European Investment Fund

annual report 2000

EIF
Member of
EIB Group

Mission statement

The European Investment Fund (EIF), the EU specialized vehicle providing venture capital and guarantee instruments for SMEs.

The EIF is a European institution with a specific remit to support the creation, growth and development of Small and Medium-sized Enterprises (SMEs). It intervenes mainly by means of risk capital and guarantee instruments, using either its own funds or those available within the framework of mandates entrusted to it by the European Investment Bank (EIB) or the European Union.

The EIF is a Public Private Partnership. Its tripartite shareholding includes the EIB, the European Community represented by the European Commission, and a number of European banks and financial institutions. The EIF acts in a complementary role to its majority shareholder, the EIB.

According to Article 2 of its statutes, the European Investment Fund contributes to the pursuit of Community objectives; in particular it is committed to the development of a knowledge-based society, centred on innovation, growth and employment, the promotion of entrepreneurial spirit, regional development and the cohesion of the Union.

The EIF acts independently and commercially under market conditions. According to Article 24 of its statutes, it targets appropriate returns for its shareholders.

In its role as "risk capital arm of the EIB Group", the EIF deploys the significant financial means at its disposal to support the emergence of a performing and homogenous European venture capital market. In doing so, its action is fully integrated within the strategy which aims to equip Europe with an increasingly innovative and competitive economy, via high quality job creation.

The EIF's SME guarantee instruments facilitate access to debt finance for Small and Medium-sized Enterprises through the intermediation of a wide range of banks and financial institutions. As the EIF has Multilateral Development Bank status under the European Union solvency ratio directive, financial institutions are allowed to allocate capital in respect of EIF guarantees at a rate of 20%.

The EIF plays a catalytic role to attract private sector finance. It optimises the impact and benefit of those operations in which it participates, in close association with the financial sector. Finally, it contributes to the diffusion of best market practices in its business fields.

The EIF may conduct its activities in the Member States of the European Union as well as in those applicant countries in respect of which the Accession process has commenced.

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Preface by the Chairman

of the Board of Directors

Since its creation in 1994 the European Investment Fund (EIF) has proven that it is able to play a key role in Community support for infrastructure and SME finance. The year 2000 marks an important milestone in its young history as the European Investment Bank became its majority shareholder and its mandate was refocused to exclusively target risk capital and guarantees for SMEs. The reform has also provided for a significant increase in the EIF's investment potential.

The conclusions of the March 2000 Lisbon Summit called for increased support for risk capital initiatives in favour of SMEs. Just three months after the Summit, in June 2000, the shareholders of the EIF approved a reform of the institution, which turned the EIF into the EIB Group's specialist risk capital arm. Prior to this, both the EIB and the EIF were involved in venture capital operations, with the EIF managing part of the EIB's resources as well as Community funds under the ETF Start-up Facility.

This reform, which gave the EIF control over all venture capital operations of the EIB Group within the Union, was endorsed by the EIB Governors (the Finance Ministers of the EU), the European Commission and the Fund's private shareholders. The General Assembly decided to change the statutes with a view to improving the Corporate Governance and to confirm the pursuit of Community objectives as the core mission of the EIF, in both the Union and in the Accession Countries. The primary task of the EIF now consists in enhancing the competitive strength of small enterprises, fostering innovation and technology, promoting growth, high-quality jobs and balanced regional development, while continuing to generate "an appropriate return".

This dual approach is unique among European financial institutions. In sum, this reorganisation will reinforce the role of the Fund: it is now well placed to become a leading player in the European venture capital market and its guarantee activity in favour of SMEs will be further developed, with its important leverage effect on the lending capacity of the financial intermediaries concerned.

These changes have been completed in a very efficient manner and the "new" EIF is now working at full capacity. I wish to express my appreciation to the staff of the Fund for their dedication and hard work. Its staff is an important asset and the EIF is well equipped for the future to develop its catalytic role, in constant touch with private investors and market trends. As a part of the "Innovation 2000 Initiative" of the EIB Group, the EIF will commit itself to the knowledge-based economy that is the priority of the Union for the years to come.

Philippe Maystadt
Chairman of the Board of Directors
President of the European Investment Bank

Introduction

by the Chief Executive

The implementation of the EIF reform remains the landmark event of the year 2000. The adoption of a revised business plan for 2001-2003, including new strategic objectives and the signature of the Agreement on the transfers of the EIB risk capital activity to the EIF and of the Trans European Network guarantee portfolio to the EIB, were key elements of this process.

Since its inception seven years ago, the EIF has built up a diversified guarantee portfolio of nearly EUR 3 billion, of which EUR 2 billion represent TEN infrastructure projects and EUR 1 billion SME portfolio guarantees. In the provision of venture capital, the EIF is now managing a consolidated portfolio of EUR 1.2 billion (signed operations), spread across more than 100 different venture capital funds. The venture capital investment potential of the EIF until 2004 is now in excess of EUR 3 billion. It is roughly ten times higher than it would be in a "no reform situation" and the EIF is in position to become a leader for venture capital in Europe.

The future investment strategy of the EIF will focus on early stage, technology- specific funds (biotechnology, enabling technologies, content industries etc.), regional funds and also pan-European funds. The EIF will continue to play a catalytic role and commit itself to the development of a more efficient and balanced European venture capital market.

As far as Community funding is concerned, the efficient implementation of the new financial instruments agreed by the Council in the "Multi-annual Programme for Enterprise", covering the period 2001/2005 is a priority for the EIF. This Programme includes the redirection of ETF Start-up towards incubators and seed capital, the management of the "seed capital action" by the EIF and the extension of the SME Guarantee Facility to include micro-credit, information and communication technology investments, and equity guarantees.

SME Guarantee instruments will hereby be strengthened, with increasing support from EU funding. They are complementary to our venture capital operations and aimed at increasing the lending capacity of the financial sector throughout the EU.

These objectives represent an important challenge for the EIF in the years to come. They will continue to be founded on permanent dialogue and cooperation with the Fund's shareholders and other institutions active in the same fields.

The reform did not prevent the Fund from achieving very positive results in 2000: cumulative returns on the EIF venture capital portfolio to date total EUR 47 million, or some 33% of capital invested. The Fund's net profit has progressed from EUR 19.4 million in 1999 to EUR 32.7 million in 2000. This is fully in line with the statutory requirement to generate an appropriate return to shareholders which, along with the pursuit of Community objectives, together represent the "raison d'être" of the EIF.

Walter CERNOIA
Chief Executive

Activity

in 2000

Small and Medium Sized Enterprises (SMEs) account for over 95% of European firms and 60%-70% of employment and generate a large share of new jobs in Europe. As larger firms downsize and outsource more functions, the weight of SMEs in the economy is increasing.

In addition, productivity growth - and consequently economic growth - is strongly influenced by the competition inherent in the birth and death, entry and exit of smaller firms. This process involves high job turnover rates - and churning in labour markets- which is an important part of the competitive process and structural change. Less than one-half of small start-ups survive for more than five years, and only a fraction develop into the core group of high performance firms which drive industrial innovation and performance. This underscores the need for governments to reform policies and framework conditions that have a bearing on firm creation and expansion, with a view to optimizing the contributions that these firms can make to growth.

In this context, the ECOFIN Council of 7 November 2000 has emphasized the role of the EIF as the EU specialist financial institution for SMEs. Within the EIB Group, the EIF is now entrusted with the responsibility of two different instruments which, through their leverage effect, play a strategic role for the development of SMEs in Europe: venture capital and guarantees.

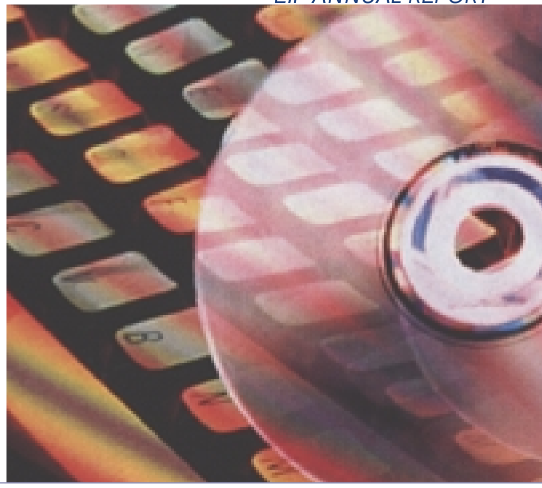
Key figures

at 31.12.2000

in EURm

Total **Equity investments** signed in 2000:		93.7
Value of transferred **EIB Venture capital portfolio**	*(signed):*	921.8
	(approved):	1 108.1
Guarantees signed in 2000:		843.1
of which SME:		604.2
TEN:		238.9

Balance sheet total:	562.9
Subscribed capital:	2 000
Paid-in capital:	400
Net profit for the year:	32.7
Total reserves and risk provisions:	88.7
- Provision relating to guarantees and other provisions:	45.6
- Statutory reserve:	32.9
-Profit brought forward:	10.2



EIF products and resources

Venture capital

The EIF is a “fund of funds” which manages 3 sources of funding:

- own resources;
- EIB resources, which constitute the bulk of its venture capital activity, through the European Technology Facilities 1 and 2 (implemented by the EIF since 1998) and the Risk Capital Mandate, which has been taken over from the EIB in 2000. The EIF’s investment activity in venture capital funds is part of the “Innovation 2000 Initiative” of the EIB, and the EIF now manages all venture capital activity of the EIB Group in the Union;
- EU Budget resources, under the ETF Start-up scheme (created in 1998).

Guarantees for SMEs

The EIF provides guarantees to financial intermediaries through:

- own resources, for credit enhancement, credit insurance and structured SME finance;
- the Growth and Environment scheme: for the guarantee of environmentally friendly investments made by small SMEs with the support of EC Budgetary Funds;
- the SME Guarantee Facility (as a Trustee for EU Budget resources), for the guarantee of growth SMEs. Within the Multiannual Programme for SMEs, adopted in December 2000, new windows will be added to this Facility: guarantees for investments in Information and Communication Technologies (ICT), guarantees for micro-credits and guarantees for equity participations.

EIF products and resources

Venture Capital

1. The Venture Capital Market in Europe in 2000

A record year

Although at the time of writing only preliminary estimates are available as to year 2000 levels of activity, all indicators point to another record year in European venture capital. Thus estimates put total investments at EUR 27 billion against EUR 25 billion in 1999, and funds raised at EUR 35 billion against EUR 25 billion a year earlier.

The global picture

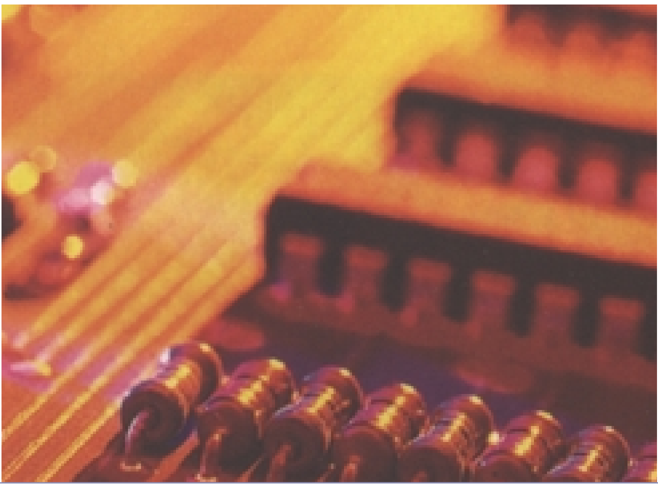
In spite of the recent progress in European venture capital industry activity levels, the global picture remains virtually unchanged: 75% of the world's private equity and venture capital activity takes place in the US, with record funds raised estimated at USD 166 billion against USD 123 billion in 1999. The sheer size of the US venture capital sector is such that US teams are increasingly focusing on the European market. US teams represent significant opportunities for Europe, because of the expertise and increased competition they bring with them.

The private equity industry is a cyclical industry

Although record amounts were raised and invested for the entire year, a more detailed analysis per quarter shows that 2000 suffered from unprecedented volatility, with investment and fund raising activity at its highest in the first three quarters followed by a significant slowdown in the last quarter. In the market place, EIF teams have been witnessing the effects of very restrictive fund raising conditions since early 2001, and this situation is likely to continue - the question is, for how long?

Such reversals of fortunes are not new, and over the past 20 years, the venture capital industry in Europe has experienced a number of cycles, principally:

- “Acceleration”: these are periods of significant growth built on the back of bull stock markets: 1985-1990 and 1995-2000. This part of the cycle sees very strong growth in the level of investment by institutional investors. Roughly speaking, on the supply side the primary driver is the evolution of stock markets, with institutional investors looking to diversify their growing asset base into alternative investments.



On the demand side, the venture capital community, of limited size in terms of teams and individuals capable of investing, enjoy satisfactory returns for some time but the number and quality of deals available is relatively limited, therefore the prices paid for deals increase, investment criteria may be relaxed, etc.

- "Deceleration": acceleration periods are followed by deceleration, this time related to bear stock markets. On the supply side, institutional investors face the opposite situation to the above, and have less funds available for allocation in alternative investments. On the demand side, IPO and exit prospects in general are less attractive relative to entry valuations, and the less rigorous teams, or sometimes those who have invested too close to inflated or "peak" valuations, may face liquidity issues.

However, downturns in the venture capital cycle can result in significant opportunities. When looking back at vintage returns, it appears that in the past those funds that started investing during "deceleration" periods have historically generated above average returns. Therefore, according to historical trends, the period 2001 to 2003 should be a good time to invest, although institutional investors in general will not necessarily revise their allocation strategies to account for this opportunity.

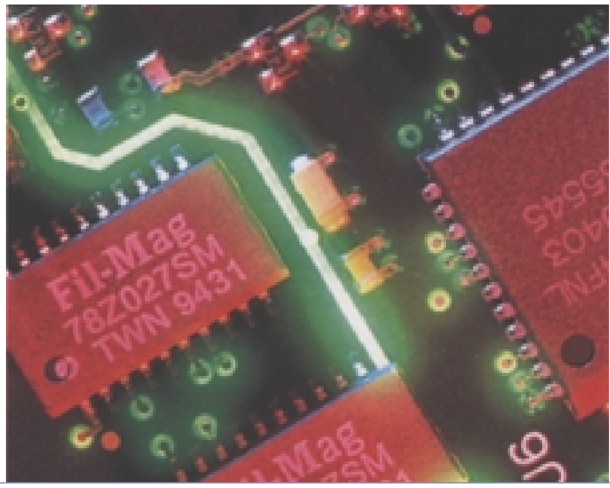
Obviously the above presentation is a simplification and cycles may differ by sector: thus for instance biosciences funds, which were out of favour until early 2000, have recently seen an improvement in interest. Also funds focusing on "Buy and builds" (i.e. investments where one company is used as a "platform" for add-on acquisitions with a view to creating larger companies with sufficient critical mass) and "Public to private" transactions are benefiting from increased interest. Therefore it is essential that asset allocation strategies take due account of sector-specific cycles so as to avoid over- exposure to any one sector.

Beyond quantitative market analysis, a number of more qualitative comments can be made:

The number of teams continues to increase

Current estimates put at about 1150 the number of European teams, a 16% increase year-on-year and 38% more than in 1998. In current, restrictive market conditions we anticipate, however, that 2001 could see a number of teams either merge or discontinue operations, particularly in the case of teams formed recently.

Fund sizes continue to increase, with funds with resources exceeding EUR 1 billion becoming increasingly common. It is still to be seen whether such fund sizes can coexist with the nimbleness and entrepreneurial spirit characteristic of venture capital funds. Whilst fund raising is often a "critical mass play", the sheer size of such funds can affect the motivation of managers who may become more concentrated on capital preservation and management fee levels than on exiting from their investments. Also with funds operating at EUR 1 billion + sizes, the temptation to invest larger amounts in later stage sectors or into unfamiliar sectors can be too great.



Timing crunch

Over the last few years and particularly in 2000 the venture capital market has seen a dramatic shortening in the fund raising/investing cycle, which historically saw funds deploy their capital over say 3 to 4 years and raise subsequent funds on the back of at least some realizations. In the recent past deployment of funds has tended to occur over 1 to 2 years, and subsequent funds raised without realizations from the first fund. Whilst current restrictive market conditions will certainly cause deployment and fund raising timing to revert to longer periods, it can be reasonably anticipated that in the future the venture capital cycle will continue to be shorter than historical averages.

The recent emergence of synthetic financial products:

Lastly, it is increasingly apparent that new financial products and approaches will continue to transform the private equity and venture capital markets:

- foremost in the minds of institutional investors is the need to enhance liquidity prospects, either by way of listings of funds (which have their own drawbacks such as cumulative fee structures, discounts to Net Asset Value, etc.) or alter-natively by early distribution mecha-nisms, possibly through the secondary market. Increasing pressure for liquidity has resulted in significant growth in the secondary markets over the past years and particularly in 2000;
- secondly, there is increased pressure by the retail market to find mecha-nisms allowing downside risk reduction. This can be achieved by way of synthetic financial products drawing on both the private equity and insurance sectors, the latter being inevitably underpinned by the emergence of ratings of private equity and venture capital portfolios.

In conclusion, for the EIF, the year 2001 presents interesting opportunities, not only as an investor, given that valuations and terms have become more attractive, but equally because of EIF's unique role as a "counter-cyclical", long term operator which does not follow market fads.

2. Strategic Objectives of the EIF

The Fund's objective is to play a catalytic role, notably by backing venture capital funds which otherwise would not be able to start and develop on either the same scale or rapidity, or with the same degree of success. Beyond im-mediate investments, the EIF seeks to anticipate market developments: because it endeavours to operate in areas where a shortage of equity is hampering the establishment of efficient and balanced European venture capital markets. A shortage in equity finance relates to the scale of investment schemes, their location or the sector in question. As a European institution, the Fund maintains a global overview of the venture capital market and aims to anticipate its evolution. Its interventions must generate private co-investments and contribute to the creation of a more dynamic and homogeneous market.

The EIF's investments focus as much as possible on "early stage" funds. Nevertheless, the EIF also considers, in particular:

- funds focused on specific industries or technologies (i.e. biotechnologies, agro-business, content industries, nano-technologies, "enabling technologies" etc);
- regional funds, with a view to facilitating the balanced development among European regions;
- funds financing the exploitation of research and development results;
- Pan-European funds.

3. Venture Capital Operations Signed in 2000:

The EIF signed commitments to invest in venture capital funds from three sources in 2000:

- From **own resources**: two operations were signed in 2000 for an amount of EUR 4 million; the total amount committed from the EIF's own resources stood at EUR 74.9 million on 31 December 2000, or 94% of the existing ceiling of 20% of own resources;
- An amount of EUR 250 million managed on behalf of the European Investment Bank under the "**European Technology Facility**" (ETF) as part of the EIB's Amsterdam Special Action Programme (ASAP); EUR 75.7 million were signed for 8 operations under this Facility in 2000. The total amount committed from ETF resources stood at EUR 161.9 million on 31 December 2000.
- The "**ETF Start-up Facility**", a component of the Growth and Employment Initiative; the agreement for the implementation of this scheme was signed in July 1998; (the new legal basis for ETF Start-up has been provided as of 1 January 2001 by the Multi-annual Programme for Enterprise). Three operations totalling EUR 14.0 million were signed under this Facility in 2000.

The total amount committed under ETF Start-up at 31 December 2000 was EUR 58.5 million.

Furthermore, in the context of the EIF reform, on 24 October 2000 the EIB and EIF Boards approved the transfer of **all venture capital activities of the EIB** (both the existing signed portfolio of EUR 921.8 million and additional funds to carry out new venture capital operations) to the EIF. The relevant mandate also foresees a further increase of EIF operational capacity not only by allowing it to re-invest capital gains into the funds, but also by introducing the possibility of an overall gearing ratio of up to 200%. This will provide a significant push to the European venture capital sector and notably to those sub-sectors targeted by the EIF. In fact, the EIF is well placed to become a leading player in the European venture capital market.

Cumulative distributions (reimbursements received from funds, excluding the EIB risk capital mandate) to date total EUR 47.3 million or some 33% of capital invested. Of sixteen funds that have started distributing, three have already returned the capital invested by the EIF in these funds.

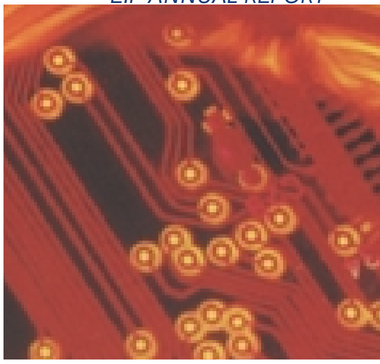


Table 1: Venture capital operations signed in 2000:

1. Own resources

	Managed	Amount signed EUR m
SFK 99 Technology Fund	Finland	2.0
TEC Plus III	Spain	2.0
Sub-total		4.0

2. ETF Start-up Facility

	Managed	Amount signed EUR m
Equinet EarlyStage Fonds Nr 1 GmbH & Co. KG	Germany	2.5
Finadvance Ventures I	France	3.7
New tech Venture Capital Fund	Luxembourg	7.8
Sub-total		14.0

3. ETF 1 and 2 Facilities

	Managed	Amount signed EUR m
TEC Plus III	Spain	5.5
SFK 99 Technology Fund	Finland	5.5
Banexi Ventures 3	France	17.5
Galileo 3	France	10.0
Delta Equity Fund II LP	Ireland	8.0
Ne SBIC CTE Fund II B.V.	Netherlands	10.0
Amadeus II A	United Kingdom	11.2
Alta Berkeley vi c.v.	United Kingdom	8.0
Sub-total		75.7
GRAND TOTAL		93.7

Table 1: (Continued)

4. EIB Risk Capital Mandate:

Denmark	
Bankinvest Venture Capital	7.2
Germany	
Allied Capital Germany Fund	51.1
Baytech Venture Capital Fund	25.0
DVCG Venture Capital Fund	15.3
Innovationsfonds Schleswig Holstein & Hamburg	6.8
LTH-SME Venture Capital Fund	20.5
Sachsen LB Venture Capital Fund	10.0
Spain	
Cajas/ING Barings Risk Sharing Loan	30.1
ICO-Axis Risk Sharing Loan	9.0
Retevision Venture Capital (EBM)	8.0
Retevision Venture Capital Funds	19.5
Talde Venture Capital Fund	16.0
France	
21 Développement Capital-risque	12.1
CDC Fonds Capital risque	45.7
Natexis Ventech II Capital Risque	20.0
Sofaris Développement technologique	15.3
Ireland	
ACT 99 Venture Capital Fund	15.2
The ICC Private Equity Fund	25.4
The Guinness Ireland Ulster Bank Equity Fund Limited Partnership	7.0
Italy	
ARCA Venture Capital Fund	32.8
Dresdner KB Venture Capital Fund	25.0
Euromobiliare Venture Capital Fund	15.0
IMI Risk Sharing GL	16.4
Mediobanca Venture Capital Fund	40.0
San Paolo IMI Venture Capital Fund	24.9
TLCOM Venture Capital Fund	20.0

Table 1: (Continued)

Luxembourg	
SNCI SME Development	8.7
Netherlands	
DNIB Venture Capital	11.4
Austria	
Invest Equity Beteiligungs-AG	14.5
UBF Venture Capital	14.6
Portugal	
BPI Venture Capital	10
ES Venture Capital	2.5
Finland	
Capman Finnmezzanine Fund II	16.8
Capman Finnmezzanine Fund III	30.0
Capman Finnmezzanine Fund V	16.8
Eqvitec Technology Mezzanine Fund	17.0
Sweden	
Litorina Development Capital	11.3
United Kingdom	
ABN AMRO Causeway Mezzanine Partnership	25.2
Close Growth Capital Fund	16.0
Midland Enterprise/Innovation Funds	26.6
The Baring English Growth Funds	48.1
UK High Technology Fund	24.0
Pan-European	
Gilde Europe Food and Agribusiness Fund	15.0
The Merlin European Bioscience Fund	50.0
West Private Equity Fund	30.0
GRAND TOTAL EIB Risk Capital Mandate	921.8

Guarantees for SMEs

1. General context: Trends in the banking sector

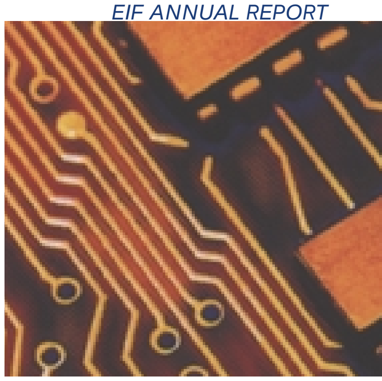
Globalisation and shareholder value: larger banks refocus on more profitable activities:

The effect of the globalisation of the economy has not spared the financial sector.
The consolidation process in the banking sector has gained speed: mergers and acquisitions affected not only smaller commercial banks, but also large international banks, in an effort to improve their profitability.
Due to the general reduction in the interest rates, the favourable economic cycle and the high liquidity of banks, pressure on financial margins has grown stronger and banks have been forced to refocus their activities and to restructure the less profitable areas of business.
Commercial banks are increasingly facing the need to improve their return on equity and create shareholders value.

For some years now, the larger and more diversified banks have reduced their corporate lending (and particularly their retail lending), as it has become less profitable and riskier than other activities, due to the increasing credit disintermediation and global competition. As a consequence, they have become stricter in their credit selection and have started shifting towards non-lending activities, in an effort to reduce the dependence of their income stream from risk-bearing assets, in favour of fee-generating business (e.g. cash management, investment banking, advisory services, etc.).
This shift is likely to continue.

The New Basel Capital Accord: new regulatory capital requirements

Banks' strategies on boosting shareholder returns by arbitraging regulatory capital for more efficient risk-return profiles of their activities have been so far driven by the relatively rigid existing regulatory capital system (same risk weighting for strong and weak borrowers).
In that respect, the new draft of the Basel Capital Accord will clearly lead to a much closer correlation between regulatory capital requirements and economic capital needs. These new rules will therefore add on and strengthen the above-mentioned trend by larger banks to move away from business credit towards fee-generating business.
However, many smaller local banks in Europe (savings, co-operative or specialised banks) will continue to depend heavily on their traditional banking activities: collecting deposits and extending loans in the relevant local markets. They will find it more difficult to diversify their income sources, as fee-generating business



will require large financial resources and large-scale commitments, specific expertise and advanced management techniques.

Furthermore, in order to optimise their capital allocation, banks will have to develop sophisticated internal rating systems (e.g. building up loan-data collection systems to estimate loan default probabilities) to effectively allocate regulatory capital. This would require substantial investments and will most likely stimulate further banking consolidation through mergers and acquisitions.

Consequences on SME lending

SMEs typically rely on bank loans for the financing of their investment activities, as their access to capital markets will remain very limited.

However, banks generally consider SME lending a less profitable business area, because of the proportionally higher handling costs, the relatively higher risk (smaller businesses can not offer adequate collateral and their dependence on the economic cycle is higher) and the difficulty in carrying out a proper credit risk assessment, due to the lack of adequate information.

Due to the above-mentioned trends - refocusing of larger banks towards non-lending activities, challenging competitive landscape for smaller regional banks - access to debt finance is therefore likely to become more difficult for smaller companies in the future.

2. The role of the EIF

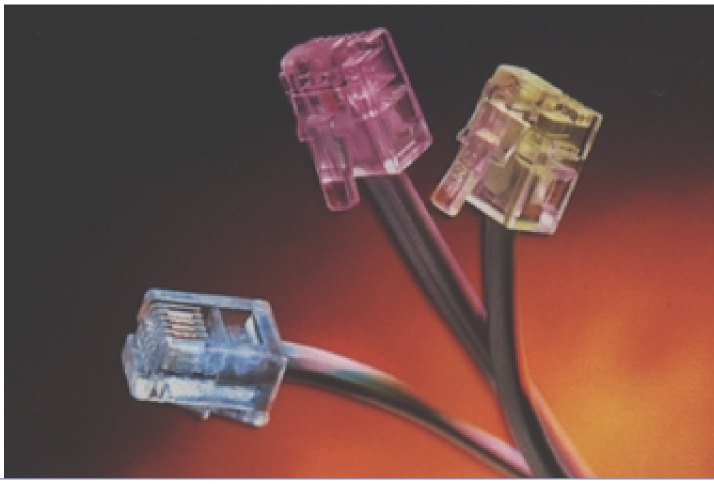
In this context, EIF can play a leading role in the European Union as the specialised arm for SME financing. Financial institutions benefiting from EIF guarantees achieve regulatory and economic capital relief:

- **EIF's status of a Multilateral Development Bank under the European Union's solvency ratio directive allows financial institutions benefiting from EIF guarantees to allocate capital to those operations at the rate of 20% instead of 100%;**
- EIF guarantee allows also financial institutions to expand their lending capacity and market share and to improve their return on equity in the SME segment;
- Financial institutions reduce risk provisioning and final losses on their SME portfolio.

Addressing market failures and supporting SME lending is achieved by EIF through the management of dedicated programmes on behalf of the European Commission and through own resources guarantee activities. The new Multi-annual Programme for Enterprise (see page 23) foresees for example the implementation through the EIF of guarantee schemes covering micro-credit, investments in the field of Information and Communication Technologies and equity participations.

The EIF SME Guarantee activity has thus an **important leverage effect**; on "Trust activity", it is considered that EUR 1 million budgetary allocation (risk funds) leads to at least EUR 10 million new SME lending which would not be normally provided by the financial institutions. With its own resources activity, the EIF allows increased lending capacity and higher return on equity for SME lending and it contributes to the spread of best market practice and product innovation (e.g. by contributing to the development of the securitisation markets and of structured finance transactions for SME financing).

It is recalled that at the end of 2000, the EIF has developed a total portfolio of 54 "own resources" facilities, amounting to EUR 989.7 million and 22 on "trust activity", amounting to some EUR 1.600 million.



3. Table 2: Summary of all EIF SME Guarantee Operations signed in 2000

Category	EUR m
Contingent liability: EIF own resources	63.6
Growth & Environment	143.2
No contingent liability for EIF:	
SME Guarantee Facility	397.4
TOTAL	604.2

The detail of the signed operations is listed below:

Table 3: Summary of all EIF SME Guarantee Operations signed in 2000

EIF own resources, SME Guarantees

Intermediary	Country	Amount EUR m
Hypo Alpe Adria Bank	Austria	7.1
Allied Irish Bank IT Fund	Ireland	12.6
Fiditoscana	Italy	12.9
Mediocredito dell'Umbria	Italy	31.0
Sub-total		63.6

SME Guarantee Facility

Intermediary	Country	Amount EUR m
Fonds de Participation	Belgium	22.8
Growth Fund	Denmark	27.0
Kreditanstalt für Wiederaufbau	Germany	19.7
Deutsche Ausgleichsbank	Germany	73.5
Sofaris	France	75.0
COFIRE/GEPAFIN	Italy	28.1
Eurofidi	Italy	10.0
Interconfidi Nord Est	Italy	40.6
Unionfidi Piemonte	Italy	12.1
Bürges	Austria	39.3
Sociedad Portuguese Garantia Mutual	Portugal	20.0
Prince's Trust	United Kingdom	29.3
Sub-total		397.4

Growth & Environment guarantee operations

Intermediary	Country	Amount EUR m
Spar Nord Bank	Denmark	10.0
Roskilde Bank	Denmark	10.0
Unibank	Denmark	10.0
Ringkjobing Landbobank	Denmark	5.0
Banco Santander Central H.	Spain	10.0
Die Erste Austria	Austria	10.0
Leonia	Finland	10.0
Merita Bank Plc	Finland	10.0
Sparbanken Finn	Sweden	7.0
Sparbanken Gripen	Sweden	3.0
Royal Bank of Scotland	United Kingdom	28.7
Lloyds	United Kingdom	29.5
Sub-total		143.2
GRAND TOTAL		604.2

The EIF guarantee resources and products

The EIF guarantee activity in support of SMEs has developed around three main product lines, namely credit insurance (and re-insurance), credit enhancement and structured finance operations.

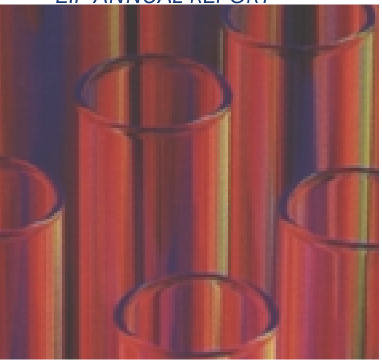
Such guarantee activity includes

- “Own resources” transactions, where the EIF assumes the risk on its own balance sheet and receives guarantee fees for the issuing of the guarantees;
- “Trust” activity, such as the SME Guarantee Facility, where the EIF manages programmes on behalf of a third party, without taking risk on its own capital.

The SME guarantee product line:

• Credit Insurance and Re-insurance

- Loan portfolio guarantees and counter-guarantees, where EIF partially covers credit risk of the beneficiary (typically at 50%). Special cases are:



- The Growth and Environment Scheme (G&E), where guarantees are issued by the EIF on its own capital, and the EIF receives the relevant risk premium from the European Commission, at no cost for the beneficiaries (lenders).

- The SME Guarantee Facility, a guarantee programme that EIF manages on a trust basis for the European Commission, mainly targeted at guarantee schemes in the member States.

• Credit Enhancement

Particularly in the context of securitisation transactions, the EIF can cover a particular range of the potential losses in a portfolio of SME loans to be securitised.
Ways of intervention:

- External credit enhancer to the portfolio;

- Guarantor of a specific (mezzanine) tranche of bonds issued.

• Structured Transactions

Guarantees in support of specialised investment funds that provide mezzanine finance and risk capital to SMEs. The EIF guarantees the senior loan facilities granted to the investment funds to leverage on their equity available from the investors.

Cooperation with the European Commission:

The multiannual programme for enterprise and entrepreneurship (MAP)

The MAP was approved by the Council on 20 December 2000 and covers the period 2001/2005. It provides since 1st January 2001 a new legal basis for the EU-funded financial instruments managed by the EIF since 1998, within the framework of the "Growth and Employment" Initiative: ETF Start-up and the SME Guarantee Facility.

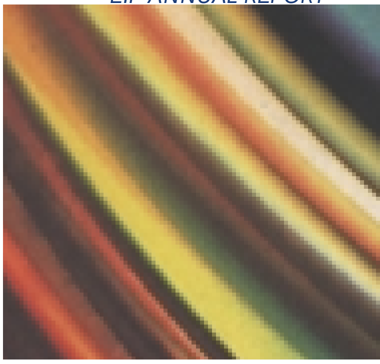
The Council Decision foresees that ETF Start-up will concentrate on the financing of incubators and seed-capital funds, smaller funds, funds operating regionally or focused on specific industries or technologies, or venture capital funds financing the exploitation of Research and Development results, e.g. funds linked to research centres and science parks which in turn provide risk capital to SMEs.

The EIF will also operate the Seed Capital Action which aims to support seed funds or incubators, allowing interalia the recruitment of junior investment managers, in order to address the shortage of fund managers in Europe.

The SME Guarantee Facility will be operated by the EIF on a trust basis. Whilst the EIF provides counter-guarantees or, where appropriate, coguarantees for guarantee schemes operating in Member States, and direct guarantees in the case of the EIB or any other appropriate financial intermediary, its losses from the relevant guarantees shall be covered by Community funds. The SME Guarantee Facility will now include four windows:

- guarantees for credits to SMEs with Growth potential, which face difficulty in having access to financing because of the relatively higher risk they represent;
- Information and Communication Technologies (ICT) guarantees: the exploitation by small undertakings of the new possibilities presented by the Internet and e-commerce. Guaranteed loans could cover computer equipment, software and training in order to help such undertakings modernise themselves in these areas and make them more competitive;
- guarantees for micro-credits, in order to encourage financial institutions to become more involved in this area by offering loans of a smaller amount which have proportionally higher unit costs;
- equity participations guarantees covering investments in SMEs with growth potential, including investments by local or regional funds which provide seed capital and/or capital in the start-up phase in order to reduce the particular difficulties which SMEs face because of their weak financial structure.

The total EU budget commitment to be managed by the EIF in the framework of the MAP will amount to nearly EUR 317 million by the end of 2005. Management Agreements between the EIF and the European Commission will be adapted during the first semester of 2001.



TEN Infrastructure

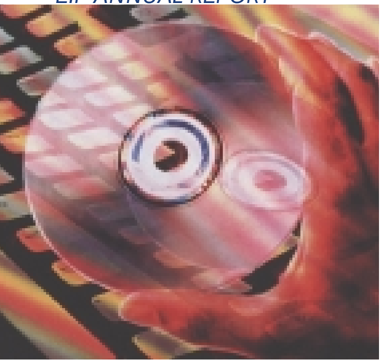
Guarantees

The EIF signed eleven guarantee operations for infrastructure projects in 2000 for a total of EUR 238.9 million. Of the eleven new contracts signed during the year, five concerned telecoms, three transport and three energy projects.

Table 4: TEN infrastructure guarantee operations signed during 2000

Country	Project	Amount EUR m
Belgium	Telenet II	25.0
Spain	Madritel	30.0
	M 45	30.0
France	Completel	25.0
Ireland	First Irish Infrastructure Fund TEL	7.5
	First Irish Infrastructure Fund TPT	8.75
	First Irish Infrastructure Fund ENE	8.75
Italy	Wind	60.0
Luxembourg	AAE Wagon Securitisation	24.5
Portugal	Lusitania II	4.49
Czech Republic	CEZ - Ceske Energetické Zavodny	15.0
TOTAL		238.9

TEN activities, complementary to those of the EIB, have been transferred to the latter together with the EIF's team of specialists. The relevant contract was signed with the EIB on 7 December 2000. The Bank will assume the advantages of the transferred portfolio, but will also bear the ultimate risk of the transactions, the EIF remaining merely a guarantor of record.



Capital

The EIF's total authorised capital is EUR 2 billion divided into 2000 shares. It was entirely subscribed on 31 December 2000: EUR 1 215 million by the European Investment Bank, EUR 600 million by the European Community and EUR 185 million by the financial institutions. The callable portion of 20% (EUR 400 million) has been paid in.

Following the General Meeting of Members on 19 June 2000, the EIB subscribed the 201 uncalled shares and purchased 214 shares from certain financial institutions.

Table 5: Capital position of EIF (in EURm)

	at 31.12.2000	at 31.12.1999
Authorised capital	2000	2000
Subscribed capital	2000	1799
EIB	1215	800
European Commission	600	600
Financial institutions	185	399

Governance

The 2000 Annual General Meeting, held on 19 June 2000 at the European Investment Bank in Luxembourg, was chaired by Mr Philippe Maystadt, President of the European Investment Bank. The following appointments to the new Board of Directors were approved at the General Meeting:

Designated by the EIB:

Messrs
Philippe Maystadt,
Massimo Ponzellini,
John Francis Nugee,
Lars Tybjerg

and as alternates,

Messrs
Terence Brown,
Rémy Jacob,
Mrs Isabel Correia Barata,
Mrs Stéphane-Emmanuelle Pallez.

Following his resignation later in the year, Mr Nugée was replaced by Mr Iñigo Fernández de Mesa. The Fund expresses its thanks to Mr Nugée for his contribution to the work of the Fund during his membership of the Supervisory Board/Board of Directors.

Designated by the European Commission:

Messrs
Guy Crauser,
Giovanni Ravasio.

Designated by the Financial Institutions:

Mr Detlef Leinberger

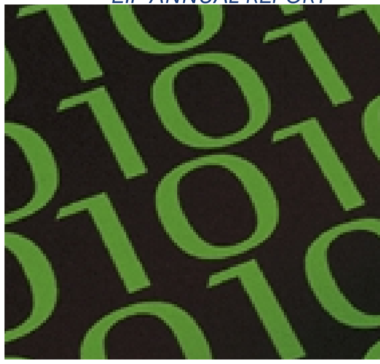
and as alternate,

Mr Antonio Pedone.

The mandates of Mr René Diepvens and Mr Daniel Van der Spree as members of the EIF's Board of Auditors ended as of the EIF 2000 Annual General Meeting. Messrs Henk Kroeze, Sylvain Simonetti and Albert Hansen were appointed to the Board of Auditors, on the proposal of the financial institutions, the European Commission and the EIB respectively.

Following the reform of the Statutes, Mr Walter Cernoia was appointed Chief Executive of the EIF by the Board of Directors, on 24 July 2000.

The Fund expresses its warm thanks to the Members of the Financial Committee, Gerbrand Hop, Michel Berthezène and David McGlue, who left the EIF in June 2000 when the Statutes of the EIF were reformed and the Financial Committee replaced by the Chief Executive.
As of 31 December 2000 there were a total of 47 persons employed by the Fund.



Annexes

Financial
Statements

Results of the year

The EIF made a net profit in 2000 of EUR 32.700.399, compared with EUR 19.359.621 in 1999. Of a gross operating income of EUR 51.570.828, 48.8% stemmed from income on investments and 51.2% from commissions on operations (1999: 46.3% and 53.3% respectively). A transfer of EUR 11 994 296 was made to the provision relating to guarantees.

The balance sheet total progressed from EUR 463.823.259 on 31 December 1999 to EUR 562.947.432 on 31 December 2000, indicating an increase of 21.4 %. On the liabilities side, the provision relating to guarantees stood at EUR 45.005.169. The statutory reserve stood at EUR 32.924.425.

Unit of account

The Fund's unit of account is 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 of 31 December 2000.

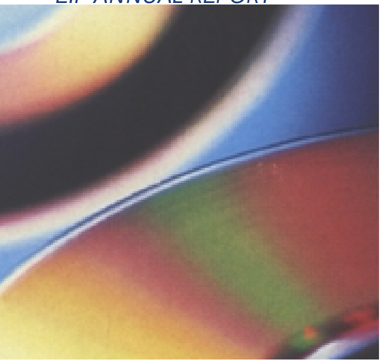
1 EURO =	31 December 2000
Deutsche Mark	1.95583
French francs	6.55957
Italian lire	1936.27
Spanish pesetas	166.386
Belgian francs	40.3399
Dutch guilders	2.20371
Austrian schillings	13.7603
Finnish markka	5.94573
Portuguese escudos	200.482
Irish pounds	0.787564
Luxembourg francs	40.3399

European Union currencies not having joined the Euro

	Value at 31/12/00
Pounds sterling	0.624100
Danish kroner	7.46310
Greek drachmas	340.750
Swedish kronor	8.83130

Statistical note

Unless otherwise indicated, amounts in EUR indicated in this Annual Report are based on conversion rates of 31 December 2000.



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.

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 on 31 December 2000, calculated on the basis of the currency conversion rates applying on that date. The calculation of the contingent liabi-lities 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

To the Chief Executive

of the EUROPEAN INVESTMENT FUND
43, avenue J.F. Kennedy
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying annual accounts of the EUROPEAN INVESTMENT FUND for the year ended December 31, 2000. These annual accounts are the responsibility of the Board of Directors. 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 December 31, 2000 and of the results of its operations for the year then ended in conformity with the Council Directives of the European Union where applicable.

Luxembourg, 19th February 2001

KPMG Audit
Réviseurs d'Entreprises
D.G. Robertson

Balance Sheet

as at December 2000 (expressed in EUR)

Assets	**Notes**	**2000**	**1999**
Current assets			
Cash at bank and in hand			
current accounts		4 510 054	3 804 496
term deposits	3.1	21 632 123	41 100 000
		26 142 177	**44 904 496**
Deptors	3.2	4 332 505	6 903 158
Fixed-income securities			
Commercial paper	3.3	34 574 164	98 974 925
		65 048 846	**150 782 579**
Fixed assets	3.6		
Debt securities and other fixed-income securities held as fixed assets	3.4	438 437 881	266 222 859
Investments in venture capital enterprises	3.5	39 822 926	32 536 709
Intagible assets		154 503	199 790
Tangible and other fixed assets		5 131 195	5 338 396
Prepayments and accrued income	3.7	14 352 081	8 742 926
Total Assets		**562 947 432**	**463 823 259**

Liabilities	Notes	2000	1999
Creditors	4.1	15 562 700	944 215
Accruals and deferred income	4.2	13 168 799	15 337 382
Provisions for liabilities and charges			
Provision relating to guarantees	4.3	45 005 169	33 030 932
Other provisions		585 110	729 448
		45 590 279	**33 760 380**
Capital	4.4		
Subscribed		2 000 000 000	1 799 000 000
Uncalled		(1 600 000 000)	(1 439 200 000)
Share premium account	4.4	12 770 142	32 169
Statutory reserve	4.5	32 924 425	24 358 804
Profit brought forward	4.5	10 230 688	10 230 688
Profit for the financial year	4.5	32 700 399	19 359 621
Total Liabilities		**562 947 432**	**463 823 259**

Off-Balance Sheet Items

Guarantees in respect of loans granted by third parties	5.1		
Drawn		1 925 416 649	1 699 933 802
Undrawn		920 806 399	1 019 779 625
		2 846 223 048	**2 719 713 427**
Commitments	5.3	15 801 078	35 532 176
Assets held for third parties	5.4	142 623 375	143 429 782
Fiduciary operations	5.5	2 594 036 680	1 309 346 205
		5 598 684 181	**4 208 021 590**

Profit and Loss Account

for the year ended 31 December 2000

	Notes	2000	1999
Net interest and similar income	6.1	21 094 149	16 005 253
Income from securities			
Income from investments in venture capital enterprises		4 084 116	117 726
Commission income	6.2	26 392 563	18 477 645
Net profit / (loss) on financial operations	6.3	554 842	(432 483)
Other operating income		130 939	52 967
General administrative expenses:			
Staff costs:			
- wages and salaries	6.4	(4 915 177)	(4 261 290)
- social security costs of which: EUR 362 580 relating to pensions (1999: EUR 378 138)		(443 054)	(459 320)
		(5 358 231)	**(4 720 610)**
Other administrative expenses		(1 807 359)	(1 606 350)
		(7 165 590)	**(6 326 960)**
Value adjustments in respect of tangible and intangible assets		(396 324)	(369 227)
Transfer to the provision relating to guarantees	4.3	(11 994 296)	(8 165 300)
Profit for the financial year		**32 700 399**	**19 359 621**

Audit
Board

The Audit Board set up in accordance with Article 22 of the Statutes,

- having studied the books of accounts and such documents which it deemed necessary to examine in the discharge of its duties,
- having examined the report dated 19th February 2001 drawn up by KPMG Audit,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms

- that the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes, the Rules of Procedure and the guidelines and directives from time to time adopted by the Board of Directors;
- that the balance sheet and profit and loss account of the Fund give a true and fair view of the financial position of the Fund in respect of its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 19th February 2001

THE AUDIT BOARD

Henk Kroeze
Albert Hansen
Sylvain Simonetti

Notes

to the annual account December 31, 2000

1. General

The EUROPEAN INVESTMENT FUND (hereafter the "Fund") was incorporated on 14 June 1994 as an international financial institution.
Following its reform, addressed more fully in the Chief Executive's Report, the task of the Fund is to contribute to the pursuit of Community objectives through

- the provision of guarantees;
- the acquisition, holding, managing and disposal of equity participations and
- the administration of 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 Commission of the European Communities ("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.

In the context of the reform of the Fund, the EIB as majority shareholder has mandated on December 7, 2000 the Fund to manage on EIB's behalf the existing portfolio of EUR 921.900.000 ("Risk Capital Mandate") as well as to carry out further venture capital operations.

Furthermore, on the same date Fund entered into an additional agreement with the EIB, according to which, on the one hand, as of January 1, 2001, the EIB carries out on the Fund's behalf the management of the TEN guarantee portfolio, with the commitments amounting to EUR 1.882.000.000 as at December 31, 2000. On the other, EIB assumed the advantages as well as the risks of said portfolio and paid in January 2001 the Fund a lump sum amount in consideration thereof. For 2000, total commissions and fees earned from TEN guarantee operations amount to EUR 19.278.363, of which EUR 10.479.632 has been allocated to risk provisions. Total risk provisions for TEN guarantee operations amount to some EUR 40.000.000 at December 31, 2000 which will be released to profit and loss account effective January 1, 2001.

Following the revision of the Fund's statutes (Extraordinary General Meeting of June 19, 2000) the Fund is managed and administered by the following three organs: the General Meeting, the Board of Directors and the Chief Executive. In addition an Audit Board comprising three members is appointed by the General Meeting of members. Their main function is to report to the General Meeting of members 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 January 1 to December 31 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

Valuation of foreign currency balances and transactions

The share capital of the Fund is expressed in euro ("EUR") and the accounting records are maintained in that currency. Share capital subscriptions paid in national currencies were converted into 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 as issued by the European Central Bank.

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

The positive exchange difference arising on the revaluation of investments in venture capital enterprises are not recognised 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.

2.3 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 not recognised until disposal of the investment.

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

Unrealised capital gains arising from the revaluing of venture capital investments are not recognised until disposal of the underlying 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	3 to 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.

3. Detailed disclosures relating to asset headings

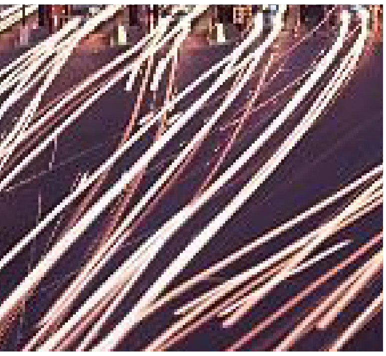
3.1 Term deposits

The remaining life of term deposits is detailed as follows:

Up to three months	EUR
1999	41 100 000
2000	21 632 123

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.

The above amount includes EUR 13.632.123 advanced by EIB (see note 4.1).



3.2 Debtors

Debtors include an amount of EUR 1.213.034 representing a repayment of a venture capital investment to be received on behalf of the EIB. The counterpart of this debt is included in the current account with the EIB (see note 4.1).

3.3 Commercial paper

The market value of commercial paper amounts to EUR 32.660.100 as at December 31, 2000 (1999: EUR 99.478.471).

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 80.340.339 (1999: EUR 40.976.933).

Securities issued by EIB amount to EUR 3.132.000 (1999: EUR 7.543.230).

The market value of debt securities held as fixed assets and normally held to maturity amounts to EUR 431.656.109 (1999: EUR 253.020.654).

The Fund participates as lender in a Securities Lending and Borrowing Programme with Euroclear and Clearstream. The balance of securities lent amounts to EUR 3.816.008 (1999: EUR 1.209.524).

3.5 Investments in venture capital enterprises

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

The unrealised foreign exchange gains arising from the revaluation of venture capital enterprises at year end closing rates amount to 1.070.448 (1999: EUR 1.057.851).

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

The present fair value of the equity investments based on valuation provided by funds managers of the equity participations exceeds the net carrying value as reflected in the balance sheet.

3.6 Movements in fixed assets (expressed in EUR)

Headings	Purchase price the beginning of the year	Additions	Disposals	Purchase price at the end of the year	Cumulative value adjust-ments 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	266 222 859	213 191 955	(40 976 933)	438 437 881	-	438 437 881
Investments in venture capital enterprises	32 536 709	24 222 265	(16 936 048)	39 822 926	-	39 822 926
Intangible assets (Softwares)	275 982	30 000	-	305 982	(151 479)	154 503
Tangible and other fixed assets of which:	6 146 317	147 913	(70 054)	6 224 176	(1 092 981)	5 131 195
a) Land and buildings	5 050 505	110 875	-	5 161 380	(526 446)	4 634 934
b) Fixtures and fittings	157 538	-	-	157 538	(60 996)	96 542
c) Office equipment	429 929	5 915	-	435 844	(143 377)	292 467
d) Computer equipment	355 348	31 123	-	386 471	(328 629)	57 842
e) Vehicles	144 232	-	(70 054)	74 178	(33 533)	40 645
f) Other fixed assets	8 765	-	-	8 765	-	8 765
Total	**305 181 867**	**237 592 133**	**(57 983 035)**	**484 790 965**	**(1 244 460)**	**483 546 505**

3.7 Prepayments and accrued income

Prepayments and accrued income are analysed as follows:

	2000 EUR	1999 EUR
Interest receivable on debt securities	10.056.405	5.285.431
Income receivable on commercial paper	298.224	743.918
Interest receivable on term deposits	2.138	227.100
Accrued discount on debt securities	758.387	197.123
Accrued commission on guarantees	3.212.534	2.283.037
Prepaid expenses and others	24.393	6.317
	14.352.081	**8.742.926**

The total amount of the discount to be accrued on the remaining life of debt securities amounted to EUR 4.281.719 as at December 31, 2000 (1999: EUR 745.251).

4. Detailed disclosures relating to liability headings

4.1 Creditors

Creditors are analysed as follows:

	2000 EUR	1999 EUR
Payments to be reimbursed to third parties	-	610.118
Trade creditors	71.003	302.084
Current account	15.326.640	-
Staff costs payable	151.515	32.013
Amounts owed to credit institutions	13.542	-
	15.562.700	**944.215**

The current account largely represents funds advanced by the EIB for additional investments in venture capital enterprises managed for EIB.

4.2 Accruals and deferred income

Accruals and deferred income are analysed as follows:

	2000 EUR	1999 EUR
Deferred income on issued guarantees	6.593.388	8.932.513
Premium amortised on debt securities	6.575.411	6.341.369
Accrued expenses	-	63.500
	13.168.799	**15.337.382**

The total amount of the premium to be amortised on the remaining life of debt securities amounts to EUR 10.025.611 (1999: EUR 10.175.356).

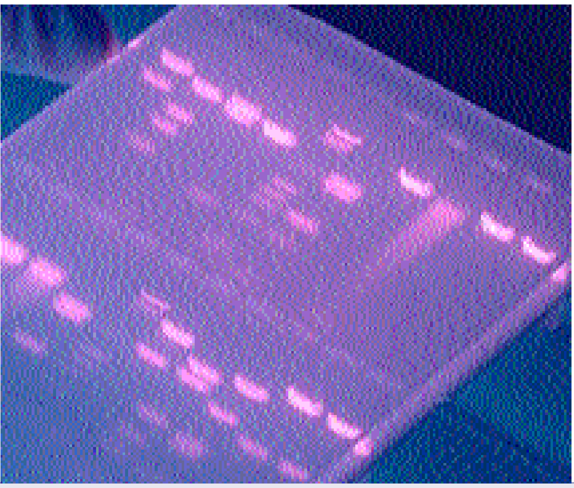
4.3 Provision relating to guarantees

The movements in relation to the general provision in respect of contingent losses which may arise from the guarantee portfolio are set out below:

	2000 EUR	1999 EUR
Balance at the beginning of the financial year	33.030.932	26.107.055
Transfer to the provision relating to guarantees	11.994.296	8.165.300
Utilisation	(20.059)	(1.241.423)
Balance at the end of the financial year	**45.005.169**	**33.030.932**

Two thirds of gross utilisation commission is normally allocated each year to the provision relating to guarantees.

As indicated in note 1, EUR 40.000.000 of this balance will be released to profit and loss account effective January 1, 2001.



4.4 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 2.000.000.000 representing 2.000 shares is called for an amount of EUR 400.000.000 representing 20% of the subscribed share capital.

The subscribed share capital is detailed as follows:

	2000 EUR	**1999 EUR**
Subscribed and paid in (20%)	400.000.000	359.800.000
Subscribed but not yet called (80%)	1.600.000.000	1.439.200.000
	2.000.000.000	**1.799.000.000**

The capital is subscribed as follows:

	2000	**1999**
	Number of shares	
European Investment Bank	1.215	800
European Commission	600	600
Financial institutions	185	399
	2.000	**1.799**

Following the General Meeting of members dated June 19, 2000, EIB subscribed for the 201 uncalled shares at that date and purchased 214 shares from certain financial institutional shareholders.

4.5 Statutory reserve and profit brought forward

Under the terms of Article 27 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 6.540.080 is required to be appropriated in 2001 with respect to the financial year ended December 31, 2000.

Movements in reserves and profit brought forward are detailed as follows (expressed in EUR):

	Statutory reserve	Profit brought forward	Profit for the financial year
Balance at the beginning of the financial year	24.358.804	10.230.688	19.359.621
Dividend paid	-	-	(10.794.000)
Other allocation of last financial year profit	8.565.621	-	(8.565.621)
Profit for the financial year	-	-	32.700.399
Balance at the end of the financial year	**32.924.425**	**10.230.688**	**32.700.399**

The General Meeting of members of June 19, 2000 approved the distribution of a dividend amounting to EUR 6.000 per subscribed share to members on record at that date (1999: EUR 3.000), amounting to EUR 10.794.000.

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 EUR	Undrawn EUR	Total 2000 EUR	Total 1999 EUR
Up to five years	253.203.473	34.114.648	287.318.121	240.411.556
From five to ten years	967.750.976	720.361.136	1.688.112.112	1.562.609.961
From ten to fifteen years	409.641.225	36.089.291	445.730.516	434.962.827
Over fifteen years	294.820.975	130.241.324	425.062.299	481.729.083
	1.925.416.649	**920.806.399**	**2.846.223.048**	**2.719.713.427**

Of the above total amount, EUR 1.351.184.430 (1999: EUR 1.334.723.399) has been issued in favour of the EIB.

Also included in the above total is an amount of EUR 1.882.000.000 representing the TEN guarantees operations managed by EIB on behalf of the Fund as of January 1, 2001, as indicated in note 1.
The drawn down portion of the guarantees issued includes an amount of EUR 80.558.581 (1999: EUR 66.816.273) representing the present value of future interest covered by guarantees.

5.2 Statutory ceiling on the overall commitments for guarantee operations

Under the terms of Article 26 of the Fund's 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 6.000.000.000 in relation to total guarantees outstanding currently totalling EUR 2.846.223.048.

5.3 Commitments

The commitments of the Fund represent investments in venture capital enterprises committed and not yet disbursed amounting to EUR 15.801.078 (1999: EUR 35.532.176).

5.4 Assets held for third parties

Assets held for third parties, as set out below, represent three trust accounts opened and maintained in the name of the Fund but for the benefit of the Commission of the European Communities ("the Commission"). Sums held in these accounts remain the property of the Commission so long as they are not disbursed for the purposes set out in relation to each project.

Under the Growth and Environment Pilot Project, the Fund provides a free guarantee to the financial intermediaries for loans extended to SME's with the purpose of financing environmentally friendly investments. The ultimate risk from the guarantee rests with the Fund and the guarantee fee is paid out of European Union budget funds.

Under the SME Guarantee Facility, the Fund is empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission.

Under the ETF Start-Up Facility, 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.

	2000 EUR	1999 EUR
Growth and Environment Pilot Project	22.480.915	24.695.415
SME Guarantee Facility	60.831.838	59.907.721
ETF Start-Up Facility	59.310.622	58.826.646
	142.623.375	**143.429.782**

The ETF Start-Up-Facility balance also includes investments of EUR 21.887.927 (1999: EUR 11.332.367).

5.5 Fiduciary operations

Pursuant to Article 28 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 Commission, according to Fiduciary and Management Agreements concluded with the EIB ("European Technology Facility", "European Technology Facility 2" and "Transfer, Implementation and Management of Risk Capital Investments" (Risk Capital Mandate)) and with the Commission ("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 Commission according to the Fiduciary and Management Agreement concluded with the Commission ("SME Guarantee Facility").

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

	2000 EUR	1999 EUR
Guarantees signed on behalf of the European Community under the SME Guarantee Facility		
Drawn	604.533.627	145.329.219
Undrawn	874.419.383	1.041.379.354
Investments made:		
European Technology Facility	66.164.846	33.121.185
ETF Start-Up Facility	21.887.927	11.332.367
EIB Risk Capital Mandate	412.396.810	-
Investments commitments not yet drawn:		
European Technology Facility	78.637.603	51.136.527
ETF Start-Up Facility	26.135.858	27.047.553
EIB Risk Capital Mandate	509.860.626	-
	2.594.036.680	**1.309.346.205**

6. Detailed information on the profit and loss account

6.1 Net interest and similar income

Net interest and similar income comprises:

	2000 EUR	1999 EUR
Interest on debt securities	23.222.252	14.986.093
Interest on term deposits	744.273	3.851.323
Accrued discount on debt securities	561.264	181.983
Interest on bank current accounts	123.267	58.422
Premium amortised on debt securities	(3.494.427)	(3.027.790)
Interest and similar charges	(62.480)	(44.778)
	21.094.149	**16.005.253**

6.2 Commission income

Commission income is detailed as follows:

	2000 EUR	1999 EUR
Commissions on guarantees issued in respect of loans drawn down	18.431.594	12.484.942
Commissions on guarantees issued in respect of loans not yet drawn down	1.417.724	1.263.665
Up-front commissions in respect of guarantees issued	1.792.744	1.854.775
Commission on European Technology Facility	1.875.000	625.000
Commission on ETF Start-Up Facility	1.178.208	1.363.411
Commission on SME Guarantee Facility	1.258.395	850.000
Commission on EIB Risk Capital Mandate	438.898	-
Other commissions	-	35.852
	26.392.563	**18.477.645**

Included in commissions on guarantees is an amount of EUR 3.879.927 being the unamortised balance of upfront fees and commissions relating to TEN projects as at December 31, 2000 which has now been released to profit and loss account, following the agreement on the TEN portfolio concluded with EIB, as outlined in note 1.

6.3 Net profit / (loss) on financial operations

Net profit/(loss) on financial operations represents gains of EUR 554.842 arising from foreign exchange operations (1999 includes loss of EUR 550.621).

6.4 Wages and salaries

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

7. Personnel

The number of persons (including the Chief Executive and 12 EIB secondees) employed at the year end was as follows:

	2000	1999
Chief Executive	1	-
Financial Committee	-	3
Employees	46	39
Total	**47**	**42**
Average during the year	44	42

The attendance fees granted to the Board of Directors amount to EUR 8.174.

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.

List of shareholders

and capital suscriptions

(situation: 31 December 2000: for regular updates, readers are invited to visit the EIF's website: www.eif.org)

Institution	Number of shares	Subscription EUR
• **European Investment Bank**	**1215**	**1 215 000 000**
• **European Community**	**600**	**600 000 000**
Belgium	**10**	**10 000 000**
• FORTIS BANK S.A.	6	6 000 000
• KBC BANK	4	4 000 000
Germany	**60**	**60 000 000**
• KREDITANSTALT FÜR WIEDERAUFBAU	40	40 000 000
• BAYERISCHE LANDESBANK FÜR AUFBAUFINANZIERUNG	5	5 000 000
BAYERISCHE LANDESBANK GIROZENTRALE	5	5 000 000
• LANDESKREDITBANK BADEN-WÜRTTEMBERG-FÖRDERBANK	5	5 000 000
DEUTSCHE AUSGLEICHSBANK	5	5 000 000
Greece	**9**	**9 000 000**
• ALPHA BANK A.E	6	6 000 000
• COMMERCIAL BANK OF GREECE S.A	3	3 000 000
Spain	**5**	**5 000 000**
• INSTITUTO DE CREDITO OFICIAL (ICO)	5	5 000 000
France	**25**	**25 000 000**
CAISSE DES DEPOTS ET CONSIGNATIONS	15	15 000 000
• DEXIA PUBLIC FINANCE BANK	10	10 000 000
Ireland	**3**	**3 000 000**
• AIB CAPITAL MARKETS PLC	3	3 000 000
Italy	**30**	**30 000 000**
• CREDIOP S.p.A.	10	10 000 000
• BANCA DI ROMA S.p.A.	10	10 000 000
• BANCA COMMERCIALE ITALIANA S.p.A	5	5 000 000
• BANCA MONTE DI PASCHI DI SIENA S.p.A	5	5 000 000

Institution	Number of shares	Subscription EUR
Luxembourg	**8**	**8 000 000**
• ARTESIA BANK LUXEMBOURG S.A.	5	5 000 000
• BGL INVESTMENT PARTNERS S.A.	3	3 000 000
Netherlands	**3**	**3 000 000**
• NIB CAPITAL BANK N.V.	3	3 000 000
Austria	**9**	**9 000 000**
BANK AUSTRIA AKTIENGESELLSCHAFT	3	3 000 000
ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AKTIENGESELLSCHAFT	3	3 000 000
RAIFFEISEN ZENTRALBANK OESTERREICH AKTIENGESELLSCHAFT	3	3 000 000
Portugal	**9**	**9 000 000**
• BANCO BPI, S.A.	6	6 000 000
• BANCO ESPIRITO SANTO E COMERCIAL DE LISBOA, S.A.	3	3 000 000
Finland	**6**	**6 000 000**
FINNVERA PLC	6	6 000 000
United Kingdom	**3**	**3 000 000**
• BARCLAYS BANK PLC.	3	3 000 000
Multilateral Financial Institution	**5**	**5 000 000**
NORDIC INVESTMENT BANK	5	5 000 000
Total Financial Institutions	**185**	**185 000 000**
TOTAL	**2 000**	**2 000 000 000**

• *founder Member or successor entity to founder member*

Management and *Administration*

The EIF is managed and administered by the following three authorities:

the General Meeting of all shareholders;

the Board of Directors;

the Chief Executive, Mr Walter CERNOIA.

Board of Directors

Designated by the EIB:

Chairman:

Philippe MAYSTADT,	President, European Investment Bank

Members:

Massimo PONZELLINI,	Vice-President, European Investment Bank.
John NUGEE,	Chief Manager, Reserves Management, Bank of England, London, until September 2000
Iñigo FERNANDEZ DE MESA ,	Subdirector General for Economic and Monetary Affairs, Treasury, Ministry of Economic Affairs and Finance, Madrid, since September 2000
Lars TYBJERG,	Deputy Permanent Secretary, Ministry of Economic Affairs, Copenhagen

Alternates:

Terry BROWN

Rémy JACOB

Stéphane-Emmanuelle PALLEZ

Isabel CORREIA BARATA

Designated by the European Commission

Members:

Giovanni RAVASIO,	Director General for Economic and Financial Affairs, European Commission, Brussels
Guy CRAUSER,	Director General for Regional Policy and Cohesion, European Commission, Brussels

Designated by the Financial Institutions

Member:

Detlef LEINBERGER,	Mitglied des Vorstandes, Kreditanstalt für Wiederaufbau, Frankfurt

Alternate:

Antonio PEDONE,	Presidente, CREDIOP, Rome

Audit Board

Henk KROEZE,	Group Controller Holding - NIB Capital NV, Den Haag (Chairman)
Albert HANSEN,	Chef de cabinet de son Altesse Royale le Grand-Duc, Luxembourg
Sylvain SIMONETTI,	Head of Unit, Accounting and Administration, European Commission, DG ECFIN, Luxembourg

Situation as per 22 May 2001

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Standing from left to right:
M. Schublin, K. Kreilgaard,
J.P. Burcklen, F. Tassone, A. Tappi
Sitting from left to right:
M. Leander, R. Wagener, W. Cernoia,
J.A. Holloway, S. Rasmussen

EIF Management

Chief Executive Walter CERNOIA

Head of Policy and Institutional Coordination
Marc SCHUBLIN

Secretary of the Fund, Head of Services Robert WAGENER

Head of Administration, Financial Controller
Frank TASSONE

Head of Legal
Maria LEANDER

Human Resources
Susanne RASMUSSEN

Head of Operations John A. HOLLOWAY

Head of SME Portfolio Guarantees
Alessandro TAPPI

Head of Venture Capital 1
(B, F, I, GR, LUX, NL, ESP, UK)
Jean-Philippe BURCKLEN

Head of Venture Capital 2
(A, DK, FIN, D, IRL, P, SW, Accession Countries)
Kim KREILGAARD

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