

European Investment Fund



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annual report 1999



How to contact the EIF

Direct enquiries to the EIF concerning the provision of guarantees on external sources of funding for projects will be welcome from project promoters and developers, who may also make their approach through banks and financial intermediaries, especially the shareholders of the EIF (see page 49).

Enquiries concerning investments into venture capital funds should also be made to the EIF at the address below.

Address:

European Investment Fund
43, avenue J.F. Kennedy
L-2968 Luxembourg

Phone:

Luxembourg (352) 42 66 88-1

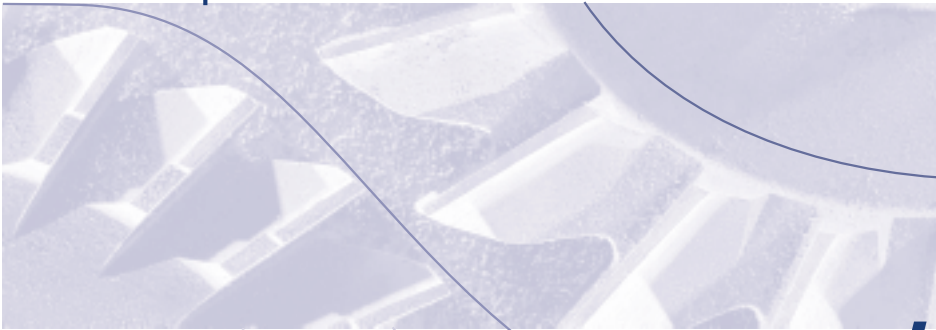
Fax:

Luxembourg (352) 42 66 88-200

e-mail: info@eif.org

website: www.eif.org

European Investment Fund



annual report 1999





preface by the chairman

of the supervisory board

The European Investment Fund is now five years old. It is making an important contribution to Community objectives in the two areas in which the European Union asked it to operate when it was set up in 1994: infrastructure and SME finance. Either on its own account or on behalf of third parties under management agreements, it has arranged guarantee support for lending totalling nearly EUR 4 billion (EUR 2.8 billion at its own risk) and invested venture capital totalling almost EUR 200 million.

In a short time the EIF has therefore shown that it can play a key part in Community support for infrastructure and SME finance while operating under strict commercial discipline and meeting the exacting demands of its private and public shareholders.

This progress has been achieved in a rapidly changing business environment. After only five years the investment landscape in both infrastructure and SME finance has changed radically from what was envisaged when the Fund was created. The challenge for the EIF has been to keep abreast of these changes, developing its product range and tailoring it to the new market requirements concentrating on those sectors and products in which it can add most value.

Discussions are under way between shareholders which could lead to a modification of the Fund's capital structure and a further enhancement of its role in the pursuit of Community objectives.

This is the first Annual Report that I present as Chairman of the Supervisory Board, and I would like to pay a warm tribute to my predecessor Sir Brian Unwin, who gave the EIF the leadership and the vision that were needed to bring it successfully through its start-up phase. I look forward to further development of the EIF and to its playing an even greater role on the Community stage.

A handwritten signature in black ink, appearing to read 'P. Maystadt'. The signature is stylized and written in a cursive-like font.

PHILIPPE MAYSTADT

Chairman of the Supervisory Board

President of the European Investment Bank



introduction

by the financial committee

As the executive management of the EIF, the Financial Committee has prepared the present Annual Report, which marks the completion of the Fund's first five full years of activity. During that time the Fund has successfully completed its start-up phase and is equipped to develop its guarantee and equity activity for the benefit of the Community.

By the end of 1999 the EIF had built up a diversified guarantee portfolio of nearly EUR 2.8 billion, of which EUR 1.9 billion represented TEN infrastructure projects and EUR 867 million SME portfolio guarantees.

In the provision of venture capital the EIF is now positioned as a leading investor in the high technology and early stage sectors in Europe. As well as committing up to EUR 80 million of its own resources, it is managing up to EUR 250 million for the EIB and up to EUR 170 million for the Community. By the end of 1999 these programmes had led to investment in 33 venture capital funds in a majority of EU Member States.

The EIF has steadily built up its financial strength, enabling it to make adequate provision for the risks in its portfolio while rewarding its shareholders through increasing dividend payments. Net profit has progressed from

EUR 5.4 million in 1995 to EUR 19.4 million in 1999. Costs have been kept under control, declining as a proportion of gross income from 30.5% in 1995 to 18.2% last year. Dividends have increased from EUR 2 000 per share in 1997 to a recommended EUR 6 000 per share in this report, while reserves and provisions have risen from EUR 4 million in 1995 to EUR 68.3 million at the end of 1999. The first realisations have been received on the Fund's venture capital portfolio, heralding an increasing contribution of equity earnings to income in the coming years.

In the first half of 2000 the Fund's guarantee activity has developed in line with the business plan. It is expected that new signatures will have reached EUR 300 million by the middle of the year (TENs and SMEs). The amount available for venture capital investments from own funds and ETF will have been fully committed and the operating profit, benefiting from increasing fee income on loan guarantees and early gains on the venture capital portfolios, without any need for specific provisioning, will be significantly above budget.

The Financial Committee wishes to express its appreciation to the staff of the Fund for their dedication and hard work over the last five years, which have laid a firm foundation for the further expansion of the EIF.

GERBRAND G. HOP

MICHEL BERTHEZENE DAVID McGLUE

key facts

and figures

The European Investment Fund was established in 1994 in response to an invitation from the Heads of State and Government of the European Union at their summit in Edinburgh in December 1992. It is a financial institution of the European Union which supports the integration of the European economy by promoting medium and long term investment in two fields essential to the development of the European economy - TENs (Trans-European Networks) and SMEs (Small and Medium-sized Enterprises). In infrastructure it supports investment in the areas of energy, telecommunications and transport by providing its guarantee for loans, and it supports the financing of SMEs by guaranteeing debt finance or by acquiring, holding and managing equity participations in venture capital funds. It also manages resources entrusted to it by third parties to meet the above objectives.

The fundamental objective of the EIF is to act as a catalyst in

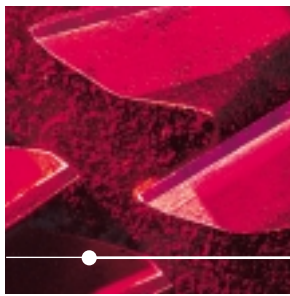
- *facilitating the participation of private capital in TEN projects*
- *making it easier for SMEs to access investment finance at reasonable cost*
- *promoting investment in innovative SMEs via specialized venture capital funds.*

In fulfilling its mission the EIF acts, on a commercial basis, as a complement to the banking sector, with which it shares risk, and in co-ordination with other EU financial institutions and instruments.

The EIF acts as a public-private partnership set up by the European Investment Bank, the European Community and private and public financial institutions from all 15 Member States.

The initial authorised capital of the EIF amounts to EUR 2 billion. Of this, EUR 1 799 million was subscribed at 31 December 1999, EUR 800 million by the European Investment Bank, EUR 600 million by the European Union and EUR 399 million by the financial institutions. The amount open for new subscription by banks or financial institutions thus stands at EUR 201 million. The callable portion of 20% (EUR 359.8 million) has been paid in. At present this solid capital base enables the EIF to grant guarantees for over EUR 5 billion. In the longer term the limit may attain EUR 16 billion.

The EIF has the status of a Multilateral Development Bank under the European Union's solvency ratio directive. This means that financial institutions benefiting from EIF guarantees are allowed to allocate capital to those operations at the rate of 20% instead of 100%.



As regards TEN project finance the EIF can be approached directly by promoters or prospective lenders, whereas for SME projects the fund normally works through specialised intermediaries.

Since its establishment the EIF has steadily built up its underwriting skills and project-structuring expertise as well as its market presence throughout Europe. The EIF's cumulative total of signed guarantee agreements since inception, net of loans repaid, amounted to EUR 2 784 million by the end of 1999. TEN operations account for EUR 1 918 million of this (i.e. 69% of the total, including 20% for energy, 24% for telecommunications and 25% for transport). SME operations accounted for EUR 867 million at the end of 1999 (i.e. 31% of all signed guarantee operations).

By the end of 1999 the EIF had made twenty-five venture capital commitments from its own resources totalling EUR 70.9 million. It had also made nineteen commitments under the European Technology Facility (ETF) for a total of EUR 85.9 million, and seven ETF Start-up facility commitments for EUR 38.4 million.

Key Figures

(as at 31.12.1999)

	EURm
Guarantees signed	2 784.4
Equity investments - own resources	70.9
Equity investments - third party resources	124.3
Balance sheet total	463.8
Subscribed capital	1 799.0
Paid-in capital	359.8
Net profit for the year	19.4
Total reserves and risk provisions*	68.4
- Provision relating to guarantees and other provisions	33.8
- Statutory reserve	24.4
- Profit brought forward	10.2

* before allocation of profit for 1999

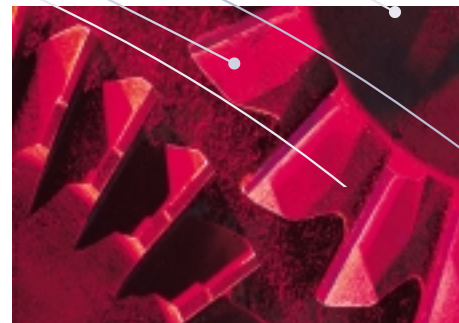
During 1999 the EIF made a net profit of EUR 19.4 million after a transfer of EUR 8.1 million to the provision in respect of contingent losses from its guarantee portfolio.



The EIF's total active commitment, i.e. the amount of guarantees signed since inception in 1994 less amounts repaid under loans guaranteed, rose from EUR 2 599 million at the end of 1998 to EUR 2 784 million at the end of 1999, an increase of 7%.

Guarantees signed by the EIF in 1999 totalled EUR 406.6 million, of which EUR 388.8 million represented TEN infrastructure guarantees and EUR 17.8 million guarantees in support of financing SMEs. This compared with EUR 486.0 million in 1998, of which TENs totalled EUR 311.4 million and SMEs EUR 174.4 million. Additional counter-guarantees were signed under the SME Guarantee Facility, which is not at the EIF's own risk.

The EIF achieved a significant increase in its TEN infrastructure guarantee activity in 1999, supporting nine projects compared with six the previous year, for a total guarantee volume of EUR 388.8 million compared with EUR 311.5 million in 1998. In the SME guarantee sector the Fund devoted most of its effort to promoting and developing the SME Guarantee Facility, part of the Growth and Employment Initiative, a programme of financial assistance to SMEs set up by the European Union in 1998 (see 1998 Annual Report, page 14). After signing one agreement in 1998 for EUR 30.9 million, the Fund concluded a further fourteen contracts in 1999 for a total counter-guarantee amount of EUR 1 155.8 million. A further EUR 17.8 million in respect of new agreements was signed under the Growth & Environment Pilot Project, while guarantee amounts totalling EUR 40 million were added to existing agreements.



In venture capital nearly 90% of the amount available for investment from the EIF's own resources had been committed by the end of the year, while further progress was made in investing resources managed on behalf of the EIB (the ETF facility, 68.7% committed) and the Commission (the ETF Start-up facility under the Growth & Employment Initiative, 26% committed). Equity participations were signed for a total of EUR 49.5 million, including EUR 5.1 million from the EIF's own resources, EUR 13.8 million from ETF and EUR 30.6 million from ETF Start-up. A second tranche of the ETF facility, ETF 2, was signed with the EIB in October and the first investments are expected to be made in 2000.

The EIF's gross income increased in 1999 to EUR 34.5 million (1998: EUR 33.8 million). Commission income rose by 44.8%, from EUR 10.7 million to EUR 15.5 million, reflecting an increase of 15.2% in the amounts disbursed on guaranteed loans during the year. Fee income for programmes managed under cooperation agreements with third parties, essentially the ETF managed for the EIB and the ETF Start-up and SME Guarantee Facilities managed for the European Commission, amounted to EUR 2.9 million.

Income from treasury operations, consisting essentially of the investment of the EIF's paid-in capital, fell from EUR 18.5 million to EUR 16.1 million, within budget but reflecting the lower interest rate environment that characterized the year.

The EIF received the first repayments on its venture capital investments in 1999, totalling EUR 1.5 million.

Agreement was reached at the end of 1999 on the claims arising from the transaction referred to in Note 9 to the financial statements for the 1998 financial year (see 1998 Annual Report, page 47). The EIF's liability was formally extinguished in January 2000.

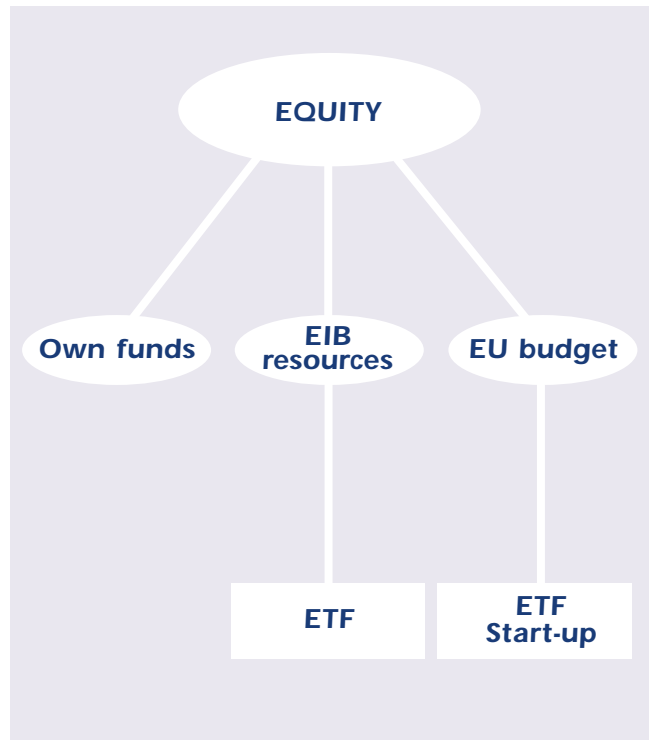
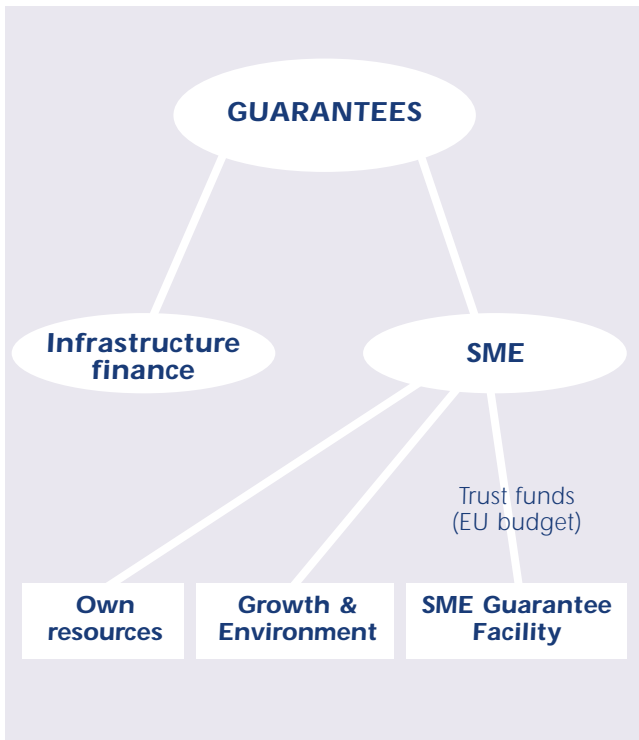
Costs, at EUR 6.4 million, were in line with the expansion of business and staffing (1998: EUR 5.6 million). After a net loss on financial operations of EUR 0.4 million, the EIF recorded an operating profit before depreciation of EUR 27.9 million, compared with EUR 28.0 million in 1998.

The Growth & Employment Initiative

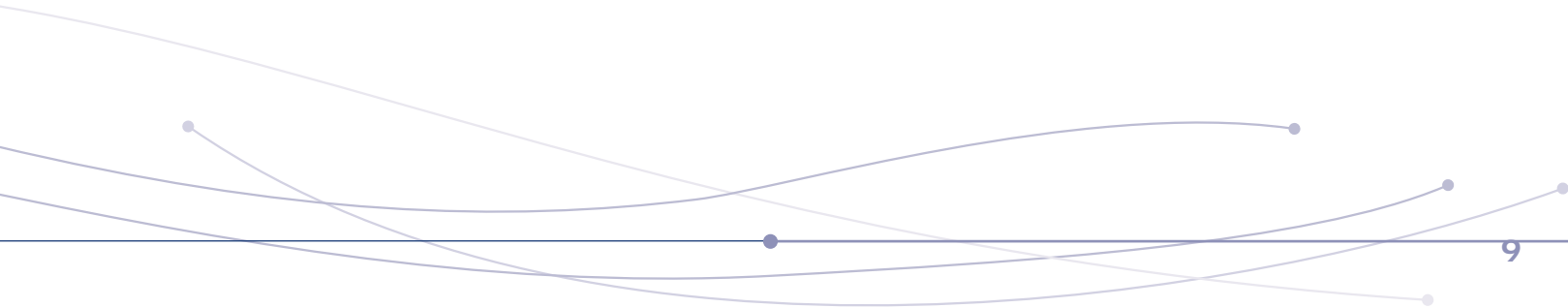
The Growth & Employment Initiative, which was formalized by the Council on 19 May 1998 (Decision 98/347/EC), is a programme of financial assistance to SMEs, set up by the European Union following an initiative of the European Parliament and the Luxembourg Special Employment Council of November 1997. The EIF manages two of its components, the **ETF Start-up Facility**, a venture capital facility providing risk capital to SMEs through investment in specialized venture capital funds with a higher risk profile than those targeted under the EIF's own risk capital facilities, and the **SME Guarantee Facility**, which provides counter-guarantees and/or co-guarantees to guarantee schemes operating in Member States, whether private or public, and, exceptionally, direct guarantees in the case of risk-sharing instruments provided by appropriate financial intermediaries.

These programmes are managed by the EIF under cooperation agreements with the European Commission which were signed in July 1998.

EIF products and resources



The SME Guarantee Facility and ETF Start-up Facility were launched in July 1998 after signature of management agreements with the Commission (see page 7)



EIF activity in 1999 - guarantees

TEN infrastructure

The EIF signed nine guarantee operations for infrastructure projects in 1999 for a total of EUR 388.9 million. Some of the trends noted in previous years continued, particularly the gradual move in the project finance market towards increased commercial bank participation or towards direct access by promoters to capital markets. In the three sectors in which the Funds statutes require it to operate (energy, telecoms and transport) there has been a marked decline in the availability of suitable projects in the energy sector. Of the nine new contracts signed during 1999, five concerned transport and four telecoms.

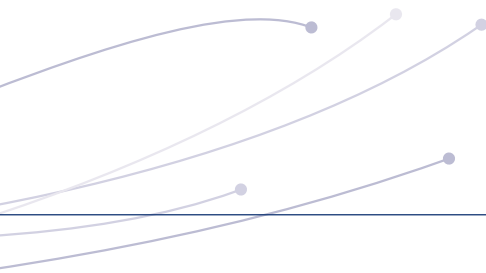
The breakdown by exposure between the three sectors in the Funds infrastructure portfolio at 31 December 1999 was as follows: energy 29%, telecommunications 34% and transport 37%. Projects have been guaranteed in ten EU countries (Belgium, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain and the UK) and, outside the Union, in Slovakia, Hungary, Poland and the Norwegian sector of the North Sea. Guarantees in non-EU countries make up 11.5% of the portfolio.

Table 1 - TEN infrastructure guarantee operations signed during 1999

(EUR rates: 31.12.1999)

Name	Country	Guaranteed party	Amount signed	EURm	Type of guarantee	Life of guarantee	Date of signature
Telecommunications							
KPN Orange	UK	Dresdner Kleinwort Benson	EUR 44m	44.00	first call	10 yrs	22.3.99
MATÁV II	Hungary	EIB	EUR 10m	10.00	first call	5 yrs	17.6.99
Telekomunikacja Polska	Poland	EIB	EUR 47.6m	50.00	first call	5 yrs	30.11.99
ESAT Digifone II	Ireland	AIB, ABN-AMRO	IEP 15m	19.05	first call	7 yrs	15.12.99
Transport							
British Airways Cargo Centre	UK	EIB	GBP 60m	96.51	first call	15 yrs	26.3.99
West Concession Toll Road	Portugal	EIB	PTE 6.2bn	30.92	first call	5 yrs	6.8.99
West Coast Main Line	UK	Royal Bank of Scotland	GBP 35m	56.30	first call	16 yrs	8.9.99
Beira SCUT Roads	Portugal	EIB	EUR 45.35m	45.35	first call	25 yrs	24.9.99
New Fixed Warnow Crossing	Germany	syndicate of banks*	EUR 36.75m	36.75	first call	25 yrs	23.12.99
TOTAL FOR 1999				388.87			

* syndicate led by KfW and Deutsche Bank/Norddeutsche Landesbank



In the **KPN Orange** transaction the EIF is guaranteeing part of a senior debt facility provided by Dresdner Kleinwort Benson to support the installation of a third cellular telephone network in Belgium. The total financing requirement of the investment programme is just over EUR 1 billion.

In the **MATÁV II** operation the EIF is guaranteeing part of a senior debt facility arranged by ABN-AMRO Bank and Commerzbank to finance part of the ongoing investment programme to upgrade and expand the telephone network in Hungary. The total financing requirement of the investment programme is just over EUR 1.33 billion.

The **Telekomunikacja Polska** project involves the design, purchase and commissioning of new telephone equipment as part of the company's investment programme to upgrade and expand the telecommunications network in Poland. Cost of programme: EUR 2.36 billion. The EIF guarantee is part of a 5-year multi-currency guarantee of EIB lending totalling EUR 250 million.

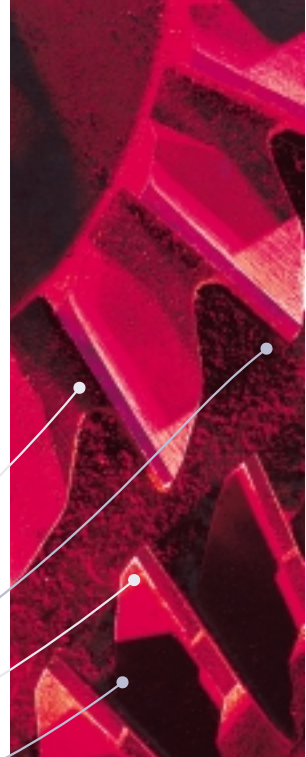
The **ESAT Digifone II** transaction is a new guarantee, replacing the previous one (see 1997 Annual Report) issued to support the implementation of the second GSM mobile phone network in Ireland. The EIF is guaranteeing

its shareholders AIB and ABN-AMRO for part of a senior debt facility of IEP 188 million (EUR 238 million) with a maturity date of 31.12.2006.

The **British Airways Cargo Centre** guarantee covers part of the financing of a cargo terminal being built by British Airways plc at Heathrow Airport. Project cost: EUR 422 million.

The **West Concession Toll Road** project relates to the design, building, operation and maintenance of a toll motorway between Lisbon and Santarem under a 30-year concession awarded by the Portuguese State to Auto-Estradas do Atlantico. The project will cost EUR 620.7 million and the EIF guarantees part of an EIB loan of EUR 209 million.

The **West Coast Main Line** project involves the acquisition of rolling stock as part of the upgrading of the main rail route from London to North-West England and Scotland. This rail route is on the list of priority TEN projects drawn up by the Essen summit. The EIF is guaranteeing the Royal Bank of Scotland for a senior subordinated loan to ALCL, the borrower/lessor. The capital cost of the train sets concerned is GBP 285 million (EUR 460 million).



The **Beira SCUT Roads** project involves the design, building, operation and maintenance by SCUTVIAS of 177 km of motorway in Portugal under a 30-year concession from the Portuguese State, awarded on a "shadow toll" basis. The EIF is guaranteeing part of a 25-year EIB loan of up to EUR 350 million. Project cost is EUR 795 million.

The **New Fixed Warnow Crossing** project involves the construction and operation of a tunnel under the Warnow river at Rostock which will be the first toll road in Germany. The EIF is guaranteeing a syndicate of banks led by Deutsche Bank/Nord LB and KfW for part of a senior debt facility to the project company. Cost of project: EUR 213.2 million.

SME (Small and Medium-sized enterprises) guarantees

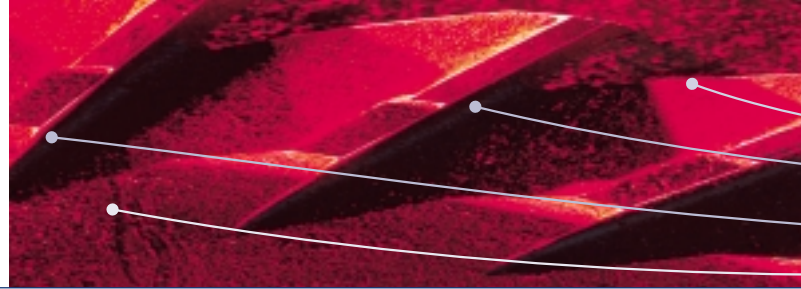
EIF guarantees for SME operations come into three categories:

- i) guarantees where the contingent liability resides with EIF, with the corresponding fees charged to the client
- ii) guarantees where the contingent liability resides with EIF, with the guarantee fees payable by a third party on behalf of the beneficiary. The Growth and Environment Pilot Project comes into this category
- iii) guarantees issued by the EIF in its own name but on behalf of third parties without any contingent liability on EIF. The Fund acts as an agent and is paid a management fee.

Table 2 - Summary of all EIF SME guarantee operations signed during 1999

(EUR rates: 31.12.1999)

Category	EURm
Contingent liability: EIF own resources	
Growth & Environment	17.75
No contingent liability for EIF	
SME Guarantee Facility	1155.83



Contingent liability on EIF (fees paid by third party)

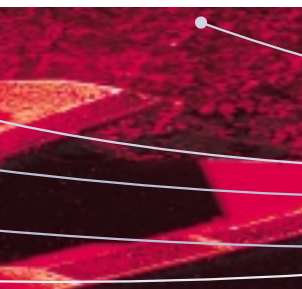
Under the Growth & Environment Pilot Project, which is an initiative of the European Parliament, the EIF provides a free guarantee to financial intermediaries for loans extended to SMEs for the purpose of financing environmentally friendly investments. The ultimate risk from the guarantees rests with EIF and the guarantee fee is paid out of EU budget funds managed by the EIF under a cooperation agreement with the European Commission (for full details of the scheme see the separate brochure available from the Fund at the address shown inside the front cover, or consult the EIF website).

After the comprehensive review undertaken by the EIF and approved by the European Commission in 1998, drawdowns increased to 11.46% by the end of 1998 and to 24.20% by the end of 1999. In addition the Fund signed two contracts with new intermediaries in 1999 for a total value of EUR 17.75 million. The network of Growth and Environment intermediaries comprises 28 institutions in all the Member States of the European Union, including 23 shareholders in the Fund, and the total volume of the signed agreements is EUR 652.5 million.

Table 3 - New Growth & Environment guarantee operations signed during 1999

(EUR rates: 31.12.1999)

Name	Country	Amount signed	EURm	Life of guarantee	Date of signature
Groupe Banques Populaires III	France	EUR 10m	10.00	7 yrs	27.10.99
Banca Popolare dell'Emilia Romagna	Italy	EUR 7.75m	7.75	7 yrs	9.11.99
TOTAL			17.75		



No contingent liability on EIF

The SME Guarantee Facility (see page 7) is part of the EU's Growth and Employment Initiative and is managed by the EIF under a cooperation agreement with the European Commission which was signed in July 1998. Under this facility the EIF provides counter-guarantees and/or co-guarantees to guarantee schemes operating in Member States, whether private or public, and exceptionally direct guarantees in the case of risk-sharing instruments provided by national financial intermediaries. It does not create any exposure or liability on the EIF balance sheet and the costs are covered by a performance-related management fee earned under the cooperation agreement. The first guarantee under this programme was signed in December 1998.

For further details of the SME Guarantee Facility, see separate brochure obtainable from the EIF at the address shown inside the front cover, or consult our website.

Table 4 - SME Guarantee Facility signatures during 1999

(EUR rates: 31.12.1999)

Intermediary	Country	Amount signed EURm	Date of signature
BBMKB	Netherlands	187.87	10.2.99
Deutsche Ausgleichsbank	Germany	135.34	11.3.99
Confidi Padova	Italy	34.40	14.4.99
Unionfidi Piemonte	Italy	41.32	28.5.99
Fonds de Participation	Belgium	24.79	8.6.99
Sofaris	France	101.29	5.7.99
Artigiancredit Lombardia	Italy	56.25	30.7.99
Almi Företagspartner	Sweden	75.83	13.9.99
Artigiancredit Emilia Romagna	Italy	67.50	16.9.99
Finnvera plc	Finland	76.33	15.10.99
Confidi Sardegna	Italy	37.50	30.11.99
Artigiancredit Toscana	Italy	70.00	30.11.99
Federfidi Lombardia	Italy	46.50	30.11.99
CERSA	Spain	200.90	27.12.99
TOTAL		1155.83	

EIF activity in 1999 - Equity

The EIF signed commitments to invest in venture capital funds from three sources in 1999:

- from an allocation of approximately EUR 80 million of its own resources representing 20% of own funds as laid down by the General Meeting
- from an amount of EUR 125 million managed on behalf of the European Investment Bank under the European Technology Facility (ETF) as part of the Amsterdam Special Action Programme (ASAP)
- from the ETF Start-up Facility, a component of the Growth and Employment Initiative (see page 7).

An agreement for the management of a second tranche of EUR 125 million under ETF was signed with the European Investment Bank in October 1999. The first commitments under this new tranche are expected to be made in 2000.

Equity commitments from own resources

In 1999 the EIF signed new commitments from its own funds totalling EUR 5.1 million. During the year, the existing commitment in Kiwi Venture Partners I was increased by EUR 1 million. The conditional commitment of EUR 2.6 million in Horizonte Technologiefonds Österreich B.V. made in 1998, was confirmed during 1999.

Table 5 - Venture capital commitments from the EIF's own resources signed during 1999
(EUR rates: 31.12.1999)

Name	Where incorporated/ managed	Amount signed EURm	Signature date
Baring European Private Equity Fund	UK	3.0	15.3.99
Elderstreet Capital Partners	UK	2.1	27.9.99
	TOTAL	5.1	

The total amount committed from the EIFs own resources stood at EUR 70.9 million on 31 December 1999, or 88.6% of the ceiling of 20% of own funds.

Equity commitments under the ETF

Two new commitments totalling EUR 13.8 million were signed under the ETF facility in 1999. During the year, the existing commitment in Kiwi Venture Partners I was increased by EUR 4 million. The conditional commitment of EUR 2.2 million in Horizonte Technologiefonds Österreich B.V. made in 1998, was confirmed during 1999.

Table 6 - Venture capital commitments under the ETF signed during 1999
(EUR rates: 31.12.1999)

Name	Where incorporated/ managed	Amount signed EURm	Signature date
Baring European Private Equity Fund	UK	9.5	15.3.99
Elderstreet Capital Partners	UK	4.3	27.9.99
TOTAL		13.8	

The total amount committed from ETF resources stood at EUR 85.9 million on 31 December, or 68.7% of the total available amount of EUR 125 million.

For further details of the ETF programme, see the separate brochure which is available from the EIF at the address shown inside the front cover, or consult our website.

Equity operations under the ETF Start-up facility

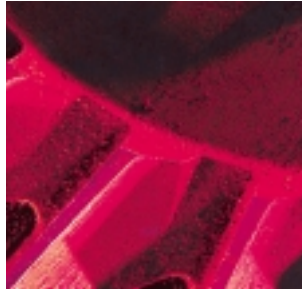
The ETF Start-up facility (see page 7) was signed in July 1998. Six new commitments totalling EUR 30.6 million were signed under the facility in 1999. The conditional commitment of EUR 7.8 million made on 17.12.1998 in Wellington Partners was confirmed during 1999.

Table 7 - Venture capital commitments under the ETF Start-up facility signed during 1999

(EUR rates: 31.12.1999)

Name	Where incorporated/ managed	Amount signed EURm	Signature date
Rhône-Alpes PME	France	3.8	23.2.99
Ventech	France	9.7	23.3.99
Quantum Healthcare Fund	UK	4.8	29.3.99
SEEFT	France	4.1	30.6..99
Aboa Venture II Ky	Finland	2.0	2.6.99
InnKap 2	Sweden	6.1	25.8.99
	TOTAL	30.6	

The total amount committed under ETF Start-up at 31 December 1999 was EUR 38.4 million.



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capital and treasury

The EIF's total authorised capital is EUR 2 billion. The subscribed capital stands at EUR 1 799 billion, or 89.95% of the total authorised capital. Banks and financial institutions have subscribed EUR 399 million, or 66.5% of the amount of EUR 600 million available to them for subscription.

Table 8 - Capital Position of the EIF
(at 31.12.1999)

	EURm
Authorised capital	2 000
Subscribed capital	1 799
- EIB	800
- European Community	600
- Financial institutions	399
Paid-in capital	359.8
- EIB	160
- European Community	120
- Financial institutions	79.8

The broad guidelines for the EIF's treasury investment policy are that it should respect the constraints of protection of capital value, prudence and liquidity while striving to maximize the rate of return.

At 31 December 1999 treasury funds totalled EUR 410 million at cost. The operational portfolio totalled EUR 140.1 million, while the investment portfolio totalled EUR 266.1 million.



administration

The 1999 Annual General Meeting, held in Copenhagen on 25 June 1999, was chaired by Mr Niels Larsen, Managing Director of Finance for Danish Industry, representing the Financial Institutions.

With effect from the date of the Annual General Meeting Messrs Sven-Olof Johansson and Lars Tybjerg, member and alternate member respectively of the Supervisory Board representing the EIB, resigned and were replaced by Messrs Jean-Pierre Arnoldi and León Herrera Santa María. Following their resignations later in the year Messrs Hans Reich, member representing the Financial Institutions, Paul McIntyre, member representing the EIB, and Fernando Becker Zuazua, alternate member representing the Financial Institutions, were replaced by Messrs Detlef Leinberger, Ivan Roberts and José Gasset Loring respectively.

The Fund expresses its thanks to Messrs Johansson, McIntyre, Reich, Tybjerg and Becker for their contribution to the work of the Fund during their membership of the Supervisory Board.

At the end of the year Sir Brian Unwin relinquished his chairmanship of the Supervisory Board on his retirement as President of the European Investment Bank.

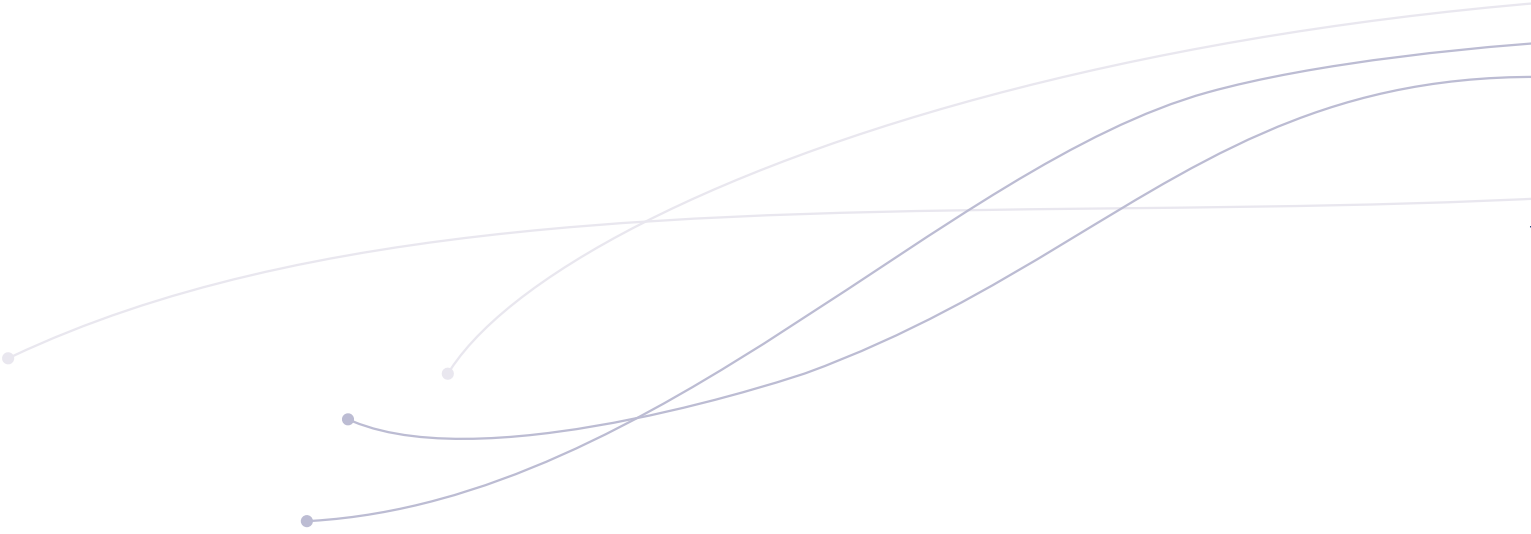
He presided with commitment and energy over the development of the EIF for over five years from its inauguration in 1994. The Fund expresses its special thanks to him for the stimulus and leadership he gave it during its formative years.

The Fund also lost a valuable Supervisory Board member in Mr Eneko Landáburu, who resigned at the end of 1999 on his appointment to a new post in the European Commission. He had also been a Board member since the beginning of the EIF's activity and played a leading part in its development. The Fund thanks him for his involvement and contribution.

The successors to Sir Brian Unwin and Mr Eneko Landáburu, Messrs Philippe Maystadt and Guy Crauser, took up their appointments to the Supervisory Board at the beginning of 2000.

The Board of Auditors was chaired by Mr Daniel van der Spree for the year ending on the date of the 1999 Annual Meeting.

At 31 December 1999 forty-three persons were employed by the Fund, including the three members of the Financial Committee.



Annexes

- 24 Financial Statements and Notes
- 49 List of Shareholders
- 52 Members of the Organs
and Management of the Fund



financial

statements

Results for the year

The EIF made a net profit for 1999 of EUR 19 359 621, compared with EUR 13 712 090 in 1998. Of gross operating income of EUR 34 600 624, 46.3% arose from income on investments and 53.3% from commissions on operations (1998: 56.9% and 43.1% respectively). A transfer of EUR 8 165 300 was made to the provision relating to guarantees.

The balance sheet total progressed from EUR 436 870 917 at 31 December 1998 to EUR 463 823 259 at 31 December 1999, an increase of 6.1%. On the liabilities side the provision relating to guarantees stood at EUR 33 030 932. The statutory reserve stood at EUR 24 358 804.

The Supervisory Board has decided to propose to the General Meeting that it allocate the net profit for the year, i.e. EUR 19 359 621, as follows:

- EUR 10 794 000 for distribution to shareholders
- EUR 8 565 621 to the statutory reserve.

Unit of account

As required by Article 6 paragraph 2 of the Statutes the Funds unit of account at 31 December 1999 was the Euro (EUR) adopted by the European Union. Unless otherwise indicated in the Annual Report and Financial Statements all amounts are expressed in Euro.

The following conversion rates were used for drawing up the balance sheet at 31 December 1999:

1 Euro = 31.12.1999

EUR-11 (currencies joining Euro)

Deutsche mark	1.95583
French francs	6.55957
Italian lire	1936.27
Spanish pesetas	166.386
Belgian francs	40.3399
Dutch guilders	2.20371
Austrian schillings	13.7603
Finnish markka	5.94573
Portuguese escudos	200.482
Irish pounds	0.787564
Luxembourg francs	40.3399

PRE-IN (currencies not joining Euro)

Pounds sterling	0.6217
Danish kroner	7.4433
Greek drachmas	330.3
Swedish kronor	8.5625

Since 1 January 1999 the accounts of the EIF have been drawn up in Euro and the conversion rates from the "in" currencies have been those fixed irrevocably by the Council of Ministers on 31 December 1998.

Statistical note

Unless otherwise indicated, amounts in EUR indicated in this Annual Report are based on conversion rates at 31 December 1999.

The figure in the off balance sheet item "Guarantees in respect of loans granted by third parties" in the Financial Statements expresses the underlying contingent liabilities of the Fund as of 31 December 1999 calculated on the basis of the currency conversion rates applying on that date. The calculation of those contingent liabilities also takes into account the present value of future interest payments as well as contractual limits to the call on EIF guarantees, where applicable.



auditor's
report

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To the Chairman

of the Financial Committee of
the European Investment Fund
43, avenue J. F. Kennedy
L-2968 Luxembourg

Following our appointment by the Financial Committee, we have audited the accompanying annual accounts of the European Investment Fund for the year ended 31 December 1999. These annual accounts are the responsibility of the Financial Committee. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

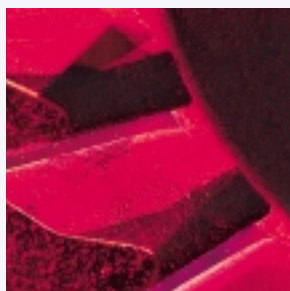
In our opinion, the attached annual accounts give a true and fair view of the assets, liabilities and financial position of the European Investment Fund as at 31 December 1999 and of the results of its operations for the year then ended in conformity with the Council Directives of the European Union where applicable.

Without qualifying our opinion we draw attention to note 9 "Subsequent event" in the annual accounts. The EIB announced, on 28 February 2000, its intention to propose its acquisition of the full share capital of the Fund and consequently to transform the Fund into its specialist instrument, among others, for venture capital financing. The potential impact of this change in the activities of the Fund has not been reflected in the attached annual accounts.

Luxembourg, 14 March 2000

KPMG Audit
Réviseurs d'Entreprises

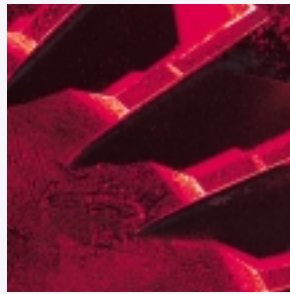
D. G. Robertson



balance sheet

as at 31 december 1999 (expressed in EUR)

<i>Assets</i>	<i>Notes</i>	<i>1999</i>	<i>1998</i>
Current assets			
Cash at bank and in hand			
Current accounts		3 804 496	2 321 281
Term deposits	3.1	41 100 000	218 500 000
		44 904 496	220 821 281
Debtors	3.2	6 903 158	3 337 928
Fixed-income securities			
Commercial paper	3.3	98 974 925	-
		150 782 579	224 159 209
Fixed assets	3.6		
Debt securities and other fixed-income securities held as fixed assets	3.4	266 222 859	179 588 616
Investments in venture capital enterprises	3.5	32 536 709	18 353 320
Intangible assets		199 790	145 954
Tangible and other fixed assets		5 338 396	5 364 828
		304 297 754	203 452 718
Prepayments and accrued income	3.7	8 742 926	9 258 990
TOTAL ASSETS		463 823 259	436 870 917



<i>Liabilities</i>	<i>Notes</i>	<i>1999</i>	<i>1998</i>
Creditors	4.1	944 215	1 070 072
Accruals and deferred income	4.2	15 337 382	8 115 798
Provisions for liabilities and charges:			
Provision for pensions	4.3	-	1 260 136
Provision relating to guarantees	4.4	33 030 932	26 107 055
Other provisions		729 448	499 195
		33 760 380	27 866 386
Capital	4.5		
Subscribed		1 799 000 000	1 799 000 000
Uncalled		(1 439 200 000)	1 439 200 000
		359 800 000	359 800 000
Share premium account		32 169	32 169
Statutory reserve	4.6	24 358 804	16 043 714
Profit brought forward	4.7	10 230 688	10 230 688
Profit for the financial year	4.7	19 359 621	13 712 090
TOTAL LIABILITIES		463 823 259	436 870 917

Off-Balance Sheet Items

Guarantees in respect of loans granted by third parties	5.1		
Drawn		1 699 933 802	1 516 266 603
Undrawn		1 019 779 625	1 067 184 801
		2 719 713 427	2 583 451 404
Commitments	5.3	35 532 176	56 864 694
Assets held for third parties	5.4	143 429 782	74 313 688
Fiduciary operations	5.5	1 308 649 461	100 278 060
		4 207 324 846	2 814 907 846

profit and loss account

for the year ended 31 december 1999 (expressed in EUR)

	Notes	1999	1998
Net interest and similar income	6.1	16 005 253	18 472 958
Income from securities			
Income from investments in venture capital enterprises		117 726	-
Commission income	6.2	18 477 645	13 988 417
Net profit / (loss) on financial operations	6.3	(432 483)	1 173 348
Other operating income		52 967	-
General administrative expenses:			
Staff costs:			
- wages and salaries	2.10	(4 261 290)	(3 631 394)
- social security costs			
of which: EUR 378 138 relating to pensions (1998: EUR 326 832)		(459 320)	(494 241)
		(4 720 610)	(4 125 635)
Other administrative expenses		(1 606 350)	(1 472 946)
		(6 326 960)	(5 598 581)
Value adjustments in respect of tangible and intangible assets		(369 227)	(363 115)
Transfer to the provision relating to guarantees	4.4	(8 165 300)	(13 960 937)
PROFIT FOR THE FINANCIAL YEAR		19 359 621	13 712 090

board**of auditors**

The Board of Auditors set up in accordance with Article 25 of the Statutes:

- having studied the books, vouchers and documents which it deemed necessary to examine in the discharge of its duties,
- having examined the report of 14 March 2000 drawn up by KPMG Audit

considering Articles 20, 21 and 22 of the Rules of Procedure, hereby certifies:

- that the operations of the Fund have been carried out in compliance with the formalities and procedures laid down by the Statutes and Rules of Procedure,
- that the balance sheet and the profit and loss account correspond to the book entries and that they reflect exactly the situation of the Fund as regards both assets and liabilities.

Luxembourg, 17 May 2000

The Board of Auditors

R. DIEPVENS
D. van der SPREE

notes**to the annual accounts
31 december 1999**

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1. General

The EUROPEAN INVESTMENT FUND (hereafter "the Fund") was incorporated on 14 June 1994 as an international financial institution.

The main objectives of the Fund are to support the development of trans-European networks in the areas of transport, telecommunications and energy infrastructures, and the development of small and medium-sized enterprises by providing its guarantee for loans, by acquiring, holding and managing equity participations and by administering special resources entrusted by third parties.

The Fund operates as a partnership the members of which are the European Investment Bank (hereafter "the EIB"), the European Union, represented by the European Commission ("the Commission"), and a group of financial institutions of Member States of the European Union. The members of the Fund shall be liable for the obligations of the Fund only up to the amount of their share of the capital subscribed and not paid in.

The Fund is managed and administered by the following three organs: the General Meeting, the Supervisory Board and the Financial Committee. In addition a Board of Auditors comprising two representatives is appointed by the General Meeting of shareholders. Their main function is to report to the General Meeting of shareholders that the accounting records of the Fund have been properly maintained and that the annual accounts faithfully reflect the position of the Fund.

The financial year of the Fund runs from 1 January to 31 December each year.

2. Accounting policies and presentation of annual accounts

2.1 Presentation of annual accounts

These annual accounts have been prepared in accordance with the historical cost convention, employing the accounting policies set out below.

The Fund's accounting policies are in accordance with the Council Directives of the European Union where applicable.

2.2 Valuation of foreign currency balances and transactions

2.2.1 Valuation of foreign currency balances and transactions

The share capital of the Fund is expressed in Euros ("EUR") and the accounting records are maintained in that currency. Share capital subscriptions paid in national currencies were converted to EUR at the rate prevailing on the payment date.

Non-monetary items denominated in a foreign currency are reported using the exchange rate at the date of the transaction (historical cost).

Monetary items which include all other assets, liabilities and off-balance sheet items expressed in a currency other than EUR are reported using the closing foreign exchange rate.

Income and charges in foreign currencies are translated into EUR at the exchange rate ruling on the date of the transaction.

The positive exchange differences arising on the revaluation of investments in venture capital enterprises are deferred until disposal of related assets.

Other exchange differences arising from the translation of monetary items and operations are recognised in the profit and loss account in the period in which they arise.

2.2.2 Forward foreign exchange contracts

The net profit or loss arising on forward foreign exchange contracts hedging balance sheet items is amortised on a pro-rata basis over the actual duration of the contract. Other results arising on forward foreign exchange contracts are recognised as net profit or loss on financial operations in the period in which they arise.

2.3 Debt securities and other fixed-income securities

Debt securities and other fixed-income securities intended for use on a continuing basis in the Fund's activities and normally held until final maturity are deemed to be fixed assets. Other debt securities and other fixed-income securities with initial maturity of less than one year are disclosed as current assets.

All debt securities and other fixed-income securities are valued at acquisition cost.

Premiums paid over the maturity value are amortised by equal instalments over the remaining period to maturity. The cumulative amortisation from the date of acquisition is included in "Accruals and deferred income" on the liability side of the balance sheet.

Discounts received in comparison to the maturity value of securities are taken to the profit and loss account in equal instalments over the remaining period to maturity. The cumulative amortisation from the date of acquisition is included in "Prepayments and accrued income" on the asset side of the balance sheet.

2.4 Investments in venture capital enterprises

Investments in venture capital enterprises represent shares and other variable-yield securities and participating interests acquired for the longer term in the normal course of the Fund's activities and are shown in the balance sheet at their original purchase cost. Unrealised gains arising from the restatement of these investments at the year end closing rates are deferred until disposal of the investment.

Value adjustments are made when there is considered to be a permanent diminution in value.

Unrealised capital gains are deferred until disposal of the investment.

2.5 Valuation of intangible and tangible assets

Intangible and tangible assets are valued at purchase price, reduced by accumulated value adjustments calculated to write off the value of such assets on a straight line basis over their expected useful life as follows:

	Useful life
Intangible assets:	
Software	2 to 5 years
Tangible assets:	
Buildings	30 years
Fixtures and fittings	10 years
Office equipment	5 years
Computer equipment and vehicles	3 years

2.6 Provision relating to guarantees

The policy of the Fund permits the establishment of a general provision for contingent losses that may arise from its guarantee activities.

2.7 Guarantees in respect of loans granted by third parties

The amount disclosed in respect of issued guarantees represents the total commitment which refers to both the drawn and undrawn principal amounts of the underlying loans and, if relevant, to the present value of the flow of future interest payments covered by the guarantees.

2.8 Commission income

Up-front commissions received for arranging and granting guarantees are recognised when a binding obligation has been entered into.

Guarantee commissions received are recognised on a time proportion basis over the life of the guarantee.

2.9 Net interest and similar income

Interest and similar income are recognised on a time proportion basis taking account of the effective yield on the asset.

Premiums on debt securities and other fixed-income securities held as fixed assets amortised during the financial year, and interest and similar expenses paid are deducted from the gross amount of interest and similar income received.

2.10 Wages and salaries

Wages and salaries include costs incurred in relation to staff seconded from the EIB.

3. Detailed disclosures relating to asset headings

3.1 Cash at bank and in hand

The remaining life of term deposits is detailed as follows:

	1999 EUR	1998 EUR
Up to three months	41 100 000	115 600 000
From three months to one year	-	102 900 000
	41 100 000	218 500 000

The remaining life for amounts repayable by instalments is defined as the period from the balance sheet date to the repayment date of each instalment. The remaining life of other amounts due is the period from the balance sheet date to the date of repayment.

All the Fund's banking arrangements are currently conducted on an arms length basis with credit institutions who are also members of the Fund.

3.2 Debtors

Debtors include an amount of EUR 5 030 818 net of provision of EUR 1 241 423 (1998: EUR 2 964 116) paid by the Fund under a guarantee commitment which was reimbursed in January 2000 (see notes 4.4 and 5.1).

3.3 Commercial paper

The market value of commercial paper amounts to EUR 99 478 471 as at 31 December 1999.

3.4 Debt securities and other fixed-income securities held as fixed assets

The securities held by the Fund are all quoted on a recognised market.

Securities with a remaining duration to maturity of less than one year amount to EUR 40 976 933 (1998: EUR 57 249 955).

Securities issued by EIB amount to EUR 7 543 230 (1998: EUR 7 543 230).

The market value of debt securities held as fixed assets and normally held to maturity amounts to EUR 253 020 654 (1998: EUR 182 615 206).

The Fund participates as lender in a Securities Lending and Borrowing Programme with Euroclear. The balance of securities lent amounts to EUR 1 209 524 (1998: EUR 769 000).

3.5 Investments in venture capital enterprises

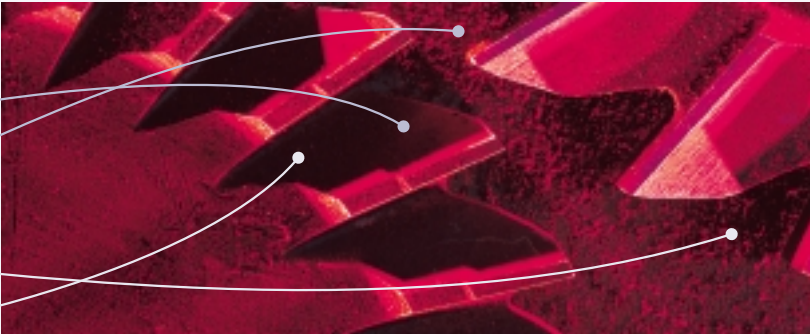
Investments in venture capital enterprises represent equity investments and related financing structures.

The unrealised foreign exchange gain arising from the revaluation of venture capital enterprises at year end closing rates amounts to EUR 1 057 851 (1998: loss of EUR 62 675).

In accordance with the EIF's accounting policy this amount is not recognised until the related investment is either sold or repaid.

3.4 Movements in fixed assets (expressed in EUR)

HEADINGS	Purchase price at the beginning of the year	Additions	Disposals	Purchase price at the end of the year	Cumulative value adjustments at the end of the year	Carrying amount at the end of the year
Debt securities and other fixed income securities held as fixed assets	179 588 616	143 884 198	(57 249 955)	266 222 859	-	266 222 859
Investments in venture capital enterprises	18 353 320	15 586 394	(1 403 005)	32 536 709	-	32 536 709
Intangible assets						
of which:	171 468	104 514	-	275 982	(76 192)	199 790
a) Software	171 468	104 514	-	275 982	(76 192)	199 790
Tangible and other fixed assets	5 954 745	300 707	(109 135)	6 146 317	(807 921)	5 338 396
of which:						
a) Land and buildings	5 050 505	-	-	5 050 505	(367 322)	4 683 183
b) Fixtures and fittings	61 635	95 903	-	157 538	(38 762)	118 776
c) Office equipment	410 527	30 942	(11 540)	429 929	(97 703)	332 226
d) Computer equipment	310 765	44 583	-	355 348	(273 905)	81 443
e) Vehicles	112 548	129 279	(97 595)	144 232	(30 229)	114 003
f) Other fixed assets	8 765	-	-	8 765	-	8 765
TOTAL	204 068 149	159 875 813	(58 762 095)	305 181 867	(884 113)	304 297 754



3.7 Prepayments and accrued income

Prepayments and accrued income are analysed as follows:

	1999 EUR	1998 EUR
Interest receivable on debt securities	5 285 431	4 600 182
Interest receivable on commercial paper	743 918	-
Interest receivable on term deposits	227 100	1 190 243
Accrued discount on debt securities	197 123	1 170 612
Accrued commission on guarantees	2 283 037	2 276 258
Prepaid expenses and others	6 317	21 695
	8 742 926	9 258 990

The total amount of the discount to be accrued on the remaining life of debt securities amounted to EUR 745 251 as at 31 December 1999 (1998: EUR 410 513).

4. Detailed disclosures relating to liability headings

4.1 Creditors

Creditors are analysed as follows:

	1999 EUR	1998 EUR
Payments to be reimbursed to third parties	610 118	-
Trade creditors	302 084	558 311
Payments received on account from the Commission	-	500 000
Staff costs payable	32 013	11 761
	944 215	1 070 072

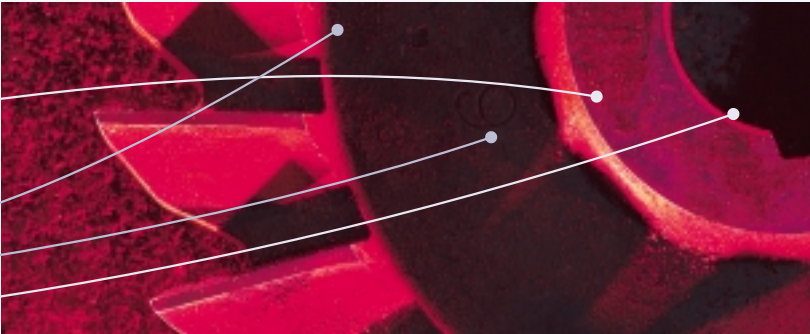
Trade creditors include EUR 147 362 payable to EIB in respect of services received (1998: EUR 440 000).

4.2 Accruals and deferred income

Accruals and deferred income are analysed as follows:

	1999 EUR	1998 EUR
Deferred income on issued guarantees	8 932 513	3 934 264
Premium amortised on debt securities	6 341 369	4 126 534
Accrued expenses	63 500	55 000
	15 337 382	8 115 798

The total amount of the premium to be amortised on the remaining life of debt securities amounts to EUR 10 175 356 (1998: EUR 4 852 619).



4.3 Provision for pensions

With effect from 1 January 1999, the Fund has concluded a defined contribution pension scheme on behalf of all its employees. The accumulated provision for pensions of EUR 1 260 136 as at 31 December 1998 was paid to the scheme asset manager in January 1999.

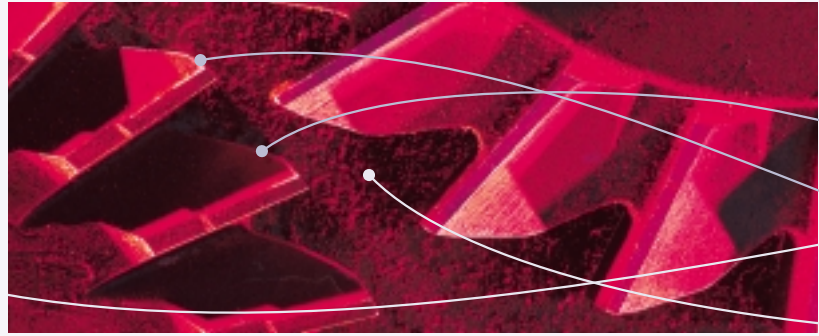
4.4 Provision relating to guarantees

The movements in relation to the general provision in respect of contingent losses which may arise from the guarantee portfolio can be detailed as follows:

	1999 EUR	1998 EUR
Balance at the beginning of the financial year	26 107 055	12 146 118
transfer to the provision relating to guarantees	8 165 300	13 960 937
Utilisation (note 3.2)	(1 241 423)	-
Balance at the end of the financial year	33 030 932	26 107 055

Two thirds of gross utilisation commission is normally allocated each year to the provision relating to guarantees. In addition to this and with the prospect of an increase in business and associated risks, the Financial Committee decided, in relation to the financial year ended 31 December 1998, to make additional annual transfers to the general provision, amounting to EUR 8 000 000.

The provision utilisation of EUR 1 241 423 reflects the loss incurred by the Fund in reaching a final settlement under a facility arrangement (see note 3.2). This loss, which took the form of an adjustment of fees, represents the only loss incurred by the Fund to date.



4.5 Capital

The authorised capital amounts to EUR 2 billion, divided into 2 000 shares with a nominal value of EUR 1 000 000 each.

The subscribed share capital of EUR 1 799 000 000 representing 1 799 shares is called for an amount of EUR 359 800 000 representing 20% of the subscribed share capital.

The subscribed share capital is detailed as follows:

	1999 EUR	1998 EUR
Subscribed and paid in (20%)	359 800 000	359 800 000
Subscribed but not yet called (80%)	1 439 200 000	1 439 200 000
	1 799 000 000	1 799 000 000

The capital is subscribed as follows:

	1999 Number of shares	1998 Number of shares
European Investment Bank	800	800
European Commission	600	600
Financial institutions	399	399
	1 799	1 799

4.6 Statutory reserve

Under the terms of Article 31 of its Statutes, the Fund is required to appropriate to a statutory reserve at least 20% of its annual net profit until the aggregate reserve amounts to 10% of subscribed capital. Such reserve is not available for distribution.

A minimum amount of EUR 3 871 924 is required to be appropriated in 2000 with respect to the financial year ended 31 December 1999.

4.7 Statutory reserve and profit brought forward

Movements in reserves and profit brought forward are detailed as follows:

	Statutory reserve EUR	Profit brought forward EUR	Profit for the financial year EUR
Balance at the beginning of the year	16 043 714	10 230 688	13 712 090
Dividend paid			(5 397 000)
Other allocation of last financial year profit	8 315 090	-	(8 315 090)
Profit for the financial year			19 359 621
Balance at the end of the financial year	24 358 804	10 230 688	19 359 621

The General Meeting of members of 25 June 1999 approved the distribution of a dividend amounting to EUR 3 000 per subscribed share.

5. Disclosures relating to off-balance sheet items

5.1 Guarantees

Guarantees issued in respect of loans drawn down and those not yet drawn down by the obligor are analysed with reference to their maturity as follows:

	Drawn	Undrawn	Total	Total
	EUR	EUR	1999	1998
	EUR	EUR	EUR	EUR
Up to five years	144 227 025	96 184 531	240 411 556	194 662 907
From five to ten years	827 386 067	735 223 895	1 562 609 961	1 645 583 555
From ten to fifteen years	341 083 133	93 879 693	434 962 827	399 460 763
Over fifteen years	387 237 577	94 491 506	481 729 083	343 744 179
	1 699 933 802	1 019 779 625	2 719 713 427	2 583 451 404

Of the above total amount, EUR 1 334 723 399 (1998: EUR 1 270 570 033) has been issued in favour of the EIB.

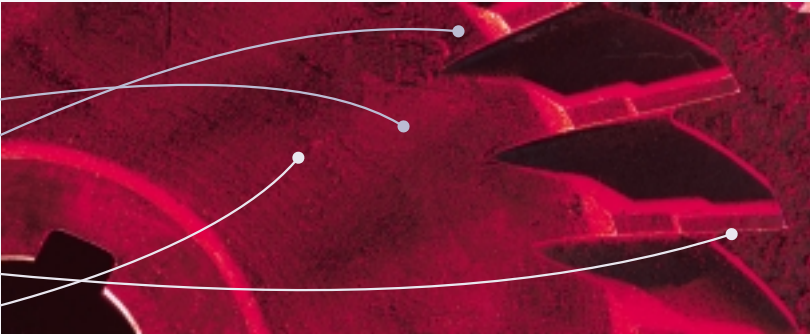
The drawn down portion of the guarantees issued includes an amount of EUR 66 816 273 (1998: EUR 50 203 353) representing the present value of future interest covered by guarantees.

EUR 53 357 156 included under the amounts drawn with a maturity over fifteen years (EUR 387 237 577) relate to the guarantee issued to cover a subordinated debt which was reimbursed by the borrower on 25 January 2000 (see note 3.2).

5.2 Statutory ceiling on the overall commitments for guarantee operations

Under the terms of Article 30 of the Funds Statutes, the overall commitment for guarantee operations granted by the Fund may not exceed three times the amount of its subscribed capital.

The present level of capital establishes a ceiling of EUR 5 397 000 000 in relation to total guarantees outstanding currently totalling EUR 2 719 713 427.



5.3 Commitments

Commitments of the Fund are analysed as follows:

	1999 EUR	1998 EUR
Investments in venture capital enterprises committed and not yet disbursed	35 532 176	40 093 475
Settlement value of forward foreign exchange contracts	-	16 771 219
	35 532 176	56 864 694

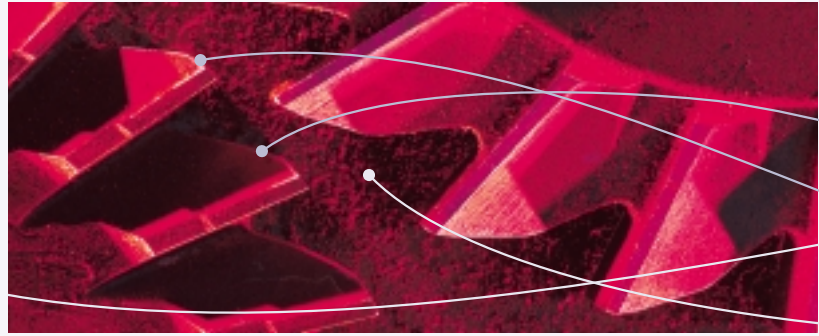
5.4 Assets held for third parties

Assets held for third parties represent three trust accounts established by the Fund.

The first one was set up for the administration of the budgetary contributions made by the Commission of the European Communities in relation to the "Growth and Environment" pilot project. Sums held in this account remain the property of the Commission so long as they are not disbursed for the purposes set out in relation to the above-mentioned project.

The second trust account is opened and maintained in the name of the Fund, but for the benefit of the Commission, for the administration of the "SME Guarantee Facility". Under this scheme, the Fund is empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission.

The third trust account is established for the administration of the "ETF Start-up Facility", under which the Fund is empowered to acquire, manage and dispose of ETF start-up investments, in its own name but on behalf of and at the risk of the Commission.



Those assets are analysed as follows:

	1999 EUR	1998 EUR
Growth and Environment Pilot Project	24 695 415	25 607 019
SME Guarantee Facility	59 907 721	24 433 690
ETF Start-up Facility	58 826 646	24 272 979
	143 429 782	74 313 688

5.5 Fiduciary operations

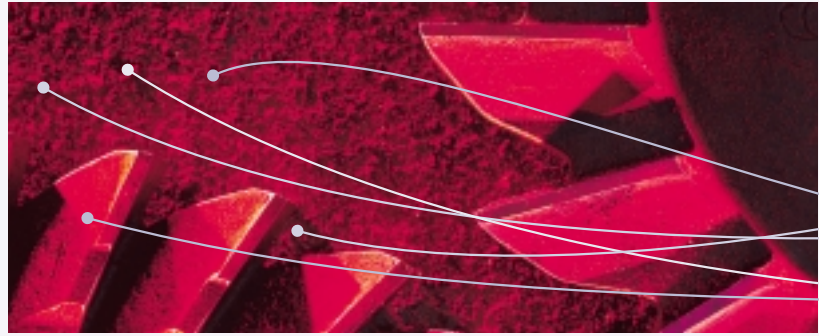
Pursuant to Article 32 of its Statutes, the Fund acquires, manages and disposes of investments in venture capital enterprises, in its own name but on behalf of and at the risk of the EIB and of the European Community, according to Fiduciary and Management Agreements concluded with the EIB ("European Technology Facility" and "European Technology Facility 2") and with the European Community ("ETF Start-up Facility").

The Fund is also empowered to issue guarantees in its own name but on behalf of and at the risk of the European Community according to the Fiduciary and Management Agreement concluded with the European Community ("SME Guarantee Facility").

Fiduciary operations concluded pursuant to the Fiduciary and Management Agreements are analysed as follows:

	1999 EUR	1998 EUR
Guarantees signed on behalf of the European Community under the SME Guarantee Facility		
Drawn	145 329 219	6 528 201
Undrawn	1 041 379 354	24 357 754
Investments made on behalf of the European Technology Facility	32 468 998	12 024 939
ETF Start-up Facility	11 287 810	-
Commitments made on behalf of the European Technology Facility not yet disbursed	51 136 527	49 697 788
ETF Start-up Facility not yet disbursed	27 047 553	7 669 378
	1 308 649 461	100 278 060

Investments made on behalf of the European Technology and ETF Start-up facilities exclude unrealised foreign exchange gains amounting to EUR 652 187 (1998: loss of EUR 89 576) and EUR 44 557 respectively.



6. Detailed information on the profit and loss account

6.1 Net interest and similar income

Net interest and similar income comprises:

	1999 EUR	1998 EUR
Interest on debt securities	14 986 093	13 313 227
Interest on term deposits	3 851 323	7 417 239
Accrued discount on debt securities	181 983	709 027
Interest on bank current accounts	58 422	71 813
Premium amortised on debt securities	(3 027 790)	(2 974 713)
Interest and similar charges	(44 778)	(63 635)
	16 005 253	18 472 958

6.2 Commission income

Commission income is detailed as follows:

	1999 EUR	1998 EUR
Commissions on guarantees issued in respect of loans drawn down	12 484 942	8 941 407
Commissions on guarantees issued in respect of loans not yet drawn down	1 263 665	1 329 205
Up-front commissions in respect of guarantees issued	1 854 775	380 765
Commission on European Technology Facility	625 000	1 359 440
Commissions on ETF Start-up Facility	1 363 411	1 000 000
Commission on SME Guarantee Facility	850 000	850 000
Commission on the Growth and Environment pilot project	-	50 000
Other commissions	35 852	77 600
	18 477 645	13 988 417

6.3 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations include losses of EUR 550 621 arising from forward foreign exchange operations (1998: loss of EUR 207 550).

7. Personnel

The average number of persons employed during the financial year was as follows:

	1999	1998
Financial Committee	3	3
Employees	39	35
Total	42	38

8. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct taxes.

9. Subsequent event

The President of the EIB announced on 28 February 2000 to the Supervisory Board of the Fund his intention to propose an increase of the stake of the EIB in the Fund to above 51% of the Fund's capital and ultimately to full ownership. The purpose of this proposal is to consider ways to rationalise the activities of the Fund and the EIB to improve synergies and avoid overlaps in particular in the field of venture capital. The ultimate objective is to establish a new grouping, consisting of the EIB and the Fund and to transform the Fund into the specialist instrument, among others, for venture capital financing. The EIB intends to have everything in this respect finalised by June 2000. The potential impact of this change in the activities of the Fund has not been reflected in these annual accounts.

list of shareholders

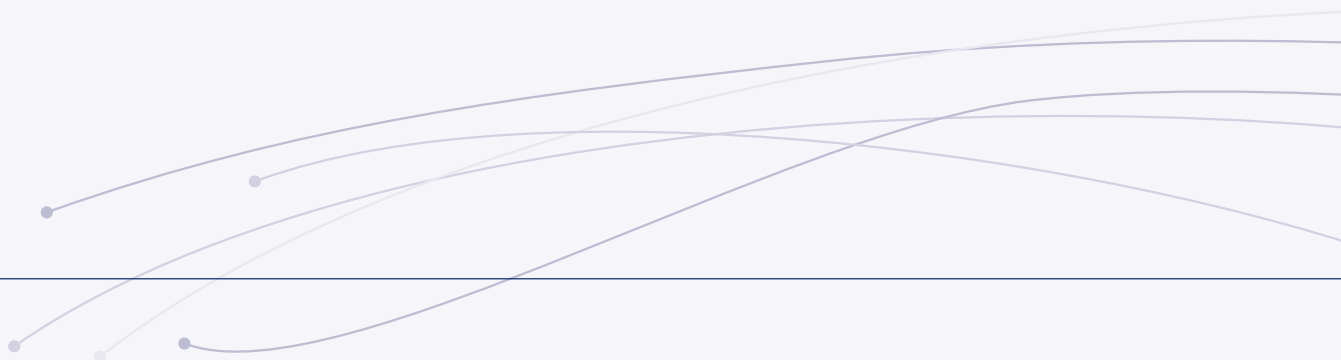
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and capital subscriptions

(situation: 1 June 2000 - for regular updates, readers are invited to visit the EIFs website: www.eif.org)

Number of shares Subscription to the capital
EUR

• European Investment Bank	800	800 000 000
• European Community	600	600 000 000
Kingdom of Belgium	16	16 000 000
• FORTIS BANK S.A.	6	6 000 000
• KBC BANK N.V.	4	4 000 000
• CREDIT COMMUNAL S.A.- GROUPE DEXIA	3	3 000 000
• CREDIT PROFESSIONNEL S.A./ BEROEPSKREDIET N.V.	3	3 000 000
Kingdom of Denmark	3	3 000 000
• FINANSIERINGSINSTITUTTET FOR INDUSTRI OG HÅNDVÆRK A/S - FINANCE FOR DANISH INDUSTRY A/S	3	3 000 000
Federal Republic of Germany	100	100 000 000
• KREDITANSTALT FÜR WIEDERAUFBAU	40	40 000 000
• WESTDEUTSCHE LANDESBANK GIROZENTRALE	10	10 000 000
• BAYERISCHE LANDESBANK FÜR AUFBAUFINANZIERUNG	5	5 000 000
BAYERISCHE LANDESBANK GIROZENTRALE	5	5 000 000
DEUTSCHE AUSGLEICHSBANK	5	5 000 000
• DGZ - DEKABANK - DEUTSCHE KOMMUNALBANK	5	5 000 000
• LANDESBANK BADEN-WÜRTTEMBERG	5	5 000 000
• LANDESKREDITBANK BADEN-WÜRTTEMBERG - FÖRDERBANK	5	5 000 000
LANDESBANK HESSEN-THÜRINGEN - GIROZENTRALE	5	5 000 000
BREMER LANDESBANK KREDITANSTALT OLDENBURG - GIROZENTRALE	3	3 000 000
• LANDESBANK BERLIN - GIROZENTRALE	3	3 000 000
• LANDESBANK RHEINLAND-PFALZ GIROZENTRALE	3	3 000 000
• LANDESBANK SACHSEN GIROZENTRALE	3	3 000 000
LANDESBANK SCHLESWIG-HOLSTEIN GIROZENTRALE	3	3 000 000
Hellenic Republic	12	12 000 000
• ALPHA BANK A.E.	6	6 000 000
• COMMERCIAL BANK OF GREECE S.A.	3	3 000 000
NATIONAL BANK OF GREECE	3	3 000 000



Number of shares Subscription to the capital

Kingdom of Spain	20	20 000 000
• INSTITUTO DE CRÉDITO OFICIAL (ICO)	5	5 000 000
• BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	3	3 000 000
• BANCO SANTANDER CENTRAL HISPANO, S.A. (BSCH)	3	3 000 000
• BANCO DE NEGOCIOS ARGENTARIA, S.A.	3	3 000 000
• BANCO ESPAÑOL DE CRÉDITO S.A. (BANESTO)	3	3 000 000
• CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID (CAJA DE MADRID)	3	3 000 000
French Republic	56	56 000 000
CAISSE DES DÉPÔTS ET CONSIGNATIONS (CDC)	15	15 000 000
• NATEXIS BANQUES POPULAIRES	15	15 000 000
• CAISSE NATIONALE DE CREDIT AGRICOLE (CNCA)	10	10 000 000
• DEXIA PROJECT & PUBLIC FINANCE INTERNATIONAL BANK	10	10 000 000
• CAISSE CENTRALE DE CRÉDIT COOPÉRATIF	3	3 000 000
• GROUPE BANQUES POPULAIRES	3	3 000 000
Ireland	3	3 000 000
• AIB CAPITAL MARKETS PLC (AIBCM)	3	3 000 000
Italian Republic	79	79 000 000
• CREDIOP S.p.A.	10	10 000 000
• SAN PAOLO IMI S.p.A.	10	10 000 000
• BANCA COMMERCIALE ITALIANA S.p.A.	5	5 000 000
• BANCA DI ROMA S.p.A.	5	5 000 000
• BANCA MONTE DEI PASCHI DI SIENA S.p.A.	5	5 000 000
• BANCA NAZIONALE DEL LAVORO S.p.A.	5	5 000 000
• BANCO AMBROSIANO VENETO S.p.A.	5	5 000 000
• BANCO DI NAPOLI S.p.A.	5	5 000 000
• CARIPLO - CASSA DI RISPARMIO DELLE PROVINCIE LOMBARDE S.p.A.	5	5 000 000
• ICCRI S.p.A. - BANCA FEDERALE EUROPEA S.p.A.	5	5 000 000
• MEDIOCREDITO CENTRALE S.p.A.	5	5 000 000
• UNICREDITO ITALIANO S.p.A.	5	5 000 000
BANCA POPOLARE DI MILANO	3	3 000 000
BANCA POPOLARE DI NOVARA	3	3 000 000
ISTITUTO CENTRALE DELLE BANCHE POPOLARI ITALIANE	3	3 000 000

Number of shares Subscription to the capital

Grand Duchy of Luxembourg	18	18 000 000
• ARTESIA BANK LUXEMBOURG S.A.	5	5 000 000
• KREDIETBANK LUXEMBOURG S.A.	4	4 000 000
• BANQUE ET CAISSE D' EPARGNE DE L' ETAT (BCEE)	3	3 000 000
• BANQUE GÉNÉRALE DU LUXEMBOURG S.A.	3	3 000 000
• BANQUE INTERNATIONALE À LUXEMBOURG S.A.	3	3 000 000
Kingdom of the Netherlands	26	26 000 000
• ABN-AMRO BANK N.V.	10	10 000 000
• INTERNATIONALE NEDERLANDEN BANK N.V. (ING BANK)	5	5 000 000
• RABOBANK NEDERLAND	5	5 000 000
• DE NATIONALE INVESTERINGSBANK N.V.	3	3 000 000
• NV BANK NEDERLANDSE GEMEENTEN	3	3 000 000
Republic of Austria	9	9 000 000
• BANK AUSTRIA AKTIENGESELLSCHAFT	3	3 000 000
• ERSTE BANK DER ÖSTERREICHISCHEN SPARKASSEN AG	3	3 000 000
• RAIFFEISEN ZENTRALBANK ÖSTERREICH AKTIENGESELLSCHAFT	3	3 000 000
Portuguese Republic	17	17 000 000
• BANCO BPI, S.A.	6	6 000 000
• CAIXA GERAL DE DEPÓSITOS, S.A.	5	5 000 000
• BANCO COMERCIAL PORTUGUÊS, S.A.	3	3 000 000
• BANCO ESPIRITO SANTO E COMERCIAL DE LISBOA, S.A.	3	3 000 000
Republic of Finland	6	6 000 000
• FINNVERA PLC	6	6 000 000
Kingdom of Sweden	3	3 000 000
• AB SVENSK EXPORTKREDIT	3	3 000 000
United Kingdom of Great Britain and Northern Ireland	16	16 000 000
• THE NIKKO BANK PLC	10	10 000 000
• BARCLAYS BANK PLC	3	3 000 000
• LLOYDS TSB BANK PLC	3	3 000 000
Multilateral Financial Institution	15	15 000 000
• NORDIC INVESTMENT BANK	15	15 000 000
Non allocated shares	(201)	(201 000 000)
TOTAL	2 000	2 000 000 000

members of the organs

and management of the fund

(situation: 1 June 2000 - for regular updates, readers are invited to visit the EIF's website: www.eif.org)

The EIF is managed, administered and controlled by the following four organs:

the General Meeting of all shareholders

the Supervisory Board

the Financial Committee, responsible for the executive management of the Fund

the Board of Auditors.

Supervisory Board

Chairman

Sir Brian UNWIN,
President, European Investment Bank, until December 1999
Philippe MAYSTADT,
President, European Investment Bank, from January 2000

Representing:

EIB

Members

Sven-Olof JOHANSSON,
Director General for International Affairs, Ministry of Finance, Stockholm, until June 1999
Jean-Pierre ARNOLDI,
Administrateur Général de la Trésorerie, Ministry of Finance, Brussels, from June 1999

EIB

Paul McINTYRE,
Deputy Director, Head of European Union Group (Overseas Finance), H.M. Treasury, London, until November 1999

EIB

Ivan ROGERS,
Deputy Director, Head of European Union Group (Overseas Finance), H.M. Treasury, London, from November 1999

Alternates

Lars TYBJERG,
Managing Director, The Mortgage Bank of Denmark, Copenhagen, until June 1999

León HERRERA SANTA MARIA,
Subdirector de Financiación Exterior, Ministry of Economic Affairs and Public Finance, Madrid, from June to December 1999

Xavier MUSCA,
Sous-directeur des Affaires multilatérales, Direction du Trésor, Ministère de l'Economie, des Finances et de l'Industrie, Paris, until April 2000

Members

	Representing:
Giovanni RAVASIO, Director General for Economic & Financial Affairs, Commission of the European Communities, Brussels	Commission
Eneko LANDÁBURU, Director General for Regional Policy and Cohesion, Commission of the European Communities, Brussels, until December 1999	Commission
Guy CRAUSER, Director General for Regional Policy and Cohesion, Commission of the European Communities, Brussels, from December 1999	

Members

Hans REICH, Mitglied des Vorstandes, Kreditanstalt für Wiederaufbau, Frankfurt, until November 1999	Financial Institutions
Detlef LEINBERGER, Mitglied des Vorstandes, Kreditanstalt für Wiederaufbau, Frankfurt, from November 1999	
Antonio PEDONE, Presidente, CREDIOP, Rome	Financial Institutions

Alternates

Maarten F. SECKEL, Executive Vice-President, ABN-AMRO Bank, Amsterdam
Fernando BECKER ZUAZUA, Presidente, Instituto de Credito Oficial, Madrid, until November 1999
José GASSET LORING, Presidente, Instituto de Credito Oficial, Madrid, from November 1999

Financial Committee

Chairman

Gerbrand G. HOP

Member

David McGLUE

Alternate

Gerassimos THOMAS, until November 1999

Member

Michel BERTHEZENE

Alternate

Simon HAUXWELL

Board of Auditors

Chairman

René DIEPVENS,
former Directeur Général de la Trésorerie, Brussels

Member

Daniel van der SPREE,
Head of Unit, Directorate General XX.2 Financial Control, Commission of the European Communities, Brussels

Management and professional staff

Secretary General

Christopher SIBSON

Infrastructure Finance

Alain TERRAILLON
Rudi Asselberghs
Francesca de Caroli
Mañuel Dueñas

SME Portfolio Guarantees

Alessandro TAPPI
Christa Karis
Marc Leistner
Muriel Aza
Per-Erik Eriksson

Venture Capital

Roger PETT
Thomas Kohlmeyer
Markus Wanko

Legal

Maria LEANDER
Jobst Neuss
Hervé Guénassia

Human Resources

Luis GARRIDO

Marketing & Treasury

Guido PRUD'HOMME
Nikos Milianitis
Pé Verhoeven

Management Information, Planning & Control

Frank TASSONE
Parminder Plahé
Ferdy Wouters
Nicolas Koch

Risk Management

Guillaume PIAT
Igor Greindl
Alexandra Oliveira

Accounting

Frédérique SCHEPENS
Sharon Lavan

