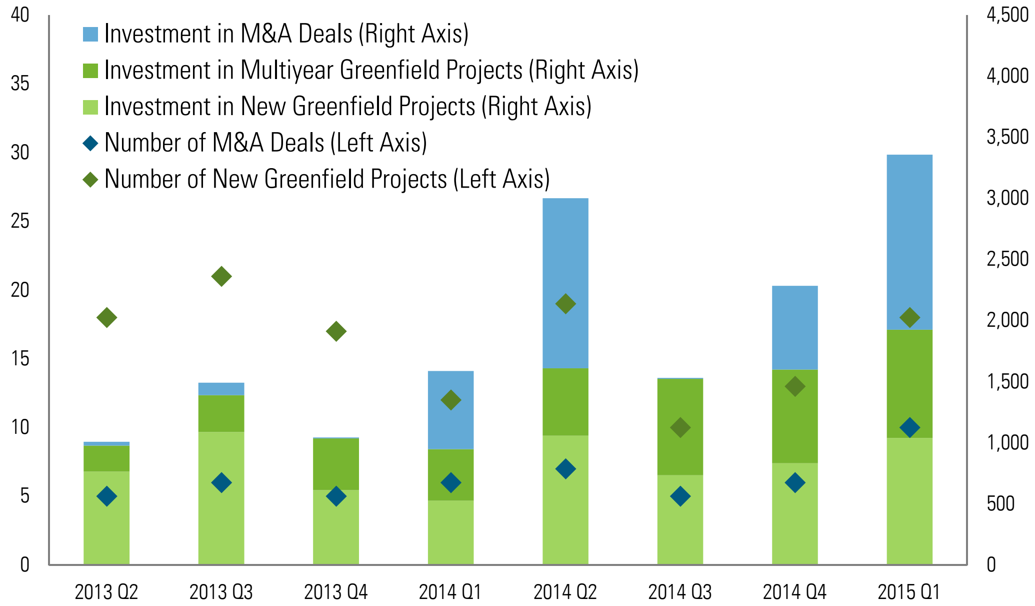
- Foreign direct investment into China recovered in H2 2014 and continued to edge up in Q1 2015. Official data from MOFCOM show FDI flows of $35 billion in Q1, up 11% from 2014. Considering the low levels of FDI in H1 2014, MOFCOM's monthly inward FDI numbers should display positive growth in coming months unless foreign sentiment is impacted by the negative macroeconomic data and slow progress with FDI reforms.

- The regional breakdown provided by MOFCOM shows that the top investors in Q1 2015 were mostly Asian economies including Hong Kong, South Korea, Taiwan, Singapore, and Japan. The United States and three European economies – Germany, the United Kingdom, and France – rounded out the top 10 investor spots.

- FDI figures compiled by the State Administration of Foreign Exchange (SAFE) for China's Balance of Payments (BOP) statistics are not yet available for Q1. Data points from previous quarters show a similar trend, but different levels and patterns. Most importantly, the recent growth of inward FDI is less pronounced because BOP figures subtract capital outflows (funds that foreign-invested firms send back to parent firms or other subsidiaries outside of China) from gross inward FDI. Those flows have reached a new record high in recent quarters, as firms have adjusted their foreign exchange position to reflect a bullish view of the US dollar.

EU Investment into China: Transactions Data

EU-28 FDI Transactions in China by Entry Mode, Q2 2013-Q1 2015
Quarterly number of transactions, investment value in USD million



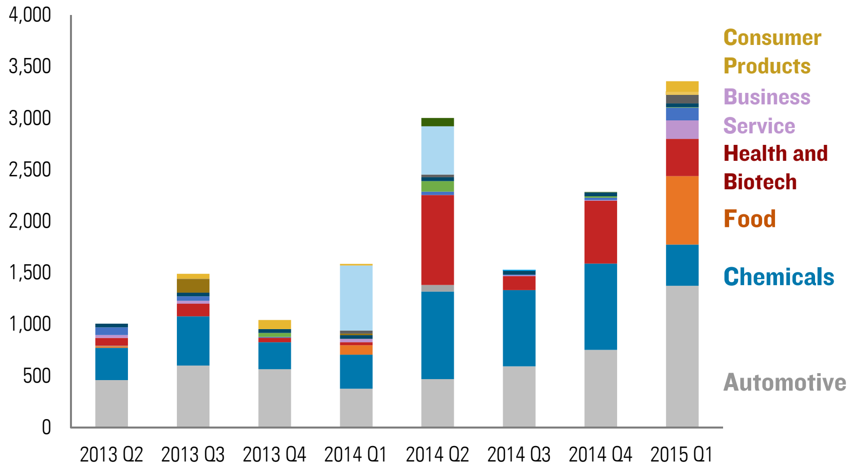
Source: Rhodium Group EU-China FDI Monitor.

- European companies' spending on FDI transactions in China fluctuated between $1-3 billion per quarter in past two years. Not surprisingly, the majority of EU investment into China takes the form of greenfield projects (about $1.5 billion on average).
- A significant share of the quarterly greenfield value is investment in large multi-year projects, which are logged incrementally over time instead of at the announcement date (dark green bars). The patterns in M&A spending are more volatile, as those transactions are logged at full value on the closing date of the deal.

- In Q1 2015 we record the highest level of investment in two years ($3.4 billion). We count 18 new greenfield projects together worth about $1 billion, including Akzo Nobel's expansion in Ningbo (Zhejiang) and Vamed's hospital in Haikou (Hainan). Important multi-year greenfield projects include three new plants by Volkswagen and two factories by Renault. Notably, Q1 saw one of the highest levels of M&A activity in the past two years, with 10 completed transactions together worth $1.4 billion. The biggest deals were Volvo AB's 45% stake in Dongfeng Commercial Vehicles for $670 million and Royal FrieslandCampina's $101 million investment in a Huishan Dairy plant in connection with a new baby formula joint venture.

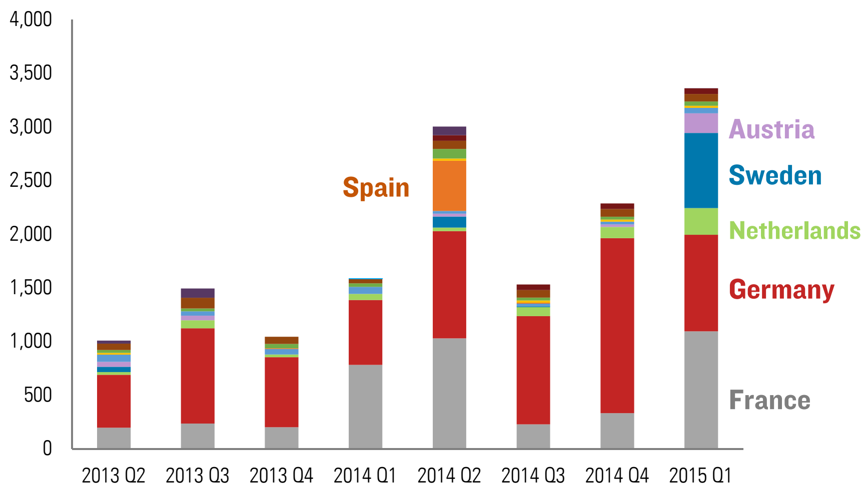
EU Investment into China: Transactions Data

EU-28 FDI Transactions in China by Industry, Q2 2013-Q1 2015
Quarterly investment value in USD million



Source: Rhodium Group EU-China FDI Monitor.

EU-28 FDI Transactions in China by Country of Origin, Q2 2013-Q1 2015
Quarterly investment value in USD million



Source: Rhodium Group EU-China FDI Monitor.

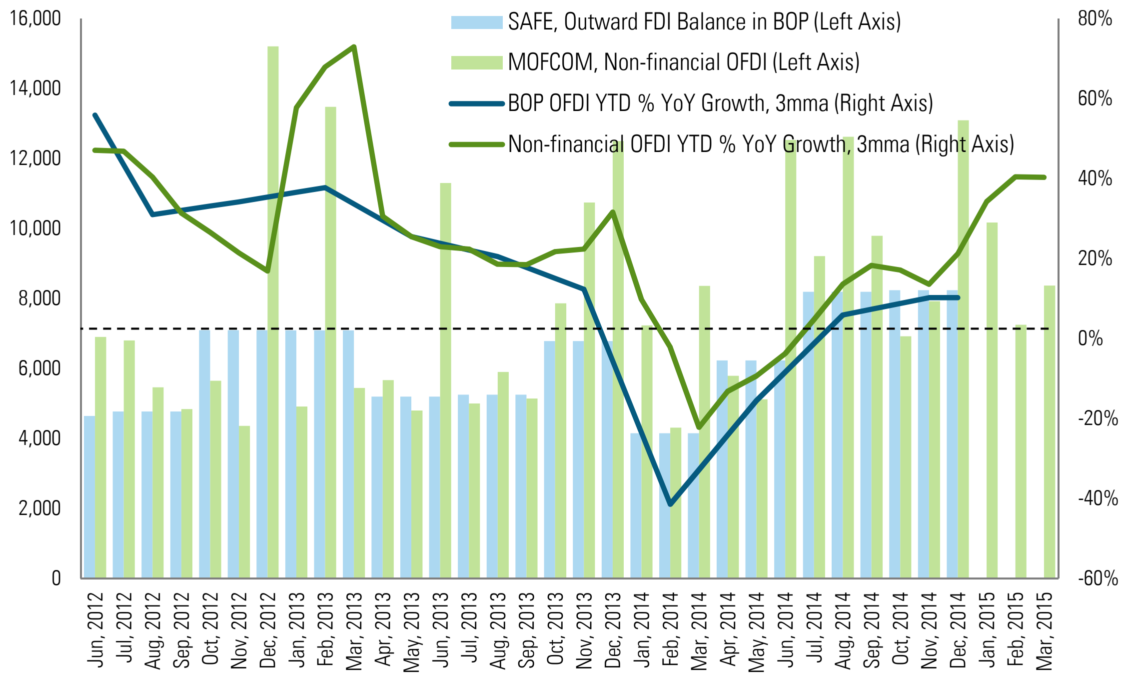
- Sectors with historically strong European interest such as automotive and chemicals dominated investment in Q1 2015. At the same time consumer goods and service sectors are receiving growing interest from European multinationals. Investment in the food industry alone reached $663 million in Q1, including Danone's $490 million acquisition of a 25% stake in dairy giant Yashili. Health and biotech received $360 million in total investment, including JLT's investment in Essential Healthcare Network and Royal DSM's stake in Aland. Finally, Ericsson's acquisition of Sunrise's telecom business demonstrates the growing appetite of European firms in IT services.

- Germany has emerged as the most important driver of European FDI into China in recent quarters, but it was surpassed by France in Q1 because of several large deals by French companies. Sweden, Austria, and the Netherlands were also significant sources of FDI for China in the first quarter.

- Looking ahead, there are greenfield investments and expansions worth almost $3 billion in the pipeline for the remainder of 2015. Several M&A transactions are also currently pending, such as German auto parts manufacturer MAHLE's investment in Shanghai Delphi Automotive Air or Electrolux AB's acquisition of dishwasher manufacturer Shanghai Veetsan. The biggest downside risk for coming quarters is that the current negative sentiment and the slow progress with FDI policy reforms derail projects that have already been started or dampen the appetite for new investments.

Chinese Outward Investment: Global Trends

Chinese Outbound FDI Flows, Q2 2012-March 2015
Monthly OFDI flows in USD million*, percent year-on-year growth



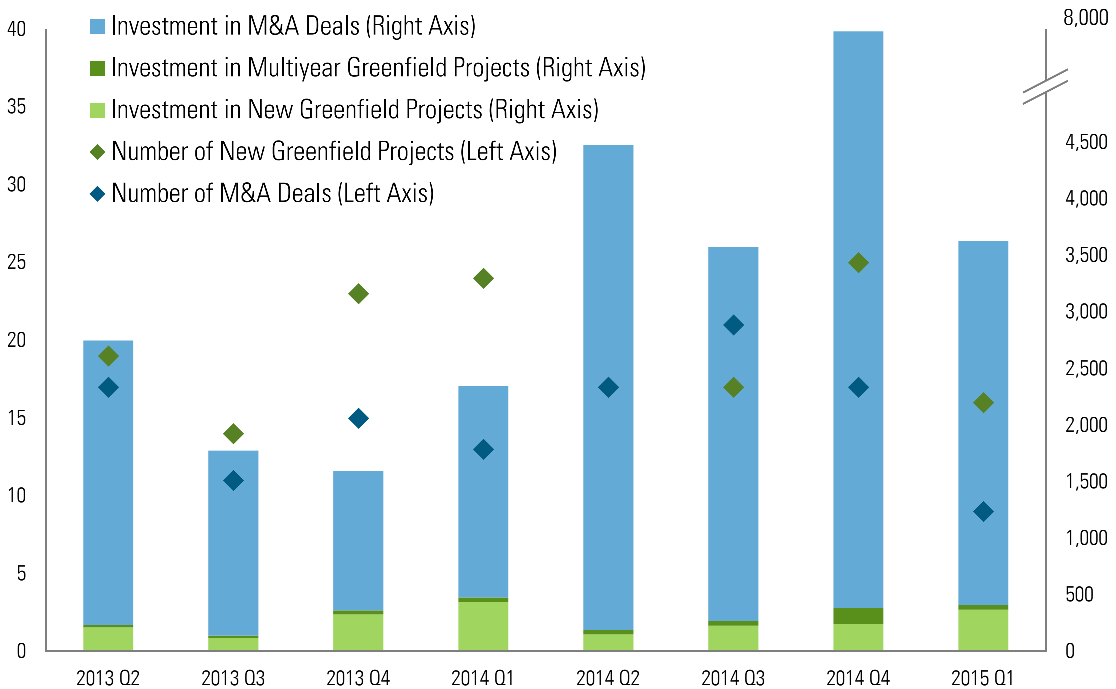
Source: Ministry of Commerce (MOFCOM), State Administration of Foreign Exchange (SAFE). *Monthly BOP figures are derived from quarterly figures.

- According to MOFCOM statistics, Chinese outbound FDI reached $26 billion in Q1 2015, up 30% compared to last year.
- This high headline growth figure partially reflects real recovery in OFDI flows, but it is also the result of the exceptionally low base in H1 last year. Moreover, the headline OFDI figures are likely still distorted by short-term capital outflows disguised as OFDI. Outbound investment data from China's BOP, which could help clarify the extent of those distortions, is not yet available for Q1.

- MOFCOM generally does not release monthly data on the breakdown of outward FDI by country, but officials mentioned that the main recipients of Chinese OFDI in Q1 2015 included Hong Kong, the Cayman Islands, the US, the EU, the British Virgin Islands, Singapore, and Indonesia.

Chinese Investment in the EU: Transactions Data

Chinese FDI Transactions in the EU-28 by Entry Mode, Q2 2013-Q1 2015
Quarterly number of transactions, investment value in USD million



Source: Rhodium Group EU-China FDI Monitor.

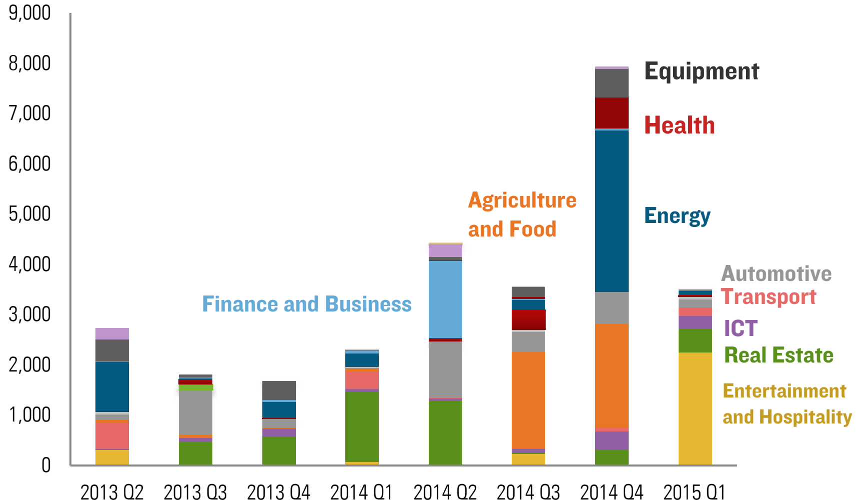
- After reaching an all-time high of $18 billion in 2014, Chinese FDI transactions in the EU were off a strong start in 2015 as well. We count 16 greenfield projects ($370 million) and nine acquisitions ($3.1 billion), for a total value of $3.5 billion.

- This represents a slight drop compared to the average of the previous three quarters, but it is the highest value that we have on record for the first quarter.

Chinese Investment in the EU: Transactions Data

Chinese FDI Transactions in the EU-28 by Industry, Q2 2013-Q1 2015

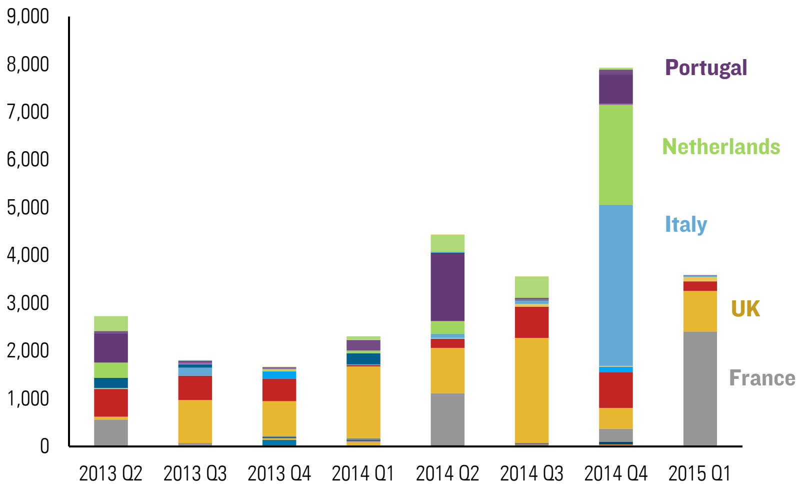
Quarterly investment value in USD million



Source: Rhodium Group EU-China FDI Monitor.

Chinese FDI Transactions in the EU-28 by Recipient Country, Q2 2013-Q1 2015

Quarterly investment value in USD million



Source: Rhodium Group EU-China FDI Monitor.

- While investment in past quarters mostly targeted energy and food assets, the focus in Q1 was clearly services. Investment in hotels and hospitality added up to $2.1 billion, including Fosun's acquisition of Club Med ($527 million) and Shanghai Jin Jiang's investment in Louvre Hotels ($1.5 billion). Real estate was the second largest sector, primarily through a $495 million investment by Ping An Insurance in London's Tower Place. Infrastructure-related investments also continued their recent upward trend, including in transportation (a 49.99% stake in the Toulouse-Blagnac airport) and telecommunications (ChinaCache headquarters in London).

- The UK, Germany and France have emerged as the top three recipients of Chinese investment in recent quarters. In Q1, France was by far the largest recipient because of two major hospitality investments. The UK came in second due to Ping An's real estate investment, and Germany ranked third.

- The outlook for the coming quarters is strong, with pending Chinese M&A deals totaling more than $10 billion. The biggest transaction is ChemChina's $7.7 billion takeover bid for Italian tire maker Pirelli. If completed, it would be the largest Chinese outbound M&A transaction in the EU of all time. Another high profile deal that seems to be back on the table is China Ocean Shipping Corporation's bid for a majority ownership stake in the Port of Piraeus. Greece's new government had put the privatization process on ice in early 2015, but seems to have recently reversed course. Another significant pending deal is Haitong Securities' acquisition of Banco Espirito Santo. Potential downside risks for Chinese EU investment in the coming quarters are the increasingly rich valuations in Europe, more competition for Chinese buyers in light of growing global M&A activity, and a stronger Euro.

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