Annual Report 2002

...THE EU SPECIALISED VEHICLE FOR VENTURE CAPITAL AND GUARANTEES...THE EU SPECIALISED VEHICLE FOR VENTURE CAPITAL AND GUARANTEES

European Investment Fund

Member of the EIB Group

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EIF Products and Financial Resources

*The EIF is entrusted with the responsibility for **two main and complementary instruments** which, through their leverage effect, play a strategic role in the development of SMEs in Europe : **venture capital and SME portfolio guarantees.** This is in line with the conclusions of the ECOFIN Council of 7 November 2000, which emphasised the new role of the EIF as the EU's specialist financial institution for SMEs.*

Venture Capital

The EIF is a "fund of funds", which invests in venture capital funds across the European Union and the Candidate Countries.

Portfolio Guarantees

The EIF provides portfolio guarantees to a wide range of counter-parties to enable them to develop SME activities, i.e. banks, leasing companies, guarantee institutions, mutual guarantee funds, and special-purpose vehicles. EIF guarantees comprise three products: credit enhancement, credit insurance and structured transactions.

The EIF has also recently developed **independent advisory services** as a new and complementary activity, whereby it can provide advice grounded in its expertise as an investor. This new activity, which so far mainly targets regional entities and authorities but could also apply to other sectors such as research, has been devised at the suggestion of the European Commission's Regional Policy Directorate General and is conducted in close cooperation with that Directorate. These advisory services are indeed not limited to regional bodies, but could also apply to entities such as research centres or universities willing for example to set up seed funds to finance the development of their research.

To deliver its operations, EIF draws on three types of resources: own resources, EIB resources, and European Union (European Commission) resources.

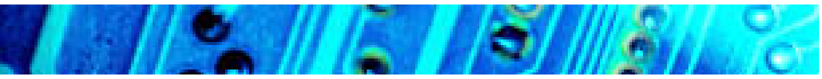
Indeed, for its venture capital activity, the EIF has been responsible since the year 2000 for all EIB Group investments, notably in early-stage and technology funds that focus on innovative companies.

For its venture capital and guarantee activities, the EIF manages resources on behalf of the European Commission under the Multiannual Programme for enterprise and entrepreneurship 2001-2005 (MAP). The MAP includes three programmes:

- ETF Start-up Facility for venture capital, under which the EIF invests in seed capital funds and business incubators;

- Seed Capital Action, which the EIF may use to provide grants to cover part of the management costs linked to seed capital funds and business incubators in which it has invested;

- SME Guarantee Facility, under which the EIF provides counter guarantees or co-guarantees for loan, ICT investment, micro-credit or equity guarantee schemes.



EIF Highlights
as at 31 December 2002

2002 Activities

EUR million

Venture Capital:	471.5 Committed in 36 venture capital funds
SME Guarantees:	1 235.6 Committed in 32 operations

Total outstanding

Venture Capital:	2 450.1 Committed in 184 venture capital funds
SME Guarantees:	4 504.2 Committed in 109 operations

Main financial data

Subscribed Capital:	2 000.0
Paid in Capital:	400.0
Capital and Reserves:	562.3
Treasury Funds:	521.7
Net Income for the Year:	18.8

Shareholders

European Investment Bank	60.75%
European Union by the European Commission	30.00%
Financial Institutions	9.25%

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Foreword
by the Chairman of the Board

The EIF has to serve the objectives of the European Union and to achieve an appropriate return on its resources.

The EIF is a unique tool at the disposal of the Union for serving the strategy set by the Lisbon European Council of March 2000: a European development model based on knowledge, the emergence of a European Research Area, and also the balanced economic development of the Union, in terms of regional development.

This is combined with a permanent commercial approach balanced between risks and returns, in both venture capital and SME guarantees. Expertise, flexibility and readiness to consider and support innovation are other specificities of the EIF, which has been able, while remaining a lean institution, to develop very significant portfolios and to play a recognised role throughout the Union and increasingly in the Candidate Countries, in terms of spreading best practice.

I would like to thank Mr Walter Cernoia, former Chief Executive of the EIF, who successfully led the reform of the EIF since 2000 and who contributed to the EIF's current position at a key player in the SME finance market.

I would also like to welcome Mr Francis Carpenter, who joined the EIF as the new Chief Executive in August 2002 after six years as Secretary General of the EIB. Mr Carpenter's intention is to use the full potential of the EIF as a unique link between the EIB and the Commission in order to continue its core activities with the support of its banking shareholders, to react with flexibility to market needs, and to develop innovative financial instruments in support of Community Objectives. The Board of Directors fully shares and supports this ambition.

Giovanni Ravasio

Introduction
by the Chief Executive

With a cumulative portfolio of signed operations amounting today to almost EUR 7 billion, the EIF is a leading actor in the early stage venture capital, private equity and SME guarantee markets. The EIF mission was particularly difficult and important in 2002 in the prevailing economic downturn and adverse fund raising conditions in the venture capital market. However in fulfilling our main task of supporting the creation and growth of SMEs in Europe, we have continued to expand our guarantee operations (EUR 1 235 million) and venture capital commitments (EUR 471.5 million) during 2002.

In December 2002, the EIF approved its corporate operational plan (COP), which maps the main strategic routes up to 2005. The aim of the EIF is continuously to anticipate new financing needs and to provide a flexible response thanks to its market positioning. These priorities will be implemented through enhanced cooperation with the European Investment Bank, the European Commission and other strategic partners or key shareholders, "joining forces" as a new step forward for our organisation.

Anticipating Accession, a major priority will be to step up our activities in the future Member States through increased investments and guarantees; particular emphasis will be placed on SME guarantees and micro-credit, which offer promising opportunities.

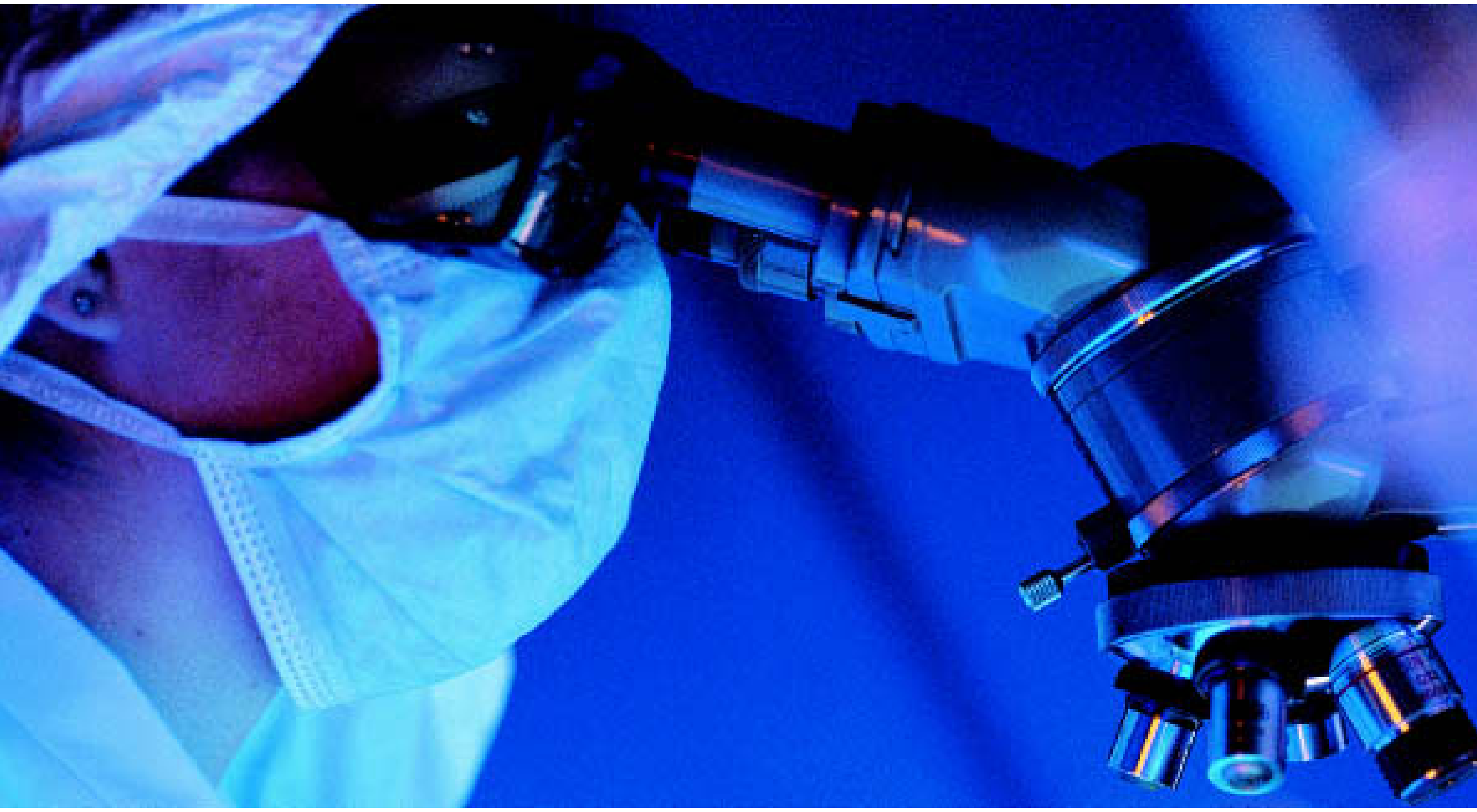
Secondly, investments in Research and Development will be expanded and cooperation strengthened with research entities to contribute to bridging the gap between academic research and product commercialisation, thereby supporting the EU objectives of developing a genuine European Research Area.

Lastly, we have started opening up new routes by developing new business services complementary to our role as an investor and guarantor, and also by extending our activity to include mid and later-stage financing some secondaries alongside early-stage. In so doing, we are reinforcing our presence in the SME financing cycle, upstream and downstream from our current market positioning. A stand-alone advisory unit, independent from EIF's investment activity, was launched in late 2002 with the aim of providing advice in the field of financial engineering. This was the consequence of an agreement concluded with the Commission's Regional Policy Directorate General for the provision of advisory services to regional entities. Furthermore, we will shift part of our activities to mid-stage financing, notably in the field of biotech. This accords with the goal set by the 2002 November EU Competitiveness Council, which stressed the key role to be played by the EIB Group in financing innovation and mid-stage investments, given the current difficult market conditions for further development of high-tech companies.

We are determined to succeed in these challenging tasks awaiting the Fund and I would like to express my appreciation to the staff of the Fund for their dedication. We will build on the existing governance of the EIF, based on three pillars, transparency, accountability and integrity.

F-Carpenter.

Francis Carpenter



Venture Capital

The European Market in 2002

In the year 2002 Europe has experienced a considerable slowdown in venture capital activity. Despite a long-term rising trend in the venture capital market during the last years and following a period of substantial growth of investments into venture capital, the decline that started in 2001 continues to prevail. This is notably confirmed by the amount invested by venture capital funds in early-stage in 2002, EUR 2.6 bn, compared to EUR 4.2 bn in 2001.

The main reasons explaining the decline experienced in fundraising for European venture capital are:

- continued economic volatility and uncertainty;
- poor performance in the public markets with the near collapse of some of the high-tech segments at the stock exchanges;
- a decline in corporate technology spending;
- poor prospects for general economic recovery.

In addition, venture capitalists and in general private equity managers have become increasingly selective as they are faced with longer investment cycles, a decline in company valuations, and limited exit opportunities. But while the time horizons and the financing needs of venture capital portfolios have drastically increased compared to expectations two or three years ago, the financing capability of most investors has by the same token been substantially reduced due to difficult fundraising conditions. Venture capital funds raised now face the danger of closing at sizes well below the optimum levels required to ensure appropriate economies of scale, a sufficient portfolio diversification and adequate resources to secure the financing of investee companies until successful exits.

In general, a movement away from early-stage investments towards later-stage investments and buyouts is obvious, since the latter are considered less risky. Pension funds and insurance companies have reinforced this movement by changing allocations away from early-

stage investment. As a result significant financing gaps have emerged in a range of high technology sectors, in all stages of company development but in particular in the early stages.

The world-wide picture of the venture capital market has not changed fundamentally since last year. Though European venture capital and private equity is characterised by a substantial level of investments, it still accounts for only one quarter to one third of the world's private equity and venture capital market. Yet the US venture capital sector is so large that despite the current economic climate, US fund managers are looking to Europe for new investment opportunities: currently, around a quarter of venture capital investments in Europe are made by US investors.

The current climate for venture capital has to be deemed "rough".

Strategic Objectives

Against this background, the EIF, as part of the EIB Group and in partnership with the European Commission, continued to pursue its two-fold objectives in 2002: supporting Community objectives and at the same time ensuring appropriate returns on its investments. This dual approach allows the EIF to benefit from its market position in the sense that the close partnerships forged with private institutions give it a pivotal role in the SME finance market.

At the same time, the EIF targets the main objectives of the Community such as the strategic goal which the March 2000 Lisbon Council set for the EU: "to become the most competitive and dynamic knowledge-based economy in the world by 2010". In March 2001, the Stockholm European Council reaffirmed this policy statement, stressing that "investment and innovation need to be supported by an enhanced supply of risk capital" and that investments in European "frontier technologies" must be expanded. These goals set by the EU Heads of State and Government are the basis of the EIF's strategic and operational objectives.

More recently, the November 2002 EU Competitiveness Council (joint meeting of Research and Industry Ministers) invited the Member States and EU institutions "to consider how to improve the financial framework for biotechnologies, and in particular use the results of the collaboration between the European Commission and the European Investment Bank/Fund to improve innovation finance including venture capital availability in their own innovation policies and increase investments in this area, e.g. through EIB/EIF instruments supporting late stage investments or consolidation funds". These developments will be reflected in EIF activity in 2003, and are fully in line with the EU objectives of reaching a level of 3% by 2010 of GDP for R&D spending.

The EIF has played a catalytic role in the launch of new venture capital funds, by supporting funds that are in their fledgling phase. The rationale for going in early is to attract other investors and give selected funds the critical mass required for them to begin their investment activity. The EIF's participation in such funds at the time of closing was usually in the 25% range in the recent past.

The EIF's strategy continues to support the emergence of a truly balanced European venture capital market by investing in **early-stage, high-tech, regional** and **pan-European** funds. It contributes to the development of new technologies by playing a leading role in future investment opportunities and by backing emerging technologies likely to be available for commercial development within the coming years (biotech, converging technologies, new materials, ICT, nanotechnologies).

The EIF's role is also to react flexibly to current and prospective market needs, and to develop, where needed, innovative financial instruments for implementing the Lisbon Strategy and achieving other objectives defined by the EU. Within this framework, the EIF will continue to support the strengthening of links between research and business and foster the increase of public and private investment in all knowledge-based sectors. This could lead in 2003 to greater involvement in development capital investments to tackle the prevailing lack of exit opportunities in the stock markets and in particular, foster the development of biotechnology companies.

Operations Signed in 2002

Table 1 shows the detailed list of EIF commitments to venture capital funds in 2002, amounting to EUR 471.5 million invested in 36 funds. This decrease compared to the 2001 figure (EUR 800 million invested in 57 funds) is due to the downwards market trend, which has limited appropriate investment opportunities, but still leaves the EIF as a key player in the early-stage tech market with a total portfolio of commitments amounting to EUR 2.45 billion: with such an investment level, EIF accounted for about 15% of the early-stage EU venture capital market in 2002. In sectoral terms, technology investments represented a major share of total operations in particular in life sciences, biotech and ICT (information and communications technology).

The Fund's support for university spin-offs in research and technology (see page 15) also remained a priority. A particular example is the operation signed with the European Molecular Biology Laboratory Fund in Heidelberg.

In 2002, EIF's geographical spread focussed on pan-European funds (24%), France (18.8%), UK (17.3%), Spain (10.2%), and Germany (6.4%). Regional funds surged with EUR 113 million invested in 2002 against EUR 62 million in 2001. Efforts to set up deals with regional financial institutions featured prominently in 2002, with the EIF investing in several funds dedicated exclusively to supporting regional based industries. Examples include the Mezzogiorno Fund in the south of Italy, Andalucía Capital Desarrollo in Spain, and Fonds pour le Capital Investissement Régional in France. With regard to the Candidate Countries, an investment was concluded with the Prague-based Genesis Private Equity Fund, broadening the EIF's geographical coverage to the Czech Republic and to Slovakia.

The average investment per fund amounted to EUR 13 million. Given the average EIF stake in funds, it can be estimated that the EUR 471 million invested in 2002 contributed to the mobilisation of more than EUR 1.5 billion in venture capital, notably early-stage, exerting a powerful leverage effect.

The Venture Capital Portfolio

The venture capital portfolio continued to expand in 2002 (EUR 2.45 billion from EUR 2 billion in 2001 - see chart 3) despite the market downturn, with a portfolio of almost 200 funds which in turn have invested in some 1800 SMEs in Europe. **The EIF has thus contributed to financing about 15% of the total number of SMEs benefiting from early-stage investments in Europe since 1997** (according to EVCA data). This shows the very significant commitment of the EIB Group in support of the Lisbon Strategy, of closing Europe's technological and competitiveness gap. Total EIF investments have been made alongside some EUR 12 billion of venture capital in Europe, with significant progress since the transfer of the EIB venture capital portfolio to the EIF in 2000 (see chart 3).

The increasingly balanced geographical spread of investments demonstrates the EIF's commitment to promoting investments in areas with less developed risk capital markets (South of Europe, Accession Countries). However, EIF invests even in countries with relatively well-developed VC markets, such as the UK, where early-stage markets are less developed. Pan-European and multi-country funds continue to be a priority and account for 17% of the portfolio (see chart 1).

Table 1 : Operations Signed in 2002

EUR

Resources	Commitments	
EIB Group of which	EIF Own Resources:	37 700 000
	EIB Mandate:	409 100 000
EU Mandate		24 738 378
		471 548 378

♣ EC Funding, ♠ Further closing, ♦ TIMES: telecommunications, IT, multimedia, e-commerce/internet, services

Country	Venture Capital Funds	Focus	Commitments	
Pan EU&Multi Country Funds	Avlar Bioventures Fund II LP	Biotech	798 594	♠
	CapMan Equity VII Fund	TIMES ♦	20 000 000	
	EMBL Technology Fund	Life sciences, healthcare	5 000 000	♠
	EuroQube S.A.	ICT	17 500 000	
	Global Life Science Ventures II	Life Sciences	25 000 000	
	Merlin Biosciences Fund III	Bio-sciences	18 562 500	
	RVC II	IT	15 625 000	
	Truffle Venture	IT, biotech	10 000 000	
Subtotal			***112 486 094***	

Country	Venture Capital Funds	Focus	Commitments	
Denmark	Nordic Biotech K/S	Healthcare, biotech	12 823 876	
Subtotal			***12 823 876***	
Germany	Mediport Venture Fund II	Healthcare, biotech	5 150 000	
	Technofonds Bayern II	Regional	25 000 000	
Subtotal			***30 150 000***	
Spain	Andalucia Capital Desarollo FCR	Regional	13 300 000	
	Baring Iberia II	Regional	20 000 000	
	Bullnet Capital	TIMES ♦	15 000 000	♣
Subtotal			***48 300 000***	
France	21 Développement II	Generalist	6 000 000	
	Auriga Ventures II A	IT, life sciences	5 955 000	♠
	AXA Venture Fund IV	ICT, electronics, life sciences	8 359 000	
	FCPR Innovation & Proximité I	Tech, regional	10 000 000	
	Fonds de Co-investissement pour les Jeunes Entreprises	Life sciences, TIMES ♦, electronics and nano-technologies	30 000 000	
	Fonds Pour le Capital Investissement Regional	Regional	20 000 000	
	Galileo 2 B	TIMES ♦, ICT	1 200 000	
	Science & Innovation Fund 2001	ICT, life sciences	1 330 000	♠
	T-Source	Telecommunications	4 300 000	♣
	Ventech B	IT, life sciences	1 458 000	
Subtotal			***88 602 000***	
Ireland	ACT 2001 Venture Capital Fund	Generalist	20 000 000	
Subtotal			***20 000 000***	
Italy	Mezzogiorno 2001	Regional	26 000 000	
	The Golden Mouse	IT, telecommunications	5 000 000	
Subtotal			***31 000 000***	
Austria	Go Equity II LP	Biotech, life sciences, communication, electronics	2 085 000	♠
	HTA II Technology Beteiligungs-Invest AG (HTAII)	Telecommunications, IT, electronics	12 500 000	
Subtotal			***14 585 000***	
Sweden	IT Provider Fund IV KB	ICT	22 110 931	
Subtotal			***22 110 931***	
United Kingdom	HSBC UK/Finance Wales Fund for Wales	Regional	787 154	
	MVM International Life Sciences II	Life sciences	29 430 943	
	Pentech Fund 1	ICT, regional	7 948 378	♣
	Quester Venture Partnership	IT, healthcare and life sciences	15 612 802	♠
	UK Regional Venture Capital Scheme	Regional	27 700 831	
Subtotal			***81 480 108***	
Candidate Countries	Genesis Private Equity Fund	Generalist	10,000,000	
Subtotal			***10 000 000***	
Grand Total			***471 538 010***	

Chart 1 : EIF Equity Operations Cumulative Portfolio

as at 31 December 2002

Geographical Breakdown (EUR 2.45 bn) *EUR million*

PanEUR&Multi-country	416.7	17.0%
Belgium	32.9	1.3%
Denmark	43.7	1.8%
Germany	265.4	10.8%
Greece	20.0	0.8%
Spain	208.4	8.5%
France	352.7	14.4%
Ireland	99.4	4.1%
Italy	270.1	11.0%
Luxembourg	18.7	0.8%
Netherlands	36.3	1.5%
Austria	56.4	2.3%
Portugal	17.5	0.7%
Finland	99.4	4.1%
Sweden	82.6	3.4%
United Kingdom	355.1	14.5%
Candidate Countries	75.0	3.1%

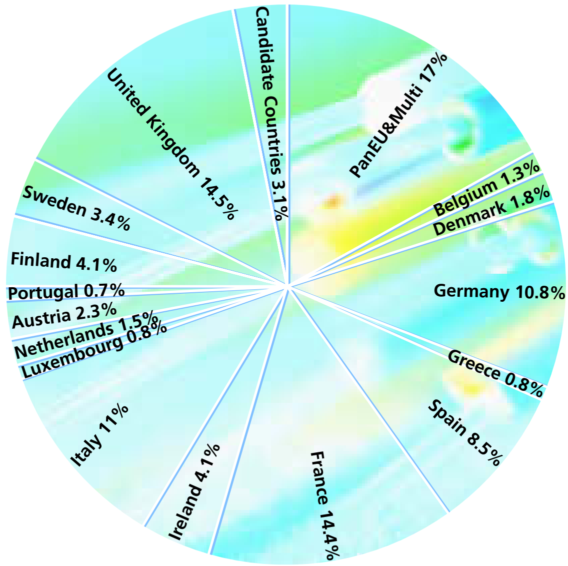
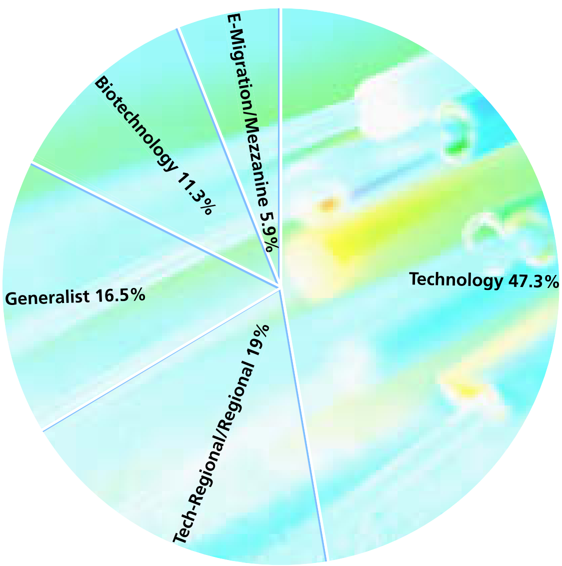


Chart 2 : EIF Equity Operations Cumulative Portfolio

as at 31 December 2002

Sectoral Breakdown *EUR million*

Technology	1 159
Tech-Regional/Regional	466
Generalist	404
Biotechnology	277
E-migration/Mezzanine	145

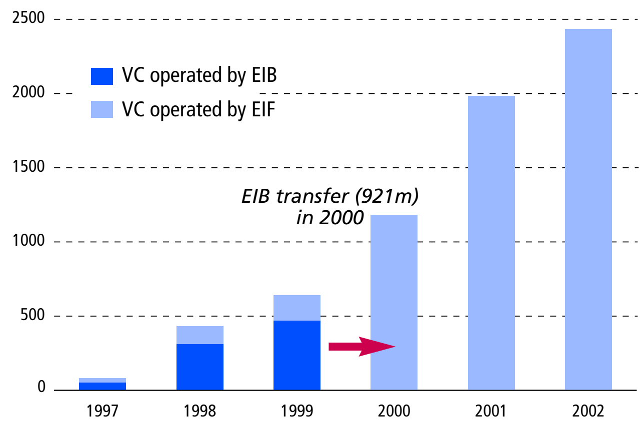


With regard to resources invested:

- **EIB resources** amounted to EUR 2 162 million (88% of the EIF's total portfolio);
- **ETF Start-Up** resources provided by the **EC budget** represented EUR 124 million or 5% and
- **EIF own resources** accounted for the remaining 7% with EUR 162 million.

Chart 3 : Evolution of VC operations

Cumulative Signatures - EUR million



Insight into EIF's Support to R&D

Case study: Heidelberg Innovation Fund

Increasing EIF involvement in support of research in Europe is illustrated by the high share of VC investments in university spin-offs and a close cooperation with the Research Directorate of the European Commission, to develop new initiatives to bridge the gap between research and product commercialisation. One of the best examples of EIF support to research is demonstrated by the Heidelberg Innovation Fund.

On 15 May 2001, the EIF committed itself to investing EUR 20 million in Heidelberg Innovation BioScience Venture II fund, a EUR 93 million VC fund based in an important German "Bio Region". The aim of the fund is to support early-stage companies at the leading edge of life sciences and biotechnologies. During the first rounds of financing, a large share of investments (in most cases up to 95%) has been allocated to research and development. Most of the fund's investee companies have developed partnerships with pharmaceutical companies and with public and private research institutes, such as the German Cancer Research Centre and the German Heart Institute. Some of the investees are spin-off institutes, which helps to bridge the gap between academic and applied research. The targeted areas covered are drug discovery, development of instruments for DNA analysis, therapeutics, products for early detection of cancers, vaccines, transplants, ventricular assist devices, and medical devices.

The 13 companies that compose the fund's portfolio – most of them created in the late 90s – are carrying out intensive and major R&D programmes with the aim of commercialising frontier technology products in the coming years. These high-growth innovative companies mobilised up to EUR 260 million from different venture capital funds, some of them (Auriga, Mediport, EMBL Fund) being other EIF partners.

A total of 550 highly qualified staff currently work in these 13 companies.

Guarantees

The European Market in 2002

The gloomy economic situation has impacted both the banking sector and companies in 2002, with a downturn effect on credit growth hampering corporate activity. Although the current situation could not be qualified as a credit crunch, a rising number of firms in Europe are being refused new loans or seeing existing credit lines cut. Increased competition, low profits and falling share prices are indeed putting pressure on banks. Against this background, guarantee schemes do provide financial institutions with more incentives to extend their loan operations contributing on the one hand to SME development and on the other hand to less risky financial operations.

EIF Supports SMEs through Guarantees to Financial Institutions

The purpose of EIF's guarantee products is to provide effective support for SMEs through the leverage effect of the products on the volume of loans which banks can make available. In addition, EIF guarantees are particularly attractive for financial institutions, which are able to benefit from the provision of regulatory and economic capital relief and high credit standing.

EIF's status as a Multilateral Development Bank under the European Union's solvency ratio directive and its financial standing:

Allows for reduced regulatory capital allocation on assets guaranteed by the EIF thanks to the 20% risk weighting (instead of 100%);

- Allows financial institutions to expand their lending capacity and to improve their return on equity in the SME segment;
- Facilitates the risk transfer to third party investors;
- Facilitates credit risk transfer to the capital markets through bond issuances guaranteed by EIF.

Addressing market failures and supporting SME lending is achieved by EIF through the management of dedicated programmes on behalf of the European Commission (trust activities) and through its own resources activity.

- Using its **"Own Resources"**, the EIF assumes the risk on its own balance sheet and receives guarantee fees for the issuing of the guarantees for credit insurance, credit enhancement, and structured transactions;
- **"Trust"** activity is where the EIF manages SME guarantee programmes on behalf of the European Commission, without taking risk on its own capital. The SME Guarantee Facility, which the EIF managed from 1998-2001 under the "Growth and Employment" mandate and is now managing under the "Multiannual Programme for enterprise and entrepreneurship 2001-2005", is an example of Trust activity.

The EIF guarantee activity has an important leverage effect: under the current "Trust activity", it is considered that for each EUR 1 million budgetary allocation (risk funds), EIF has so far supported approximately EUR 50 million of new SME lending, which would not normally be provided by commercial financial institutions. Similarly, with total guarantee commitments of EUR 600 m, EIF has supported the securitisation of SME loan portfolios for an amount in excess of EUR 13.4 bn.

With its own resources activity, the EIF allows EU banks to increase lending capacity and to achieve higher returns on equity from SME lending, while contributing 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) throughout the EU.

The EIF offers three main product lines:

1. Credit enhancement by securitisation
2. Credit insurance and re-insurance
3. Structured finance operations

1. **With credit enhancement**, EIF provides a guarantee to noteholders to enhance the credit quality of bonds backed by a securitised portfolio or acts as credit default swap counterparty for mezzanine or junior tranches.

Securitisation of SME loans is the most efficient means to enhance access to debt finance by SMEs: by transferring their credit risk to the capital markets in an effective manner, banks achieve capital relief and free up capacity for new loans to SMEs. Furthermore, the establishment of standardised platforms to achieve such risk transfer, together with the development of liquid secondary capital markets for SME credit risk in Europe are crucial factors to ensure ongoing support to commercially viable SMEs via enhanced access to finance and to reduce the risk of a credit crunch for smaller businesses.

The main advantage to SMEs through securitisation is the substantial increase of the lending capacity for banks and leasing companies, which remain by far the most important funding source for SMEs.

Since banks can originate SME financing, and partly sell the loans originated (without losing the important client relationship), the lending capacity of the banks applying securitisation techniques is markedly enhanced.

Also, the pace at which the bank's capital can be used for new loans increases and accordingly the profitability of SME lending activities (banks can originate higher loan volume with the same capital base, by regularly selling their loan portfolio to investors).

Securitisation of SME financing in Europe has experienced strong growth spurred by stimulus from national support schemes, e.g. KfW with the Promise platform in Germany and the ICO FTPYME securitisation scheme in Spain. Similar products (securitisation of lease receivables) have been developed in Italy by arrangers and originators in order to achieve better funding costs. EIF is closely involved in this market development.

2. **Credit insurance and re-insurance** are loan portfolio guarantees and counter-guarantees in relation to a portfolio of SME loans or leases. For these transactions, EIF covers up to 50% of the credit risk of every individual loan or lease in a dedicated portfolio. A special case for which EIF uses credit insurance is the SME Guarantee Facility, a programme targeted at guarantee schemes in the Member States and in the Accession Countries, which EIF manages on a mandate for the European Commission.

3. **Structured transactions** are targeted at Structured Investment Vehicles (SIVs) that wish to increase their investment capacity and to improve investors' return on equity through leveraged fi-

nance. The typical activity of such vehicles is to extend risk capital and mezzanine finance to SMEs that would normally not obtain conventional bank finance.

EIF has developed its credit insurance, credit enhancement and structured transactions product lines for "Own Resource" transactions. In addition, credit insurance is applied to the "Trust" activity:

Operations Signed in 2002

The EIF concluded 32 guarantee transactions in 2002, for a total amount of EUR 1,235.6 m (see table 2). These operations were concluded with institutions from 11 EU countries. Out of the 32 operations signed during 2002:

- 18 operations were for EIF's trust activity (SME Guarantee Facility), amounting to EUR 711.9 m. Eight

Table 2 : **Operations Signed in 2002**

EUR

Product	Originator	Country	Commitment
Enhancement	Deutsche Zentral-Genossenschaftsbank AG	Germany	18 000 000
	Commerzbank	Germany	52 000 000
	Deutsche Industriebank	Germany	134 503 369
	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)	Spain	27 000 000
	Banco Español de Crédito, S.A. (Banesto)	Spain	17 500 000
	Hypo Alpe Adria Bank S.p.A.	Italy	22 500 000
	SBS Leasing S.p.A.	Italy	33 500 000
	Mercantile Leasing S.p.A.	Italy	18 310 000
	Biella Leasing S.p.A.	Italy	12 500 000
	Bank Austria Creditanstalt AG	Austria	52 350 000
Subtotal			***388 163 369***
Insurance	Deutsche Ausgleichsbank	Germany	10 000 000
	Fispar Företagskredit AB	Sweden	87 404 947
Subtotal			***97 404 947***
Structured Finance	Mezzanin Finanzierungs AG	Austria	35 000 000
	Objective Alliance Finance Cornwall Equity Fund	United Kingdom	3 091 335
Subtotal			***38 091 335***
SME Guarantee Facility 1998	Fonds de Participation2	Belgium	19 555 000 *
	Deutsche Ausgleichsbank	Germany	11 066 667 *
	CERSA	Spain	102 956 000*
	Gepafin / Cofire	Italy	16 200 000 *
	Unionfidi Piemonte	Italy	33 400 000 *
	Federfidi Lombarda	Italy	45 000 000 *
	Artigiancredit Emilia Romagna	Italy	60 000 000 *
	BBMKB	Netherlands	128 374 842*
Subtotal			***416 552 509***
SME Guarantee Facility 2001	Fonds de Participation	Belgium	5 250 000
	Growth Fund	Denmark	39 600 000
	Deutsche Ausgleichsbank	Germany	29 733 333
	Deutsche Ausgleichsbank	Germany	22 500 000
	ICO-Instituto de Credito Oficial	Spain	10 800 000
	ADIE-Association pour le Droit à l'Initiative Economique	France	16 620 000
	Sofaris	France	35 125 000
	Artigiancredit Lombardia	Italy	17 500 000
	Finnvera	Finland	43 230 000
	ALMI	Sweden	75 000 000
Subtotal			***295 358 333***
Grand Total			**1 235 570 494**

** Increases of repeated deals or existing operations* of these for EUR 416.6 m were "repeat deals" or extensions of existing agreements, as a response to demand expressed by financial intermediaries for their SME lending. EIF considers this trend as demonstrating the importance of EIF guarantee instruments for SME finance;

- 14 operations on own resources were signed, amounting to EUR 523.7 m. Of this amount, 10 credit enhancement transactions were concluded for EUR 388.2 m, two credit insurance operations for EUR 97.4 m and two structured finance transactions for EUR 38.1 m. Credit enhancement has become a priority for the EIF, since 2000, in response to market developments and to the EIF mission of contributing to enhance access to finance by European SMEs. Using credit enhancement, the EIF provides an unconditional, irrevocable guarantee of timely payment of principal and interest on typically BBB to AAA rated notes.

EIF's guarantee activity in 2002 confirms the overall good balance of revenue streams between own resources operations and trust activity, which is to be maintained in the coming years.

Serving the Objectives of the European Union

The Multi-Annual Programme (MAP) for enterprise and entrepreneurship has been implemented since 1 March 2002. It is the successor of the European Union's Growth and Employment Initiative, under which the SME Guarantee Facility was launched. The EIF manages the SME Guarantee Facility on behalf of the European Commission.

As of 30/09/2002, it is estimated that the number of SMEs having benefited from EIF support under the SME Guarantee Facility had reached 118 400.

The current MAP mandate, which is operational until end 2005, consists of four guarantee windows: a Loan Guarantee Facility, a Micro-credit Guarantee Facility, an ICT Guarantee Scheme and an Equity Guarantee Facility. Under the Loan Guarantee Facility, five operations were signed this year with institutions in Denmark, Finland, Germany, Italy and Sweden. For the MAP's Equity Guarantee Facility, one operation (the first of this kind) has been signed with the French institution, Sofaris.

Micro-finance as a Special Guarantee Window of the SME Guarantee Facility

Micro-finance has been identified as an important factor of business development, job creation and self-employment. These reasons led to the creation of a new dedicated window under the SME Guarantee Facility, allowing a guarantee or a counter-guarantee of micro-credit operations of less than EUR 25,000. Its objective is to encourage commercial banks or specialised micro-finance lenders to become more involved in this area by offering loans of a smaller amount, with proportionally higher unit handling costs.

In 2002, EIF signed four micro-credit agreements with institutions under the MAP's Micro-credit Guarantee Facility. These institutions include ADIE in France, ICO in Spain, Deutsche Ausgleichsbank in Germany, and Fonds de Participation in Belgium. EIF expects that all four operations will contribute to increasing the consideration of smaller credits by commercial banks and specialised institutions.

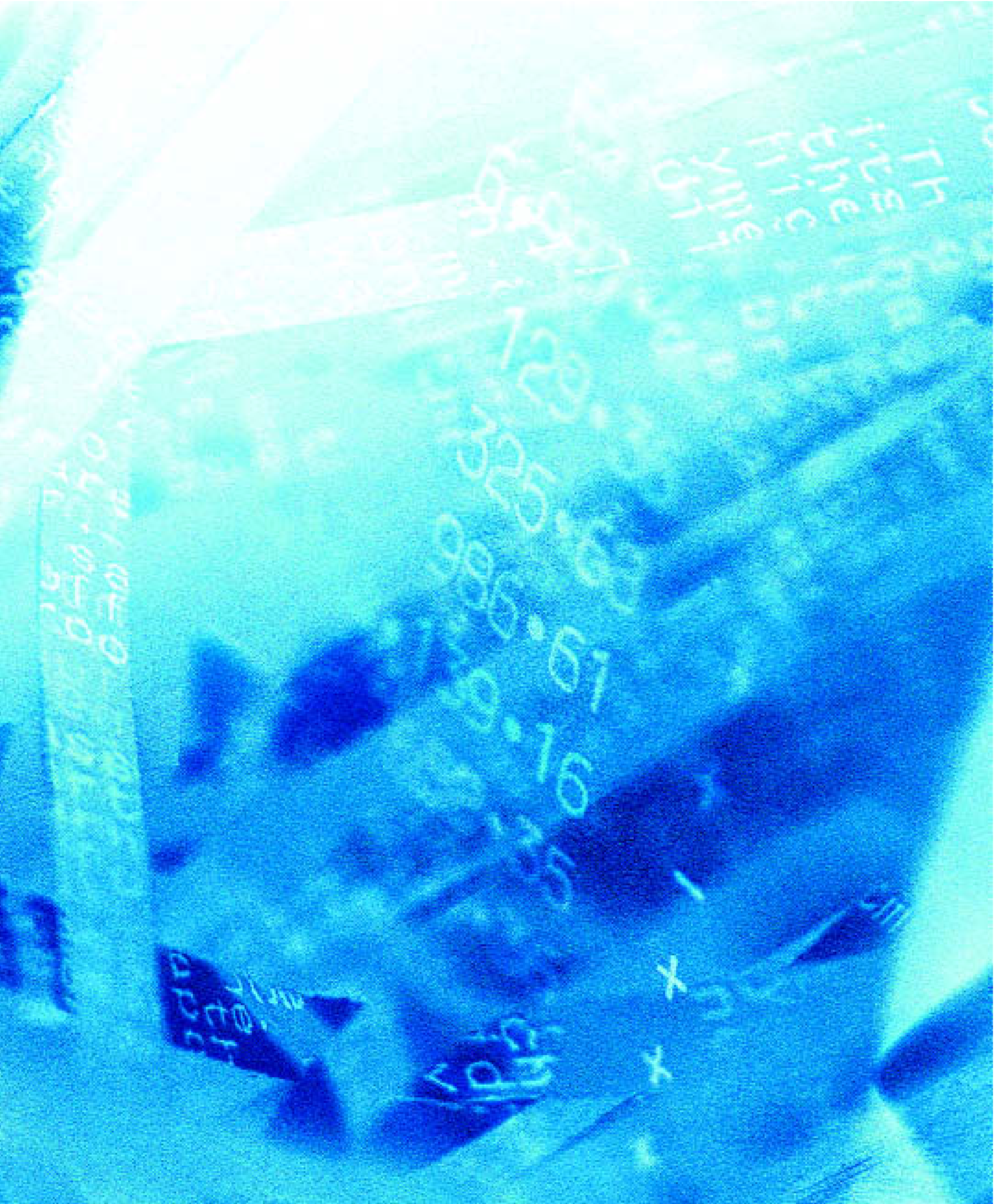
In addition to micro-credit, the Facility comprises mentoring services, offered by specialised institutions in cooperation with the micro-credit intermediary, to the new entrepreneurs to help them during the set-up phase and thereafter, including a virtual start-up centre, on-line advice, individual meetings and seminars or advice from consultants, etc.

The Guarantees Portfolio

EIF's guarantee portfolio totals EUR 4.50 billion and consists of some 109 different operations as at 31/12/2002. Table 3 shows a breakdown by product of EIF's cumulative portfolio:

Table 3 : **Commitment by Product** *EUR million*

Resources	Product	Signatures	%
Own resources	Enhancement	633.5	14%
	Insurance	269.7	6%
	Structured Finance	138.6	3%
	Growth & Environment	640.9	14%
		1 682.7	37%
Trust activity	SME Guarantee Facility 1998	2 526.1	56%
	SME Guarantee Facility 2001	295.4	7%
		2 821.5	63%
	Total	**4 504.2**	**100%**



Introduction
to the audited accounts

Despite a difficult prevailing economic environment, and especially for venture capital (see page 10 Venture Capital Market), the annual report for the financial year 2002 shows a net profit of EUR 18.8m, to be compared to the ordinary profit of EUR 15.2m in 2001.

The ordinary income remains stable and amounts to EUR 46.3m resulting from a decrease in treasury income and in realised gains from venture capital operations being more than offset by an increase from portfolio guarantee activities and management fees.

Ordinary expenses and provisions decreased in 2002, from EUR 31.7m in 2001 to EUR 27.6m, under the combined effect of

- a decrease in transfer to the provisions relating to guarantees from EUR 19.7m in 2001 to EUR 3.6m in 2002. The provision relating to guarantees has been calculated in line with the new methodology set out in the Fund's credit risk policy guidelines approved by the Board of Directors in December 2001;
- increases in staff costs (EUR 1.1m), in administrative expenses (EUR 2.5m) and in value adjustments in respect of investments in venture capital enterprises (EUR 8.4m).

It should be noted that the method of calculation of unrealised gains on venture capital operations (which is used for information purposes only) has been refined in order to calculate the unrealised gains attached to each investment, line by line, and not on a portfolio basis (see note 3.4).

The cash and equivalent position remains healthy.

F. Carpenter.

Francis Carpenter
Chief Executive

Independent Auditor's Report

To the Audit Board
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, 2002. 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, in accordance with the Council Directives of the European Union on the annual accounts and consolidated accounts of banks and other financial institutions, a true and fair view of the financial position of the EUROPEAN INVESTMENT FUND as of December 31, 2002 and of the results of its operations for the year then ended.

Luxembourg, February 21, 2003

PricewaterhouseCoopers S. à r.l.
Réviseur d'Entreprises
Represented by

Pierre Krier　　　　Didier Mouget

Report of the Audit Board

The Audit Board set up pursuant to Article 22 of the Statutes,

- acting in accordance with the customary standards of the audit profession,

- 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 February 21, 2003 drawn up by PricewaterhouseCoopers S. à r.l Réviseur d'Entreprises,

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 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, February 21, 2003

THE AUDIT BOARD

Michael Haralabidis

Henk Kroeze

Sylvain Simonetti

Balance Sheet
as at December 31, 2002

(expressed in EUR)

ASSETS	Notes	2002	2001
Current assets			
Cash at bank and in hand			
current accounts		11 195 881	39 079 199
term deposits	3.1	15 000 000	10 000 000
		26 195 881	**49 079 199**
Debtors		646 585	2 255 558
Fixed-income securities			
Commercial paper	3.2	74 862 446	52 578 086
		101 704 912	**103 912 843**
Fixed assets	3.5		
Debt securities and other fixed-income securities held as fixed assets	3.3	431 852 442	452 321 997
Investments in venture capital enterprises	3.4	49 305 307	48 428 308
Intangible assets		35 697	100 622
Tangible and other fixed assets		4 904 435	5 068 425
		486 097 881	**505 919 352**
Prepayments and accrued income	3.6	14 482 767	15 202 680
TOTAL ASSETS		**602 285 560**	**625 034 875**
OFF-BALANCE SHEET ITEMS			
Guarantees in respect of loans granted by third parties	5.1		
Drawn		2 642 723 393	2 260 093 563
Undrawn		420 280 619	529 552 812
		3 063 004 012	**2 789 646 375**
Commitments	5.3	75 512 464	51 777 298
Assets held for third parties	5.4	210 683 007	130 745 377
Fiduciary operations	5.5	5 109 410 869	3 852 205 889
	5.6	**8 458 610 352**	**6 824 374 939**

LIABILITIES	Notes	2002	2001
Creditors	4.1	3 438 016	31 863 938
Accruals and deferred income	4.2	15 955 426	15 545 636
Provisions for liabilities and charges			
Provision relating to guarantees	4.3	25 522 421	24 311 610
Provision for staff pension plan	6.4	550 000	-
Other provisions		1 780 033	1 444 167
		27 852 454	**25 755 777**
Capital	4.4		
Subscribed		2 000 000 000	2 000 000 000
Uncalled		(1 600 000 000)	(1 600 000 000)
		400 000 000	**400 000 000**
Share premium account		12 770 142	12 770 142
Statutory reserve	4.5	54 613 022	39 464 505
Profit brought forward	4.5	68 886 360	23 892 297
Profit for the financial year	4.5	18 770 140	75 742 580
TOTAL LIABILITIES		**602 285 560**	**625 034 875**

Profit and Loss Account

for the year ended 31 December 2002

(expressed in EUR)

	Notes	2002	2001
Net interest and similar income	6.1	23 837 716	24 759 424
Income from securities			
Income from investments in venture capital enterprises		1 943 526	6 332 804
Commission income	6.2	20 575 145	15 872 131
Net profit / (loss) on financial operations		(403 108)	(491 187)
Other operating income		24 780	3 897
General administrative expenses:			
Staff costs:			
- wages and salaries	6.3	(6 682 869)	(5 691 120)
- social security costs *(of which: EUR 338 662 relating to pensions contributions 2001: EUR 244 706)*		(411 537)	(298 743)
		(7 094 406)	**(5 989 863)**
Other administrative expenses		(4 216 928)	(2 277 584)
		(11 311 334)	**(8 267 447)**
Value adjustments in respect of tangible and intangible assets		(384 189)	(377 774)
Value adjustment in respect of investments in venture capital enterprises	3.4	(11 340 972)	(2 924 364)
Transfer (to)/from the provision relating to guarantees	4.3	(3 621 424)	20 335 096
Transfer to provision for staff pension plan	6.4	(550 000)	-
Extraordinary result	6.5	-	20 500 000
Profit for the financial year		**18 770 140**	**75 742 580**

The accompanying notes form an integral part of these annual accounts.

Notes
to the annual accounts December 31, 2002

1 General

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

The primary task of the Fund, while providing adequate return on equity, is to contribute to the pursuit of European Community objectives through

- the provision of guarantees;
- the acquisition, holding, managing and disposal of equity participations;
- the administration of special resources entrusted by third parties, and
- related activities.

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.

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

As detailed in note 4.4, the EIB has a majority shareholding in the Fund. Consequently the Fund is included in the consolidated accounts of the EIB Group. The consolidated accounts may be obtained from the registered office of the EIB at 100, boulevard Konrad Adenauer, L-2950 Luxembourg.

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, using the accounting policies set out below.

The Fund's accounting policies are based on the Council Directives of the European Union on the annual accounts and consolidated accounts of banks and other financial institutions.

Although the comparative figures in these annual accounts have not been restated following the changes in accounting policies as indicated in notes 2.4 and 2.6, the related financial impact of these changes has been disclosed in the relevant notes.

2.2 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.

Other exchange differences arising from the translation of monetary items 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.

Debt securities and other fixed-income securities have been categorised and valued as follows:

- the floating rate notes, with maturities exceeding one year, have been included into the portfolio considered as "Available for Sale" and consequently valued at the lower of cost or market value.

- the fixed rate notes, and the floating rate notes with a maturity of less than one year, have been included into the "Investment Portfolio Held to Maturity" and valued at cost.

  Premiums paid over the maturity value, and 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 net cumulative amortisation from the date of acquisition is included in "Accruals and deferred income" on the liability side of the balance sheet.

Other debt securities and other fixed-income securities with initial maturity of less than one year are disclosed as current assets and valued at cost. Premiums and Discounts are amortised over the life of the instruments.

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.

Based on the reports received from fund managers up to the balance sheet date, the Venture Capital Investments are valued on a line-by-line basis at the lower of cost or attributable net asset value ("NAV"), thus excluding any attributable unrealised gain that may be prevailing in this portfolio.

The attributable net asset value is determined through applying either the Fund's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report or, to the extent available, the precise share value at the same date, submitted by the respective fund manager.

For the final valuation, the attributable net asset value is adjusted for the events having occurred between the available NAV date and the balance sheet date to the extent that it is considered to be material.

In order to better conform with fair value accounting principles, investments in venture capital funds in existence for less than two years at balance sheet date are valued based on the same principles. Unrealised losses due only to administrative expenses of these recently created funds will however be ignored. This represents a change to the previous accounting policy applied up to December 31, 2001: no value adjustments were recorded then in relation with the investments in existence for less than two years, except in case of significant investment activities by the fund.

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	3 to 10 years
Office equipments	3 to 5 years
Computer equipments and vehicles	3 years

2.6 Provision relating to guarantees

Provisions relating to guarantees have been calculated in line with the methodology set out in the Fund's Credit Risk Policy Guidelines approved by the Board of Directors on December 4, 2001. This results in a credit ratings based, transaction-by-transaction, valuation of the provisioning requirements.

Accordingly on a prospective basis, for the operations signed since January 1, 2002 the provisioning requirements are built up during the two thirds of the weighted average life of the guarantees in order to better conform with fair value accounting principles. This represents a change to the accounting policy applicable in relation to the guarantee operations signed until December 31, 2001, inasmuch as for these operations the provisioning requirements remain booked in full.

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 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 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.

2.9 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.

3 Detailed disclosures relating to asset headings

3.1 Term deposits

The remaining life of term deposits is detailed as follows:

	2002 EUR	2001 EUR
Up to three months	**15 000 000**	**10 000 000**

3.2 Commercial paper

The market value of commercial paper amounts to EUR 72 183 089 as at December 31, 2002 (2001: EUR 52 797 700).

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

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

Debt securities and other fixed-income securities held as fixed assets are analysed as follows:

	2002 EUR	2001 EUR
Held to Maturity	379 114 792	428 007 727
Available for Sale	52 737 650	24 314 270
	431 852 442	**452 321 997**

Securities with a remaining duration to maturity of less than one year amount to EUR 54 756 739 (2001: EUR 62 916 035).

The market value of debt securities held as fixed assets amounts to EUR 445 090 007 (2001: EUR 453 509 860).

The Fund participates as lender in a Securities Lending and Borrowing Programme with Euroclear and Clearstream. The market value of securities lent at year-end amounts to EUR 5 638 772 (2001: EUR 4 257 802).

3.4 Investments in venture capital enterprises

Investments in venture capital enterprises are analysed as follows:

	2002 EUR	2001 EUR
Net disbursed amount at cost	63 789 635	51 352 671
Value adjustment	(14 265 336)	(2 924 364)
Unrealised loss on foreign currencies	(218 992)	-
Net book value	**49 305 307**	**48 428 308**

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

The unrealised foreign exchange loss arising from the revaluation of venture capital enterprises at year-end closing rates amounts to EUR 218 992 (2001: unrealised gain of EUR 1 109 446). In accordance with the Fund's provisioning policy this amount is included in the exchange loss of the year (the unrealised gain was not recognised in 2001).

As disclosed in note 2.4, the accounting policy relating to the valuation of the investments in venture capital enterprises has been modified in order to take into consideration potential value adjustments on investments in existence for less than two years at the balance sheet date, being EUR 1 640 919. Had this valuation method been applied in 2001, the value adjustment would have been increased by an estimated amount of EUR 431 890.

The unrealised gains on these investments, which are not recorded in the accounts, in accordance with the valuation method described in note 2.4, amount to EUR 6 706 891 (2001: EUR 16 806 141).

3.5 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	452 321 997	52 410 600	(72 824 914)	431 907 683	(55 241)	431 852 442
Investments in venture capital entreprises	51 352 671	13 188 894	(751 931)	63 789 634	(14 484 327)	49 305 307
Intangible assets (softwares)	330 982			330 982	(295 285)	35 697
Tangible and other fixed assets of which :	6 122 963	155 275		6 278 238	(1 373 803)	4 904 435
a) Land & Buildings	5 161 380			5 161 380	(848 560)	4 312 820
b) Fixtures & fittings	234 203	33 254		267 457	(116 371)	151 086
c) Office equipment	442 330	122 021		564 351	(241 422)	322 929
d) Computer equipment	192 214			192 214	(87 133)	105 081
e) Vehicles	84 072			84 072	(80 317)	3 755
f) Other fixed assets	8 764			8 764		8 764
Total	**510 128 613**	**65 754 769**	**(73 576 845)**	**502 306 537**	**(16 208 656)**	**486 097 881**

3.6 Prepayments and accrued income

Prepayments and accrued income are analysed as follows:

	2002 EUR	2001 EUR
Interest receivable on debt securities	10 621 538	10 915 316
Income receivable on commercial paper	207 875	213 763
Interest receivable on term deposits	10 963	7 929
Accrued discount on fixed-income securities	-	1 531 320
Accrued commission on guarantees	3 642 390	2 533 840
Prepaid expenses and other	-	512
	14 482 767	**15 202 680**

As mentioned in the note 2.3, the discounts and premiums on fixed-income securities held as fixed assets are netted. This was not the case in 2001. Had there been no netting in 2002 the comparable figure would have been EUR 2 001 284.

The total amount of the discount to be accrued on the remaining life of fixed-income securities amounted to EUR 3 136 606 as at December 31, 2002 (2001: EUR 3 957 694).

4 Detailed disclosures relating to liability headings

4.1 Creditors

Creditors are analysed as follows:

	2002 EUR	2001 EUR
Trade creditors and other payables	3 433 813	1 686 542
Current account	4 203	30 177 396
	3 438 016	**31 863 938**

Last year's accounts included funds advanced by the EIB for additional investments in venture capital enterprises managed for the EIB, which were also included in the Fund's current accounts reported in "Cash at bank".

In 2002, the funds managed on behalf of the EIB in relation with the venture capital operations are shown as off-balance sheet item in "Assets held for third parties" as separate and identifiable bank accounts have been opened for these operations.

4.2 Accruals and deferred income

Accruals and deferred income are analysed as follows:

	2002 EUR	2001 EUR
Deferred income on issued guarantees	11 421 152	10 296 926
Premium amortised on fixed-income securities	4 534 274	5 248 710
	15 955 426	**15 545 636**

As mentioned in the note 2.3, the discounts and premiums on fixed-income securities held as fixed assets are netted. This was not the case in 2001. Had there been no netting in 2002 the comparable figure would have been EUR 6 535 557 in 2002.

The total amount of the premium to be amortised over the remaining life of debt securities amounts to EUR 6 948 245 (2001: EUR 9 029 153).

4.3 Provisions relating to guarantees

The movements relating to provisions in respect of contingent losses that may arise from the guarantee portfolio are set out below:

	2002 EUR	2001 EUR
Balance at the beginning of the financial year	24 311 610	45 005 169
Release with regards to transfer of TEN portfolio (see note 1)	-	(40 000 000)
Transfer relating to SME guarantees	3 621 424	19 664 904
Utilisation of the provision	(2 410 613)	(358 463)
Balance at the end of the year	**25 522 421**	**24 311 610**

The balance of EUR 25 522 421 (2001: EUR 24 311 610) solely pertains to the Fund's own risks SME guarantee portfolio.

The Growth and Environment programme of the Commission, the credit risk of which is however assumed by the Fund, required the transfer to the provision relating to guarantees for the financial year of EUR 3 237 428, and EUR 2 034 668 of the utilisation of the provision.

As disclosed in the note 2.6, the accounting policy relating to provision on guarantees has been modified in order to spread the provisioning requirements over the two thirds of the weighted average life of the guarantees. Had this valuation method been applied in 2001, the provision relating to guarantees would have decreased by EUR 8 328 766.

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:

	2002 EUR	2001 EUR
Subscribed and paid in (20%)	400 000 000	400 000 000
Subscribed but not yet called (80%)	1 600 000 000	1 600 000 000
Balance at the end of the year	**2 000 000 000**	**2 000 000 000**

The capital is subscribed as follows:	2002 Number of shares	2001 Number of shares
European Investment bank	1 215	1 215
European Commission	600	600
Financial Institutions	185	185
	2 000	**2 000**

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 3 754 028 is required to be appropriated in 2003 with respect to the financial year ended December 31, 2002.

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	39 464 505	23 892 297	75 742 580
Dividend paid	-	-	(15 600 000)
Other allocation of last financial year profit	15 148 517	44 994 063	(60 142 580)
Profit for the financial year	-	-	18 770 140
Balance at the end of financial year	**54 613 022**	**68 886 360**	**18 770 140**

The General Meeting of Shareholders of April 29, 2002 approved the distribution of a dividend amounting to EUR 15 600 000 (2001: EUR 12 498 710), corresponding to EUR 7 800 per 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:

(expressed in EUR)

	Drawn	Undrawn	Total 2002	Total 2001
Up to five years	1 117 252 935	129 559 898	1 246 812 833	834 589 358
From five to ten years	940 467 665	219 142 386	1 159 610 051	1 310 217 396
From ten to fifteen years	291 599 065	25 000 000	316 599 065	297 752 292
Over fifteen years	293 403 728	46 578 335	339 982 063	347 087 329
	2 642 723 393	**420 280 619**	**3 063 004 012**	**2 789 646 375**

Included in the above total is an amount of EUR 1 576 464 993 representing the TEN guarantee operations managed by and at the risk of the EIB on behalf of the Fund since January 2001. Included in this amount, EUR 1 181 154 329 (2001:EUR 1 322 531 700) has been issued in favour of the EIB.

The drawn down portion of the guarantees issued includes an amount of EUR 62 844 104 (2001: EUR 67 461 129) representing the present value of future interest covered by guarantees.

5.2 Statutory ceiling on the overall commitments for operations

As regards guarantee operations, under the terms of Article 26 of the Fund's Statutes, the overall commitment of the Fund, excluding commitments made by the Fund on behalf of third parties, may not exceed, three times the amount of its subscribed capital for guarantee operations.

The present level of capital establishes a ceiling of EUR 6 000 000 000 in relation to total guarantees outstanding currently totalling EUR 1 486 539 018 (2001: EUR 2 789 646 375).

The TEN guarantee operations managed by and at the risk of the EIB, on behalf of the Fund (EUR 1 576 464 993), are not included in the above amount of guarantees outstanding.

In accordance with Article 12 and in conjunction with Article 26 of the Statutes, the ceiling presently applied in respect of the Fund's own venture capital operations is 50% of own funds. Taking into account the 2002 results, the ceiling stands at EUR 273 819 332 whilst the commitments in respect of the venture capital operations amount to EUR 162 818 519 (2001: EUR 126 246 832).

5.3 Commitments

Commitments represent investments in venture capital enterprises committed and not yet disbursed amounting to EUR 75 512 464 (2001: EUR 51 777 298).

5.4 Assets held for third parties

Assets held for third parties, as set out below, represent trust accounts opened and maintained in the name of the Fund but for the benefit of the Commission and the EIB. Sums held in these accounts remain the property of the Commission and the EIB 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 and the MAP Guarantee programme, 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 and the MAP Equity programme, 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.

The support provided by the Seed Capital Action is aimed at the long-term recruitment of additional investment managers by the venture capital funds to increase the number of qualified personnel and to reinforce the capacity of the venture capital and incubator industries to cater for investments in seed capital.

Within the context of its venture capital activity, EIF manages on behalf of the EIB on the one hand the European Technology Facilities (ETF) 1 and 2, which have been implemented by the EIF since 1998.

On the other hand, in the framework of the Risk Capital Mandate signed with the EIB in 2000, the EIF took over the EIB's existing venture capital portfolio, with further investments being funded as part of the "Innovation 2000 Initiative" of the EIB.

		2002 EUR	2001 EUR
Growth & Environment Pilot Project		6 714 312	16 091 609
SME Guarantee Facility		105 795 347	54 762 256
ETF Start-up Facility	(*)	43 035 289	59 891 512
Seed Capital Action		100 337	
MAP Guarantee		5 868 191	
MAP Equity	(*)	18 103 597	
Trust accounts with the Commission		179 617 073	130 745 377
Trust accounts with the EIB	(**)	31 065 934	
		210 683 007	**130 745 377**

(*) The figures above do not include the net investment position in Venture Capital, of EUR 46 704 169 for ETF Start-Up (2001: EUR 34 466 483) and EUR 860 000 for MAP Equity Facility (2001: EUR 0) made on behalf of the Commission that are included in 5.5. Had the same method been applied in 2001, the amount of cash managed on behalf of the Commission for ETF Start-Up would have been EUR 25 425 029.

(**) EIB trust accounts in 2001 was amounting to EUR 30 098 175 and was included in the balance sheet under the items "Cash at bank - Current accounts" on the assets side and "Creditors" on the liabilities side (see note 4.1).

Had the same method been used in 2001, the overall total of Assets held for third parties would have reached EUR 126 377 069.

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", "MAP Equity Facility" and "Seed Capital Action").

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" and "MAP Guarantee Facility").

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

	2002 EUR	2001 EUR
Guarantees signed on behalf of the Commission		
Under the SME Guarantee Facility		
Drawn	1 937 501 373	1 302 384 060
Undrawn	588 568 708	662 955 077
Under the MAP Guarantee Facility		
Drawn	-	-
Undrawn	295 358 333	-
Investments made on behalf of the Commission		
Under ETF Start-Up Facility (*)		
Drawn (**)	62 100 589	50 106 275
Undrawn	52 956 823	55 066 686
Under MAP Equity		
Drawn (**)	860 000	-
Undrawn	8 440 000	-
Investments made on behalf of the EIB		
Under EIB Risk Capital Mandate		
Drawn (**)	808 774 334	629 059 524
Undrawn	1 109 821 666	916 986 370
Under European Technology Facility		
Drawn (**)	123 312 774	106 063 926
Undrawn	121 716 270	129 583 971
	5 109 410 869	**3 852 205 889**

(*) The operations reported above are valued at current exchange rate as at December 31, 2002. In 2001, ETF Start-up Program with the Commission was taking into consideration the historical exchange rate. Would the current exchange rate have been used in 2001, the drawn amount would have been EUR 49 833 340 and the undrawn amount EUR 55 465 948.

(**) The operations reported above are valued at cost as at December 31, 2002 and December 31, 2001. Would the valuation method described in note 2.4 have been used for those operations in 2002 and in 2001, the following amounts would have been disclosed:

- On behalf of the EIB, a value adjustment of EUR 150 682 608 (EUR 30 962 147 estimated amount for 2001) leading to a net adjusted value of EUR 781 404 500 (2001: EUR 704 161 303 estimated amount)
- On behalf of the Commission, a value adjustment of EUR 11 740 217 (EUR 4 472 898 estimated amount for 2001) leading to a net adjusted value of EUR 51 220 372 (2001: EUR 45 363 377 estimated amount).

5.6 EIF commitments included in the off-balance sheet items

From the total of EUR 8 458 610 352 (2001: EUR 6 824 374 939) the Fund's only bears the final credit risk for the following operations:

	2002 EUR	2001 EUR
Guarantees in respect of loans granted by third parties		
Drawn	1 172 558 275	708 852939
Undrawn	313 980 743	385 579 486
	1 486 539 018	1 094 432 425
Commitments in venture capital operations	75 512 464	51 777 298
	1 562 051 482	**1 146 209 723**

6 Detailed information on the profit and loss account

6.1 Net interest and similar income

Net interest and similar income comprises:

	2002 EUR	2001 EUR
Interest on debt securities	24 043 112	25 405 316
Interest on term deposits	977 035	708 218
Accrued discount on debt securities	-	819 505
Interest on bank current accounts	207	628 186
Premium amortised on debt securities	(1 287 799)	(2 701 123)
Interest & similar charges	105 162	(100 678)
	23 837 716	**24 759 424**

As mentioned in the note 2.3, the discounts and premiums on fixed-income securities held as fixed assets are netted. This was not the case in 2001. Had there been no netting in 2002 the comparable figure would have been Accrued discount on debt securities: EUR 821 789; and Premium amortised on debt securities: EUR 2 109 587.

6.2 Commission income

Commission income is detailed as follows:

	2002 EUR	2001 EUR
Commissions on guarantees issued in respect of loans drawn down	6 808 298	4 519 523
Commissions on guarantees issued in respect of loans not yet drawn down	159 355	134 257
Up-front commissions in respect of guarantees issued	1 031 390	958 786
Commission on European Technology Facility	767 855	2 291 875
Commission on European Technology Facility 2	1 250 000	-
Commission on ETF Start-up Facility	1 253 390	1 400 521
Commission on SME Guarantee Facility	3 912 173	2 928 326
Commission on MAP Guarantee Facility	250 000	-
Commission on MAP Equity Facility	400 500	-
Commission on EIB Risk Capital Mandate	4 732 188	3 607 843
Other commissions	9 996	31 000
	20 575 145	**15 872 131**

6.3 Wages and salaries

Wages and salaries include expenses of EUR 2 723 249 (2001: EUR 2 162 345) incurred in relation to staff seconded from the EIB.

6.4 Staff pension plan

The Board of Directors in its meeting of December 3, 2002 approved, the principle of a creation of a defined benefit pension fund in substitution of the current defined contribution pension scheme. The provisioning of an amount of EUR 550 000 was considered to be appropriate to create the initial Risk Fund.

6.5 Extraordinary result

During the course of the previous financial year two exceptional items increased the Profit of the year by EUR 60 500 000, of which EUR 40 000 000 was the release of the provision relating to the TEN operations, and EUR 20 500 000 was the proceeds of the sale of the TEN portfolio to the EIB.

Not taking into consideration the income linked to the sale of the TEN portfolio to be comparable to the financial year 2002, the profit for the financial year 2001 would have been a profit of EUR 15 242 580.

7 Personnel

The number of persons (including 15 EIB secondees, of which 1 is the Chief Executive) employed at the year-end was as follows:

	2002	2001
Chief Executive	1	1
Employees	57	51
Total	**58**	**52**
Average of the year	55	47

8 Related parties transactions

8.1 European Investment Bank

	2002 EUR	2001 EUR
ASSETS		
Accounts Receivable	1 284 491	1 128 833
Trust accounts	-	30 098 175
LIABILITIES		
Accounts Payable	4 215 141	32 175 909
Deferred fees	230 004	240 000
Capital paid in	243 000 000	243 000 000
OFF BALANCE SHEET		
Guarantee drawn	1 179 728 051	1 265 614 119
Guarantees undrawn	27 937 615	56 917 581
Assets held for third parties	31 065 934	-
Investments drawn in venture capital	932 087 108	735 123 450
Investment undrawn in venture capital	1 231 537 936	1 046 570 341
INCOME		
Management fees	6 760 039	5 930 718
Extraordinary income	-	20 500 000
EXPENSES		
Wages & Salaries	2 723 249	2 386 348
IT expenses	1 450 000	452 786
Services	938 918	437 851

The accounting method for trust account has been modified (see 4.1).

8.2 Commission of the European Communities

	2002 EUR	2001 EUR
ASSETS		
Accounts Receivable	1 694 365	2 697 782
LIABILITIES		
Accounts Payable	25 035	-
Deferred fees	11 190 721	10 040 637
Capital paid in	120 000 000	120 000 000
OFF BALANCE SHEET		
Guarantee drawn	1 937 501 373	1 302 384 060
Guarantees undrawn	883 927 041	662 955 077
Assets held for third parties	179 617 073	130 745 377
Investments drawn in venture capital	62 960 589	50 106 275
Investment undrawn in venture capital	61 396 823	55 066 686
INCOME		
Management fees	5 816 063	4 328 847
Commissions received	3 027 344	2 685 399
EXPENSES		
Treasury management fees	53 468	-

The accounting method for Assets held for third parties has been modified in 2002 (see note 5.4).

The accounting method for investments in venture capital under the ETF Start-up Program with the Commission has been modified in 2002 (see note 5.5).

The commission fees received in framework of the Growth & Environment are structured to cover the risk and expenses born by the Fund (see 4.3).

8.3 Other related parties

The venture capital fund investments held by the EIF are not to be considered as related parties, as the aim is not to exercise control over the financial and operating policies of the fund's management.

9 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.

M. Schublin, R. Wagener, F. Carpenter, T. Meyer, J.P. Burcklen, K. Kreilgaard
S. Rasmussen, J.A. Holloway, F. Tassone, A. Tappi, M. Leander

Management and Administration

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

- ***General Meeting of all Shareholders***
- ***Board of Directors***
- ***Chief Executive***

Management

as at 1 March 2003

The reform of the EIF has been completed in line with the reorientation of its activities following the Reform approved by the general Assembly Meeting in June 2000. To cope with the increase in activity, special attention was paid to the staffing of the Operations Department, and especially of the Venture Capital Teams. In parallel, the overall Risk Management and Monitoring activity of the Fund was further developed through the creation of a dedicated division, now reporting directly to the Chief Executive. The EIF Board of Directors appointed Mr Francis Carpenter as the new Chief Executive of the EIF beginning on 1 August 2002. Mr Carpenter replaced Mr Walter Cernoia, who was EIF's Chief Executive since June 2000.

Chief Executive	**Francis CARPENTER**
Head of Division, Risk Management and Monitoring	Thomas MEYER
Secretary General	**Robert WAGENER**
Head of Division, Policy and Institutional Coordination/Advisory Services	Marc SCHUBLIN
Head of Division, Legal Service	Maria LEANDER
Responsible for Human Resources and Facility Management	Susanne RASMUSSEN
Responsible for Accounting and Treasury	Frédérique SCHEPENS
Director of Operations	**John A. HOLLOWAY**
Head of Division, Venture Capital 1 (BE, ES, FR, IT, GR, LU, NL, UK)	Jean-Philippe BURCKLEN
Head of Division, Venture Capital 2 (AT, DK, FI, DE, IE, PT, SE, Candidate Countries)	Kim KREILGAARD
Head of Division, Guarantees	Alessandro TAPPI
Head of Division, Product Development and Operations Research	Frank TASSONE

Board of Directors

as at 31 December 2002

Chairman

	Philippe MAYSTADT until 24 February 2002
Giovanni RAVASIO	Former Director General, Economic and Financial Affairs Directorate General, European Commission, Brussels

Members

Mauro CICCHINÈ	President, DEXIA CREDIOP, Rome
Guy CRAUSER	Director General, Regional Policy Directorate General, European Commission, Brussels
Iñigo FERNÁNDEZ DE MESA	Subdirector General para Asuntos de la Unión Económica y Monetaria, Ministerio de Economía, Madrid
Francis MAYER	Vice-President, European Investment Bank, Luxembourg
Peter SEDGWICK	Vice-President, European Investment Bank, Luxembourg
Lars TYBJERG	Former Deputy Permanent Secretary, Ministry for Economic and Business Affairs, Copenhagen

Alternate

Jean-Pierre ARNOLDI	Administrateur général de la Trésorerie, Ministère des Finances, Brussels
Terry BROWN	Director General, Directorate for Lending Operations - Europe, European Investment Bank, Luxembourg
Isabel CORREIA BARATA	Consultora da Direcção, Banco de Portugal, Lisbon
Rémy JACOB	Deputy Secretary General, General Administration Department, General Secretariat, European Investment Bank, Luxembourg
Detlef LEINBERGER	Mitglied des Vorstandes, Kreditanstalt für Wiederaufbau, Frankfurt
David McGLUE	Director, Directorate for "Financial Operations, Programme Management and Liaison with the EIB Group", Economic and Financial Affairs Directorate General, European Commission, Luxembourg
Timo SUMMA	Director, Directorate for "Promotion of entrepreneurship and SMEs", Enterprise Directorate General, European Commission, Brussels

Audit Board

Chairman

Sylvain SIMONETTI	Head of Unit, Human resources and administration Unit, Resources Directorate, Economic and Financial Affairs Directorate General, European Commission, Luxembourg

Members

Michael P. HARALABIDIS	Senior Associate, Group Risk Management, National Bank of Greece, Athens
Henk KROEZE	Chartered Accountant, Group Controller Holding at NIB Capital N.V., The Hague

The Board of Directors:
Peter Sedgwick, David McGlue, Guy Crauser, Iñigo Fernández de Mesa, Giovanni Ravasio, Lars Tybjerg, Mauro Cicchinè, Francis Carpenter.

Capital and Shareholders

Authorised capital is EUR 2 billion divided into 2000 shares of EUR 1 million each. It was entirely subscribed on 31 December 2002, by the EIB (60.75%), the European Union represented by the European Commission (30%) and 28 financial institutions (9.25%):

Institution	Number of shares	Subscription EUR
* European Investment Bank	1215	1 215
* European Union represented by the European Commission	600	600
28 Financial institutions (see breakdown below):	185	185
Total	**2 000**	**2 000**
Belgium	**10**	**10**
* Fortis Bank	6	6
* KBC Bank N.V.	4	4
Germany	**60**	**60**
* Kreditanstalt für Wiederaufbau	40	40
* Bayerische Landesanstalt für Aufbaufinanzierung	5	5
Bayerische Landesbank Girozentrale	5	5
Deutsche Ausgleichsbank	5	5
* Landeskreditbank Baden-Württemberg Förderbank	5	5
Greece	**9**	**9**
* Alpha Bank A.E.	6	6
* Commercial Bank of Greece, S.A	3	3
Spain	**5**	**5**
* Instituto de Crédito Oficial (ICO)	5	5
France	**25**	**25**
Caisse des dépôts et consignations (CDC)	15	15
* Dexia Public Finance Bank	10	10
Ireland	**3**	**3**
* AIB Capital Markets PLC (AIBCM)	3	3
Italy	**30**	**30**
* CAPITALIA, Società per Azioni	10	10
* Dexia Crediop	10	10
* Banca Monte dei Paschi di Siena S.p.A	5	5
* Banca Intesa S.p.A.	5	5

Luxembourg	**8**	**8**
* Banca Lombarda International S.A.	5	5
* BGL Investment Partners S.A.	3	3
Netherlands	**3**	**3**
* NIB Capital Bank N.V.	3	3
Austria	**9**	**9**
Bank Austria Creditanstalt AG	3	3
Erste Bank des Oesterreichischen Sparkassen Aktiengesellschaft	3	3
Raiffeisen Zentralbank Österreich Aktiengesellschaft	3	3
Portugal	**9**	**9**
* Banco BPI S.A.	6	6
* Banco Espírito Santo S.A.	3	3
Finland	**6**	**6**
Finnvera plc	6	6
United Kingdom	**3**	**3**
* Barclays Bank plc	3	3
Multilateral Financial Institution	**5**	**5**
Nordic Investment Bank	5	5

* Denotes founder Member or successor entity to founder member (situation as at 1 March 2003; for regular updates, readers are invited to visit the EIF's website: www.eif.org).

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Phone: (+352) 42 66 88 – 1
E-mail: **info@eif.org**
Website: **www.eif.org**

European Investment Fund

Please note that all documentation on EIF
(Statutes, Rules of Procedure, Annual Reports, etc.) are available through the website.

The EIF is a Member of EIB Group:

European Investment Bank
100, boulevard Konrad Adenauer
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European Investment Bank

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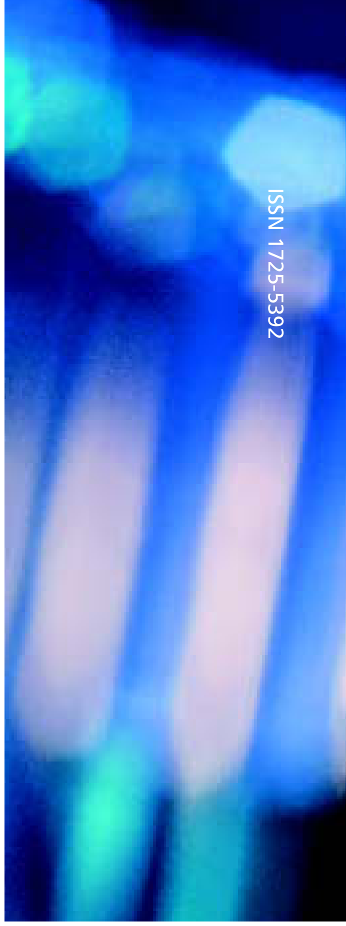
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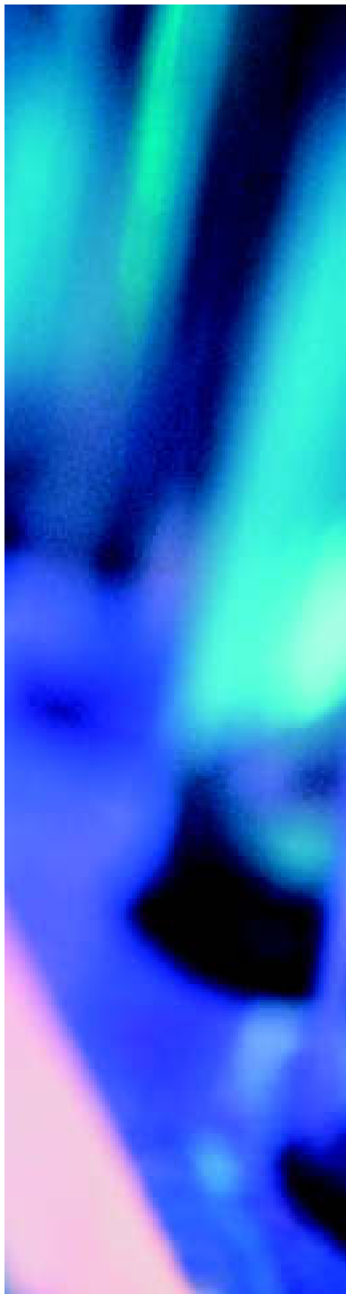

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