

European Investment Fund

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**annual report**  
**1998**



The illustrations in this annual report are reproductions of paintings by **Michèle Schumacher** which were presented at an exhibition to mark the fifth anniversary of the European Investment Fund.

Unless otherwise indicated, all amounts in this report are in ECU.  
From 1 January 1999 the accounts of the EIF will be drawn up in euro.

## **preface by the chairman** **of the supervisory board**



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The European Investment Fund's results for 1998 reflect a strong financial performance and further growth in its support of SME finance in the European Union by both venture capital investments and guarantees. In TEN infrastructure finance a rise in the rate of disbursement of loans benefiting from the Fund's guarantee enabled it to build up steadily its portfolio of outstanding commitments and boost commission income. On the other hand, while there is now a useful pipeline of operations for signature in 1999 and beyond, changing market conditions and a prudent approach to risk meant that the volume of the Fund's signed TEN guarantees was slightly lower than in 1997.

As well as developing its activity on its own resources the Fund successfully concluded agreements with the European Commission for the management of two programmes forming part of the Growth and Employment Initiative, one involving equity for start-up investments and the other counter-guarantees for national guarantee schemes stimulating loan investment by SMEs. Along with the European Technology Facility of ECU 125 million managed on behalf of the European Investment Bank under the Amsterdam Special Action Programme, these instruments form an important part of the EIF's growing "trust" activity in which it puts its know-how at the service of the European Union to support productive investment.

As a measure of its increasing financial strength the EIF was able to pay a dividend to its shareholders for the first time in 1998 while continuing to build up the reserves and provisions that are essential for it to meet its potential liabilities. In the coming year it will continue the dialogue with its shareholders on ways of developing its business in both guarantees and equity and on enhancing the management of its financial resources.

I should like to express my appreciation to the Financial Committee and the staff of the Fund for the successful results achieved in 1998.

A handwritten signature in dark ink, appearing to read 'Brian Unwin', with a long, sweeping horizontal line extending to the right.

SIR BRIAN UNWIN

Chairman of the Supervisory Board

President of the European Investment Bank

# key facts and figures

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

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

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

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

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

The initial authorised capital of the EIF amounts to ECU 2 billion. Of this, 1 799 million was subscribed at 31 December 1998, 800 million by the European Investment Bank, 600 million by the European Union and 399 million by the financial institutions. The amount open for new subscription by banks or financial institutions thus stands at 201 million. The callable portion of 20% (ECU 359.8 million) has been paid in. At present this solid capital base enables the EIF to grant guarantees for over ECU 5 billion. In the longer term the limit may attain ECU 16 billion.

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



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

Since its establishment the EIF has steadily built up its underwriting skills and project-structuring expertise as well as its market presence throughout Europe. The EIF's cumulative total of signed guarantee agreements since inception amounted to ECU 2 599 million by the end of 1998. TEN operations account for ECU 1 739 million of this (i.e. 67% of the total, including 24% for transport, 20% for energy and 23% for telecommunications). SME operations accounted for ECU 861 million at the end of 1998 (i.e. 33% of all signed guarantee operations).

By the end of 1998 the EIF had signed twenty-two equity investments from its own resources totalling ECU 58.5 million. It had also signed sixteen investments under the European Technology Facility (ETF) for a total of 61.7 million.

### Key Figures

		ECU m
Guarantees signed	31.12.1998	2 599
Equity investments - own resources	31.12.1998	58.5
Equity investments - third party resources	31.12.1998	61.7
Balance sheet total	31.12.1998	437
Subscribed capital	31.12.1998	1 799
Paid-in capital	31.12.1998	360
Net profit for the year	1998	13.7
<b>Total reserves and risk provisions*</b>		<b>52.4</b>
- Provision relating to guarantees		26.1
- Statutory reserve		16.1
- Profit brought forward		10.2

\* before allocation of profit for 1998

During 1998 the EIF made a net profit of ECU 13.71 million after a transfer of 13.96 million to the provision in respect of contingent losses which may arise from its guarantee portfolio.



# activity

## in 1998

### Introduction

The EIF's activity in 1998 was characterised by an increased rate of disbursements on guaranteed loans, which had a beneficial effect on fee income, and the positive impact of management income for "trust" activity (SME guarantee and equity programmes managed for third parties). On the other hand the volume of signed guarantee operations was lower than in 1997, owing to factors in the TEN market in particular. There was a reduced number of eligible projects in the market, where conditions were affected by general economic uncertainties and long and often unpredictable lead times in the preparation of financing structures.

Guarantees signed by the EIF in 1998 totalled ECU 485.98 million, of which 311.45 million represented TEN infrastructure guarantees and 174.44 million guarantees in support of financing SMEs. This compared with 769.19 million in 1997, of which TENs totalled 336.57 million and SMEs 432.62 million. An additional counter-guarantee was signed for 30.88 million under the SME Guarantee Facility, which is not at the EIF's own risk.

Equity participations were signed for a total of ECU 88.96 million, including 33.19 million from the EIF's own resources and 55.77 million from the ETF.

In 1998 the EIF recorded an operating profit before depreciation of ECU 28.03 million, compared with 18.58 million in 1997.

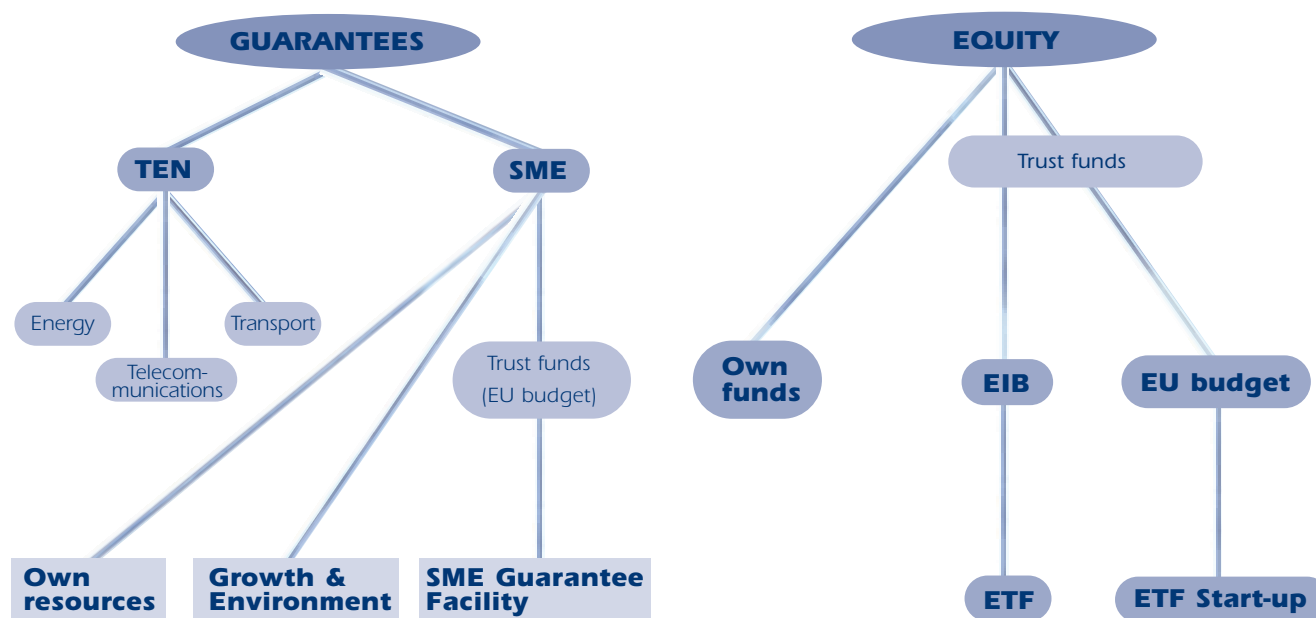
Income from operations increased from ECU 7.83 million to 15.16 million. A substantial increase in the rate of disbursement of guaranteed loans led to a rise in utilisation commissions from 5.54 million to 8.94 million, which was offset by a decrease in commitment fee income from undisbursed loans, while up-front fees fell by 0.10 million. Fee income for programmes managed under cooperation agreements with third parties, essentially the ETF managed for the EIB and the ETF Start-up and SME Guarantee Facilities managed for the European Commission, amounted to 3.34 million.

Income from treasury operations, consisting of the investment of the EIF's paid-in capital, rose from 15.53 million to 18.47 million, reflecting the investment for the first full year of the 20% paid-in capital, the last instalment of which was received in August 1997.

The EIF's total income thus increased from 23.36 million in 1997 to 33.63 million in 1998. Operating expenses amounted to 5.60 million.



## EIF products and resources, 1998



The SME Guarantee Facility and ETF Start-up Facility are new programmes that were launched in July 1998 after signature of management agreements with the commission (see page 14).

## EIF activity in 1998 - Guarantees

### TEN infrastructure

The EIF signed six guarantee operations for infrastructure projects in 1998 for a total of ECU 311.45 million. The total for the year was influenced by changing market conditions, in which commercial banks showed an increasing inclination to take risks on project finance, some promoters changed their approach to the financing of their projects and there were still long lead times in the preparation of some major projects.

The EIF's infrastructure portfolio remains evenly balanced by volume between the three sectors of energy (30%), telecommunications (35%) and transport (35%). Projects have been guaranteed in nine EU countries (Belgium, France, Greece, Ireland, Italy, the Netherlands, Portugal, Spain and the UK) and, outside the Union, in Slovakia, Hungary and the Norwegian sector of the North Sea.

The **Lusitaniagas** guarantee covers part of the second phase of a long-term investment programme for the construction and operation of natural gas distribution grids in Portugal. The EIF is participating in a Portuguese banking syndicate guaranteeing the EIB. Project cost: ECU 89 million.

The **One-2-One** guarantee covers part of the new capital expenditure programme for the development of mobile telephone services in the United Kingdom totalling nearly GBP 2 bn.

The **Telenet Flanders** project involves the provision of telephone and internet services using a second fixed-line telephone network in Belgium. The cost of the investment programme is ECU 828 million.

In the **Dutchtone** operation the EIF is guaranteeing a bridging facility pending long-term debt funding later in 1999. The project involves investment in a new cellular telephone network in the Netherlands, the first phase of which will cost ECU 880 million.

The **NIFT I** operation guarantees debt service to UBS in respect of a subordinated loan which is part of the financing package for the procurement of new rolling stock costing ECU 540 million for various train operating companies in the privatised UK rail system.

The **ESSI Motorway** project involves the construction of an orbital motorway from the west to the east of Athens, linking with the new international airport. The cost of the investment programme is ECU 1.27 billion.



**Table 1 - TEN infrastructure guarantee operations signed during 1998**

(ECU rate: signature date)

Name	Country	Guaranteed party	Amount signed	ECU m	Type of guarantee	Life of guarantee	Date of signature
<b>Energy</b>							
Lusitaniagas II	Portugal	EIB	PTE 900 m	4.46	first call	20 yrs	26.11.98
<b>Telecommunications</b>							
One-2-One	UK	EIB	GBP 100 m	147.38	first call	8 yrs	8.9.98
Telenet Flanders	Belgium	syndicate of banks*	BEF 3 bn	74.00	first call	10 1/2 yrs	9.9.98
Dutchtone	Netherlands	ABN-AMRO Rabobank	NLG 30 m	13.52	first call	up to 1 yr	26.11.98
<b>Transport</b>							
NIFT I (Porterbrook Train Leasing)	UK	UBS	GBP 16 m	24.09	debt service for subordinated loan	12 yrs	1.5.98
ESSI Motorway	Greece	EIB	ECU 48 m	48.00	first call	5 yrs	22.12.98
<b>TOTAL FOR 1998</b>				<b>311.45</b>			

\* KBC, Rabobank, De Nationale Investeringsbank, Lloyds Bank, Crédit Communal, Bayerische Landesbank (all EIF shareholders) plus BNP



## SME (Small and Medium-sized enterprises) guarantees

EIF guarantees for SME operations come into three categories:

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

**Table 2 - Summary of all EIF SME guarantee operations signed during 1998**

(ECU rate: signature date)

Category	ECU m
<b>Contingent liability: EIF own resources</b>	
Credit insurance	51.50
Growth & Environment	122.95
	<b>174.45</b>
<b>No contingent liability for EIF</b>	
SME Guarantee Facility	<b>30.88</b>

## Contingent liability on EIF own resources

**Table 3 - "Own resource" SME guarantee operations signed during 1998**

(ECU rate: signature date)

Name	Country	Guaranteed party	Amount signed	ECU m	Type of guarantee	Life of guarantee	Date of signature
CoBaPo	Italy	CoBaPo	ITL 40 bn	20.62	Loan portfolio guarantee	up to 10 yrs	3.6.98
Fidi Toscana	Italy	Fidi Toscana	ITL 60 bn	30.88	Counter-guarantee	up to 10 yrs	3.8.98
<b>TOTAL</b>				<b>51.50</b>			

In the **CoBaPo (Consorzio Banche Popolari dell'Emilia Romagna Marche)** operation the EIF has issued a loan portfolio guarantee to a consortium of regional cooperative banks in Italy, namely the Banca Popolare dell'Emilia Romagna, Banca Agricola Mantovana and Banca di Piacenza.

In the **Fidi Toscana** operation the EIF has issued a counter-guarantee to the guarantee institution of the region of Tuscany which itself issues guarantees covering lending to SMEs by the vast majority of banks operating in the area. The Monte dei Paschi group accounts to a large extent for the origination of loans under this contract.

### Contingent liability on EIF own resources (sponsored by the EU)

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

A comprehensive review undertaken by the EIF and approved by the European Commission in 1998 led to a revision of the guarantee product offered under this

pilot project. As a result, the EIF renegotiated and signed 19 contracts with Growth and Environment intermediaries for a total value of ECU 479.4 million during the 3rd and 4th quarters of 1998, thereby laying the basis for an increased drawdown of loans under the scheme. Draw-downs already increased significantly by the end of 1998. Total utilisation of the scheme reached 11.46% by the end of the year compared with 3.7% at the beginning of 1998 (9.62% if the extra amount of 123 million covered by new commitments during the year is taken into account). The majority of disbursements took place in the third and fourth quarters of the year, i.e. following the successful relaunch of the scheme by the EIF. In addition the EIF signed 7 contracts with new intermediaries for a total value of ECU 122.95 million. The network of Growth and Environment intermediaries reached 27 institutions in all the countries of the European Union, including 23 shareholders in the Fund, and the total volume of the signed agreements is 652.8 million.

**Table 4 - New Growth & Environment guarantee operations signed during 1998**  
(ECU rate: signature date)

Name	Country	Amount signed	ECU m	Life of guarantee	Date of signature
Ionian & Popular Bank	Greece	GRD 2.48 bn	7.94	7 yrs	5.1.98
Finance for Danish Industry	Denmark	DKK 75.1 m	10.01	7 yrs	27.1.98
Caisse Nationale de Crédit Agricole	France	ECU 30 m	30.00	7 yrs	28.8.98
Générale de Banque	Belgium	ECU 15 m	15.00	7 yrs	31.8.98
Rabobank Nederland	Netherlands	ECU 20 m	20.00	7 yrs	30.11.98
Banco Bilbao Vizcaya	Spain	ECU 10 m	10.00	7 yrs	10.12.98
Banca Monte dei Paschi di Siena	Italy	ECU 30 m	30.00	7 yrs	28.12.98
<b>TOTAL</b>			<b>122.95</b>		



### No contingent liability on EIF's own resources

The **SME Guarantee Facility** (see page 14) is part of the EU's Growth and Employment Initiative and is managed by the EIF under a cooperation agreement with the European Commission which was signed in July 1998. Under this facility the EIF provides counter-guarantees and/or co-guarantees to guarantee schemes opera-

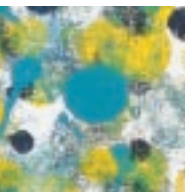
ting in Member States, whether private or public, and exceptionally direct guarantees in the case of risk-sharing instruments provided by national financial intermediaries. It does not create any exposure or liability on the EIF balance sheet, and the costs are covered by a performance-related management fee earned under the cooperation agreement. The first operation under this programme was signed in December 1998.

**Table 5 - SME Guarantee Facility operation signed during 1998**

(ECU rate: signature date)

Intermediary	Country	EIF guarantee	ECU m	Type of guarantee	Date of signature	Target SMEs
Bürges Forderungsbank	Austria	ATS 425 m	30.88	Counter-guarantee	14.12.98	Young entrepreneurs, structural improvements
<b>TOTAL</b>			<b>30.88</b>			

For further details of the SME Guarantee Facility, see separate brochure obtainable from the EIF, or consult our web site.



## The Growth & Employment Initiative

The **Growth & Employment Initiative**, which was formalised by the Council on 19 May 1998 (Decision 98/347/EC), is a programme of financial assistance to SMEs, set up by the European Union following an initiative of the European Parliament and the Luxembourg Special Employment Council of November 1997. It includes the **ETF Start-up Facility**, a venture capital facility providing risk capital to SMEs through investment in specialised venture capital funds with a

higher risk profile than those targeted under the EIF's own risk capital facilities, and the **SME Guarantee Facility**, which provides counter-guarantees and/or co-guarantees to guarantee schemes operating in Member States, whether private or public, and, exceptionally, direct guarantees in the case of risk-sharing instruments provided by appropriate financial intermediaries.

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



## **EIF activity in 1998 - Equity**

The EIF signed commitments to invest in venture capital funds from two sources in 1998:

- from its own resources up to a limit of 20% of own funds, or approximately 80 million as laid down by the General Meeting
- from an amount of 125 million made available to it for management by the European Investment Bank under the European Technology Facility (ETF) as part of the Amsterdam Special Action Programme (ASAP).

### Equity commitments from own resources

In 1998 the EIF signed commitments to 13 venture capital funds from its own resources for a total of 33.19 million.

**Table 6 - Venture capital commitments from the EIF's own resources signed during 1998**  
(ECU rates: signature dates)

Name	Where incorporated/ managed	Amount signed	ECU m	Signature date
Amadeus I	UK	GBP 2 m	3.01	11.2.98
Technostart Ventures	Germany	DEM 5 m	2.53	11.3.98 & 16.11.98
IT Partners	Belgium	BEF 120 m	2.94	23.4.98
Advent Private Equity II Fund	UK	GBP 2 m	2.94	19.5.98
Sitra Technology Ky	Finland	FIM 13.3 m	2.22	28.5.98
Banexi Ventures 2	France	FRF 20 m	3.01	2.7.98
Auriga Ventures I	France	ECU 2.76 m	2.76	21.7.98 & 18.11.98
Galileo II	France	FRF 20 m	3.02	20.8.98
Vision Capital L.P.	UK	USD 3 m	2.58	30.9.98
NeSBIC CTE Fund	Netherlands	NLG 5 m	2.25	30.9.98
Kiwi Venture Partners I	Portugal	ECU 2 m	2.00	2.10.98
Enabling Technology Partners	Germany	DEM 4 m	2.03	16.11.98
Trinity Venture Fund IA	Ireland	IEP 1.5 m	1.90	25.11.98
<b>TOTAL</b>			<b>33.19</b>	

The total amount committed from the EIF's own resources stood at 58.5 million on 31 December 1998 at the

conversion rates on that date, or 73% of the ceiling of 20% of own funds.



## Equity commitments under the ETF

Fourteen commitments totalling ECU 55.77 million were signed under the ETF facility in 1998.

**Table 7 - Venture capital commitments under the ETF signed during 1998**  
(ECU rates:signature dates)

Name	Where incorporated/ managed	Amount signed	ECU m	Signature date
Amadeus I	UK	GBP 3 m	4.51	11.2.98
Technostart Ventures	Germany	DEM 5 m	2.53	11.3.98 & 16.11.98
IT Partners	Belgium	BEF 180 m	4.40	23.4.98
Advent Private Equity II Fund	UK	GBP 5.5 m	8.09	19.5.98
Sitra Technology Ky	Finland	FIM 17.7 m	2.96	28.5.98
Banexi Ventures 2	France	FRF 30 m	4.52	2.7.98
Auriga Ventures I	France	ECU 4.69 m	4.69	21.7.98 & 18.11.98
Galileo II	France	FRF 30 m	4.53	20.8.98
Sofinnova Capital III	France	FRF 30 m	4.55	9.9.98
Vision Capital L.P.	UK	USD 5 m	4.30	30.9.98
NeSBIC CTE Fund	Netherlands	NLG 5 m	2.25	30.9.98
Kiwi Venture Partners I	Portugal	ECU 2.98 m	2.98	2.10.98
Enabling Technology Partners	Germany	DEM 7 m	3.56	16.11.98
Trinity Venture Fund IA	Ireland	IEP 1.5 m	1.90	25.11.98
<b>TOTAL</b>			<b>55.77</b>	

The total amount committed from ETF resources stood at 61.7 million on 31 December 1998 at the conversion rates on that date, or 49% of the total available amount of 125 million.

For further details of the ETF programme, see the separate brochure which is available from the EIF, or consult our web site.



### **Equity commitments under the ETF Start-up Facility**

The **ETF Start-up facility** (see page 14) was signed in July 1998 and a substantial amount of pre-marketing work was carried out to identify suitable investment opportunities and build up a pipeline. Operations were prepared in France, Germany, Sweden and the UK and one conditional commitment (7.7 million) had been signed by 31 December, with further investments ready for signature in the early months of 1999. Other investments were being assessed in Finland, Denmark and the Netherlands.

# the EIF

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## in 1999



The development of TEN guarantee activity in 1999 will depend to a large extent on whether the market trends noted last year will continue. It is expected that there will still be a limited number of eligible transactions and that they will be smaller in volume, typically averaging ECU 20 to 30 million instead of the amounts in excess of 50 to 100 million recorded in the earlier years of the Fund. This reflects the changing attitude of commercial banks to the type of risk involved in project finance and competitive pressures in the banking sector, including the emergence of capital market-based financing in competition with the more traditional banking approach. On the basis of transactions under active consideration at the end of 1998 it is expected that signatures in this sector could show modest growth in 1999.

The encouraging increase in the disbursement rate of guaranteed loans is expected to continue, boosting fee income and having a direct impact on earnings. Along with an increased volume of signatures, the management of the EIF sees this as the key factor in increasing operational income so that it can overtake income from treasury in the Fund's earnings profile.

In the SME sector the EIF will continue its rapid build-up of operations under the trust programmes, on which a great deal of pre-investment work has been done by staff.

For the Growth & Environment Pilot Project it is expected that operations to be signed in 1999 will include some new intermediaries in countries without adequate coverage and a number of renegotiated existing contracts with increased new guarantee volume.

The EIF has embarked on concrete negotiations in a number of countries on agreements under the SME Guarantee Facility, and after concluding one agreement in Austria in 1998 was set to conclude two more in early 1999, in France, Germany and the Netherlands. Negotiations with institutions in Finland, Belgium and Spain are also expected to lead to the conclusion of agreements by mid-1999. Overall the demand for the facility is extremely strong and the EIF is confident that it will commit the expected budgetary allocations in full well ahead of the May 2000 expiry date envisaged in the management agreement with the European Commission.

As far as equity operations are concerned, it is highly probable that the amounts available from EIF own funds and those provided by the EIB under the ETF facility will be fully committed in 1999. Consideration is being given to increasing these resources to take advantage of the next stage in the venture capital industry's investment cycle.

After concluding the management agreement for the ETF Start-up facility in July 1998 the EIF undertook an active marketing campaign, and as a result there has been a steady stream of proposals. Over 60 of the equity proposals received in the second half of 1998 came within the scheme's terms of reference and although the programme is in its early stages it appears highly likely that the full amounts available under the facility can be utilised by the end of 2002.

# capital and treasury

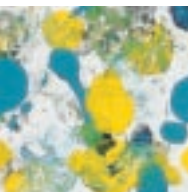
The EIF's total authorised capital is ECU 2 billion. The subscribed capital stands at 1.799 billion, or 89.95% of the total authorised capital. Banks and financial institutions have now subscribed 399 m, or 66.5% of the amount of 600 million available to them for subscription.

**Table 8 - Capital Position of the EIF**  
(ECU m)

	at 31.12.1998
Authorised capital	2 000
Subscribed capital	1 799
- EIB	800
- European Community	600
- Financial institutions	399
Paid-in capital	359.8
- EIB	160
- European Community	120
- Financial institutions	79.8

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

At 31 December 1998 treasury funds totalled 400.5 million at cost. The operational portfolio totalled 218.5 million, essentially in money market deposits, while the investment portfolio totalled 179.6 million.



# administration



The 1998 Annual General Meeting, held in Brussels on 8 June 1998, was chaired by Mr Yves-Thibault de Silguy, representing the Commission.

The mandate of the members of the Supervisory Board having expired on the date of the annual meeting, the General Meeting approved the following appointments to the Supervisory Board:

## **Nominated by the European Investment Bank**

Sir Brian Unwin	Chairman
Mr Paul McIntyre	Member
Mr Sven-Olof Johansson	Member
Mr Xavier Musca	Alternate
Mr Lars Tybjerg	Alternate

## **Nominated by the European Commission**

Mr Eneko Landáburu	Member
Mr Giovanni Ravasio	Member

## **Nominated by the Financial Institutions**

Mr Antonio Pedone	Member
Mr Hans Reich	Member
Mr Fernando Becker Zuazua	Alternate
Mr Maarten F. Seckel	Alternate

The term of office of the Supervisory Board thus appointed will expire on the day of the Annual Meeting in 2000.

The EIF expresses its thanks to Mrs Inga Maria Gröhn, Mr Jan Vanormelingen and Mr Wedige Hanns von Dewitz for their contribution to the work of the Fund during their membership of the Supervisory Board.

The Board of Auditors was chaired by Mr René Diepvens for the year ending on the date of the 1998 Annual Meeting.

At 31 December 1998 forty-two persons were employed by the EIF, including the three members of the Financial Committee.

The Financial Committee's policy has been to expand staff numbers prudently in line with the growth of business and to control costs accordingly. Total administrative costs rose to ECU 5.60 million from 4.77 million in 1997. Income from guarantee commissions alone (13.99 million) was more than twice total administrative costs of 5.60 million and three times staff costs of 4.13 million.

Work on the design of the staff pension scheme was completed during the year and outline approval given by the Supervisory Board in December 1998, so that the scheme came into operation on 1 January 1999.



## **Annexes**

- 25 Financial Statements and Notes
- 49 List of Shareholders
- 52 Members of the Organs and Management  
of the EIF





# financial statements



## Results for the year

The EIF made a net profit for 1998 of ECU 13 712 090, compared with 10 721 187 in 1997. Of gross operating income of 32 461 375, 56.9% arose from income on investments and 43.1% from commission on operations (1997: 66.4% and 33.6% respectively). A transfer of 13 960 937 was made to the provision relating to guarantees.

The balance sheet total progressed from 410 099 633 at 31 December 1997 to 436 870 917 at 31 December 1998, an increase of 6.5%. On the liabilities side the provision relating to guarantees stood at 26 107 055. The statutory reserve stood at 16 043 714.

The Supervisory Board has decided to propose to the General Meeting that it allocate the net profit for the year, i.e. 13 712 090, as follows:

- 5 397 000 for distribution to shareholders
- 8 315 090 to the statutory reserve.

## Unit of account

As required by Article 6 paragraph 2 of the Statutes the Fund's unit of account at 31 December 1998 was the ECU adopted by the European Union. Unless otherwise indicated in the Annual Report and Financial Statements all amounts are expressed in ECU.

The composition of the ECU was:

DEM	0.6242	NLG	0.2198	IEP	0.008552
GBP	0.08784	BEF	3.301	GRD	1.440
FRF	1.332	LUF	0.13	ESP	6.885
ITL	151.8	DKK	0.1976	PTE	1.393

The following conversion rates were used for drawing up the balance sheet at 31 December 1998:

	31.12.1998
<b>1 ECU =</b>	
<b>EUR-11 (currencies joining Euro)</b>	
Deutschmark *	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
<b>PRE-IN (currencies not joining Euro)</b>	
Pounds sterling	0.705455
Danish kroner	7.44878
Greek drachmas	329.689
Swedish kronor	9.48803

From 1 January 1999 the accounts of the EIF will be drawn up in euro and the conversion rates from the "in" currencies will be those fixed irrevocably by the Council of Ministers on 31 December 1998. These currencies are marked with an asterisk in the opposite table.

### Statistical Note

With the exception of those in Tables 1 to 7, amounts in ECU indicated in this Annual Report are based on conversion rates at 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 of 31 December 1998 calculated on the basis of the currency conversion rates applying on that date. The calculation of those contingent liabilities also takes into account the present value of future interest payments as well as contractual limits to the call on EIF guarantees, where applicable.

# auditor's report



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

Following our appointment by the Financial Committee, we have audited the accompanying annual accounts of the European Investment Fund for the year ended 31 December 1998. These annual accounts are the responsibility of the Financial Committee. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give a true and fair view of the assets, liabilities and financial position of the European Investment Fund as at December 31, 1998 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, 10 March 1999

**KPMG Audit**

Réviseurs d'Entreprises

**D. G. Robertson**

# balance sheet

as at 31 December 1998 (expressed in ECU)

Assets	Notes	1998	1997
Current assets			
Cash at bank and in hand:	3.1		
current accounts		2 321 281	2 052 458
term deposits		218 500 000	133 710 382
		<b>220 821 281</b>	<b>135 762 840</b>
Debtors	3.2	3 337 928	636 494
Fixed assets	3.4		
Debt securities and other fixed-income securities held as fixed assets	3.3	179 588 616	249 317 877
Investments in Venture Capital enterprises		18 353 320	8 862 598
Intangible assets		145 954	48 620
Tangible and other fixed assets		5 364 828	5 591 635
		<b>203 452 718</b>	<b>263 820 730</b>
Prepayments and accrued income	3.5	9 258 990	9 879 569
<b>TOTAL ASSETS</b>		<b>436 870 917</b>	<b>410 099 633</b>

Liabilities	Notes	1998	1997
Creditors	4.3	1 070 072	1 569 369
Accruals and deferred income	4.4	8 115 798	5 646 602
Provision for liabilities and charges:			
Provisions for pensions		1 260 136	741 766
Provision relating to guarantees	4.1	26 107 055	12 146 118
Other provisions		499 195	291 207
		<b>27 866 386</b>	<b>13 179 091</b>
Capital	4.2		
Subscribed		1 799 000 000	1 799 000 000
Uncalled		(1 439 200 000)	(1 439 200 000)
		<b>359 800 000</b>	<b>359 800 000</b>
Share premium account		32 169	32 169
Statutory reserve	4.5,4.6	16 043 714	10 683 120
Profit brought forward	4.6	10 230 688	8 468 095
Profit for the financial year	4.6	13 712 090	10 721 187
<b>TOTAL LIABILITIES</b>		<b>436 870 917</b>	<b>410 099 633</b>

## Off-Balance Sheet Items

Guarantees in respect of loans granted by third parties:	5.1		
Drawn		1 516 266 603	965 620 381
Undrawn		1 067 184 801	1 206 202 177
		<b>2 583 451 404</b>	<b>2 171 822 558</b>
Commitments	5.3	56 864 694	24 610 112
Assets held for third parties	5.4	74 313 688	25 472 941
Fiduciary operations	5.5	100 278 060	6 499 604
		<b>2 814 907 846</b>	<b>2 228 405 215</b>

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

# profit and loss account

for the year ended 31 December 1998

(expressed in ECU)

	Notes	1998	1997
Net interest and similar income	6.1	18 472 958	15 528 079
Commission income	6.2	13 988 417	7 844 723
Net profit / (loss) on financial operations		1 173 348	(14 405)
General administrative expenses:			
Staff costs:			
- wages and salaries	2.1	(3 631 394)	(2 709 765)
- social security costs			
of which: ECU 326 832 relating			
to pensions (1997: ECU 247 126)		(494 241)	(325 224)
		<b>(4 125 635)</b>	<b>(3 034 989)</b>
Other administrative expenses		(1 472 946)	(1 738 848)
		<b>(5 598 581)</b>	<b>(4 773 837)</b>
Value adjustments in respect of tangible and intangible assets		(363 115)	(168 389)
Transfer to the provision relating to guarantees	4.1	(13 960 937)	(7 694 984)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>13 712 090</b>	<b>10 721 187</b>

# board of auditors

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

- having studied the books, vouchers and documents which it deemed necessary to examine in the discharge of its duties,
- having examined the report of 10 March 1999 drawn up by KPMG Audit

considering Articles 20, 21 and 22 of the Rules of Procedure,

hereby certifies:

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

Luxembourg, 6 May 1999

The Board of Auditors

D. van der SPREE  
R. DIEPVENS

# notes to the annual accounts

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## 31 December 1998

### 1. General

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

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

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

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

### 2. Accounting policies and presentation of annual accounts

#### 2.1 Presentation of annual accounts

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

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

#### 2.2 Valuation of foreign currency balances and transactions

##### 2.2.1 Valuation of foreign currency balances and transactions

The share capital of the Fund is expressed in ECU and the accounting records are maintained in that currency. Share capital subscriptions paid in national currencies were converted to ECU 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 ECU are reported using the closing foreign exchange rate.

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

Exchange differences arising from these valuation principles are recognised as income or as expenses in the period in which they arise.

Following the recommendations of the European Commission regarding accounting for the introduction of the euro, the fixed conversion rates decided on 31 December 1998 between the euro unit and the national currency units of participating Member States have been used as the closing rate in establishing the annual accounts.

Considering that there will not be any exchange risk between the participating currency units after 31 December 1998, for monetary items all existing exchange differences on that date are considered permanent and realised and are recognised in the profit and loss account.

#### **2.2.2 Forward foreign exchange transactions linked to balance sheet items**

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

### **2.3 Issued guarantees**

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.

### **2.4 Debt securities and other fixed-income securities held as fixed assets**

Debt securities and other fixed-income securities are included in fixed asset investments when they are intended for use on a continuing basis in the Fund's activities.

Debt securities and other fixed-income securities held until maturity are valued at acquisition cost, adjusted by the amortisation of premiums or discounts between acquisition cost and maturity values.

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.

Discount received in comparison to the maturity value of securities is 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.



## 2.5 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 purchase price.

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

## 2.6 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
<b>Intangible assets:</b>	
Softwares	2 to 5 years
<b>Tangible assets:</b>	
Buildings	30 years
Fixtures and fittings	10 years
Office equipment	5 years
Computer equipment and vehicles	3 years

## 2.7 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.

## 2.8 Commission income

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

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

## 2.9 Net interest and similar income

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

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

## 2.10 Wages and salaries

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

### 3. Detailed disclosures relating to asset headings

#### 3.1 Cash at bank and in hand

The remaining life of term deposits is detailed as follows:

	1998 ECU	1997 ECU
Up to three months	115 600 000	123 510 382
From three months to one year	102 900 000	10 200 000
	<b>218 500 000</b>	<b>133 710 382</b>

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

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

#### 3.2 Debtors

Debtors include:

- ECU 299 670 due by the EIB in relation to employees' pension obligations (1997: ECU 228 978)
- ECU 2 964 116 paid by the Fund under its guarantee commitment and expected to be reimbursed (see note 9).

#### 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.

Securities with a remaining duration to maturity of less than one year amounted to ECU 57 249 955 (1997: ECU 35 154 244).

Securities issued by EIB amounted to ECU 7 543 230 (1997: ECU 7 543 230).

The market value of securities held amounted to ECU 182 615 206 as at 31 December 1998 (1997: ECU 248 965 412).

The Fund participates as lender in a Securities Lending and Borrowing Programme with Euroclear. As at 31 December 1998, the balance of securities lent amounts to ECU 769 000 (1997: ECU 3 642 171).

### 3.4 Movements in fixed assets (expressed in ECU)

HEADINGS	Purchase price at the beginning of the year	Additions	Disposals	Transfers	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	249 317 877	16 582 211	(86 311 472)	-	179 588 616	-	179 588 616
Investments in venture capital enterprises	8 862 598	9 726 180	(235 458)	-	18 353 320	-	18 353 320
Intangible assets of which:							
a) Software	5 653	121 957	-	43 858	171 468	(25 514)	145 954
b) Payments on account	43 858	-	-	(43 858)	-	-	-
Tangible and other fixed assets of which:	5 843 060	111 685	-	-	5 954 745	(589 917)	5 364 828
a) Land and buildings	5 050 505	-	-	-	5 050 505	(209 960)	4 840 545
b) Fixtures and fittings	386 568	40 838	-	-	61 635	(16 060)	45 575
c) Office equipment	44 756	-	-	(365 771)	410 527	(54 399)	356 128
d) Computer equipment	244 916	65 849	-	365 771	310 765	(205 758)	105 007
e) Vehicles	112 548	-	-	-	112 548	(103 740)	8 808
f) Other fixed assets	3 767	4 998	-	-	8 765	-	8 765
<b>TOTAL</b>	<b>264 073 046</b>	<b>26 542 033</b>	<b>(86 546 930)</b>	<b>-</b>	<b>204 068 149</b>	<b>(615 431)</b>	<b>203 452 718</b>



### 3.5 Prepayments and accrued income

Prepayments and accrued income are analysed as follows:

	1998 ECU	1997 ECU
Interest receivable on debt securities	4 600 182	7 430 152
Interest receivable on term deposits	1 190 243	603 519
Accrued discount on debt securities	1 170 612	1 032 037
Accrued commission on guarantees	2 276 258	783 691
Prepaid expenses and others	21 695	30 170
	<b>9 258 990</b>	<b>9 879 569</b>

The total amount of the discount to be accrued on the remaining life of debt securities amounted to ECU 410 513 as at 31 December 1998 (1997: ECU 4 960 695).



## 4. Detailed disclosures relating to liability headings

### 4.1 Provision relating to guarantees

As at 31 December 1998, the Fund had increased the general provision in respect of contingent losses which may arise from its guarantee portfolio.

	1998 ECU	1997 ECU
Balance at the beginning of the year	12 146 118	4 451 134
Transfer to the provision relating to guarantees	13 960 937	7 694 984
Balance at the end of the year	<b>26 107 055</b>	<b>12 146 118</b>

Two thirds of gross utilisation commission is normally allocated each year to the provision relating to guarantees. In addition to this and with the prospect of an increase in business and associated risks, the Financial Committee has decided to make additional annual transfers to the general provision, amounting this year to ECU 8 000 000 (1997: ECU 4 000 000).

### 4.2 Capital

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

As at 31 December 1998, the subscribed share capital amounted to ECU 1 799 000 000, representing 1 799 shares, and is called for an amount of ECU 359 800 000, representing 20% of the subscribed share capital.



The subscribed share capital is detailed as follows:

	<b>1998 ECU</b>	<b>1997 ECU</b>
Subscribed and paid in	359 800 000	359 800 000
Subscribed but not yet called (80%)	1 439 200 000	1 439 200 000
	<b>1 799 000 000</b>	<b>1 799 000 000</b>

The capital is subscribed as follows:

	<b>1998 Number of shares</b>	<b>1997</b>
European Investment Bank	800	800
European Commission	600	600
Financial Institutions	399	399
	<b>1 799</b>	<b>1 799</b>

### 4.3 Creditors

Creditors are analysed as follows:

	1998 ECU	1997 ECU
Trade creditors in relation to services received	558 311	949 050
Payments received on account from the Commission	500 000	500 000
Staff costs payable	11 761	105 321
Other creditor payable to the EIB	-	14 998
	<b>1 070 072</b>	<b>1 569 369</b>

Trade creditors include ECU 440 000 payable to the EIB in relation to services received as at 31 December 1998 (1997: 633 085).

### 4.4 Accruals and deferred income

Accruals and deferred income are analysed as follows:

	1998 ECU	1997 ECU
Deferred commission on issued guarantees	3 934 264	2 667 486
Premium amortised on debt securities	4 126 534	2 954 823
Accrued expenses	55 000	-
Loss amortised on forward foreign currency transactions	-	24 293
	<b>8 115 798</b>	<b>5 646 602</b>

The total amount of the premium to be amortised on the remaining life of the debt securities amounted to ECU 4 852 619 as at 31 December 1998 (1997: ECU 8 387 994).

#### 4.5 Statutory reserve

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

A minimum amount of ECU 2 742 418 is required to be appropriated in 1999 with respect to the year ended 31 December 1998.

#### 4.6 Reserves and profit brought forward

Movements in reserves and profit brought forward are detailed in the table below.

#### 4.7 Provision for pensions

With effect from 1 January 1999, the Fund has concluded a defined contribution pension scheme on behalf of all its employees. The accumulated contribution of ECU 1 260 136 was paid to the scheme asset manager in January 1999.

	Statutory reserve ECU	Profit brought forward ECU	Profit for the financial year ECU
Balance at the beginning of the year	10 683 120	8 468 095	10 721 187
Dividends paid	-	-	(3 598 000)
Allocation of 1997 profit	5 360 594	1 762 593	(7 123 187)
Profit for the financial year	-	-	13 712 090
Balance at the end of the year	<b>16 043 714</b>	<b>10 230 688</b>	<b>13 712 090</b>

The General Meeting of Shareholders of 8 June 1998 decided to distribute a dividend amounting to ECU 2 000 per subscribed share.



## 5. Disclosures relating to off-balance sheet items

### 5.1 Guarantees

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

	Drawn ECU	Undrawn ECU	Total 1998 ECU	Total 1997 ECU
Up to five years	136 520 919	58 141 988	194 662 907	155 749 955
From five to ten years	883 181 242	762 402 312	1 645 583 555	1 270 687 768
From ten to fifteen years	184 062 289	215 398 475	399 460 763	402 229 192
Over fifteen years	312 502 153	31 242 026	343 744 179	343 155 643
	<b>1 516 266 603</b>	<b>1 067 184 801</b>	<b>2 583 451 404</b>	<b>2 171 822 558</b>

Of the above total amount, ECU 1 270 570 033 (1997: ECU 1 129 985 419) has been issued in favour of the EIB.

The drawn down portion of guarantees issued includes an amount of ECU 50 203 353 (1997: ECU 47 807 599) 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 30 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 ECU 5 397 000 000 in relation to total guarantees outstanding currently totalling ECU 2 583 451 404 (see note 5.1).

### 5.3 Commitments

Commitments are analysed as follows:

	1998 ECU	1997 ECU
Investments in venture capital enterprises committed and not yet disbursed	40 093 475	16 798 988
Settlement value of forward foreign exchange contracts	16 771 219	7 641 209
Other commitments	-	169 915
	<b>56 864 694</b>	<b>24 610 112</b>

### 5.4 Assets held for third parties

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

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

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

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



Those assets are analysed as follows:

	1998 ECU	1997 ECU
Growth and Environment Pilot Project	25 607 019	25 472 941
SME Guarantee Facility	24 433 690	-
ETF Start-Up Facility	24 272 979	-
	<b>74 313 688</b>	<b>25 472 941</b>

### 5.5 Fiduciary operations

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

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



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

	1998 ECU	1997 ECU
Guarantees signed on behalf of the European Community under the SME Guarantee Facility		
Drawn	6 528 201	-
Undrawn	24 357 754	-
Investments made on behalf of the European Technology Facility	12 024 939	67 491
Commitments made on behalf of the European Technology Facility not yet disbursed	49 697 788	6 432 113
Conditional commitments made on behalf of the ETF Start-Up Facility not yet disbursed	7 669 378	-
	<b>100 278 060</b>	<b>6 499 604</b>



## 6. Detailed information on the profit and loss account

### 6.1 Net interest and similar income

Net interest and similar income comprises:

	1998 ECU	1997 ECU
Interest on term deposits	7 417 239	6 026 371
Interest on debt securities	13 313 227	12 112 304
Accrued discount on debt securities	709 027	408 747
Interest on bank current accounts	71 813	56 123
Premium amortised on debt securities	(2 974 713)	(3 015 745)
Interest and similar charges	(63 635)	(59 721)
	<b>18 472 958</b>	<b>15 528 079</b>

## 6.2 Commission income

Commission income comprises:

	1998 ECU	1997 ECU
Commission on guarantees issued in respect of loans drawn down	8 941 407	5 542 475
Commission on guarantees issued in respect of loans not yet drawn down	1 329 205	1 566 797
Up-front commissions in respect of guarantees issued	380 765	488 099
Commission in respect of guarantees cancelled	-	205 825
One-off incentive commission resulting from the renegotiation of the Growth and Environment Pilot Project	50 000	-
Commission on European Technology Facility	1 359 440	-
Commission on ETF Start-Up Facility	1 000 000	-
Commission on SME Guarantee Facility	850 000	-
Commissions in respect of bond lending activities	74 600	41 527
Other commissions	3 000	-
	<b>13 988 417</b>	<b>7 844 723</b>

## 7. Personnel

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

	1998	1997
Financial Committee	3	3
Employees	35	25
<b>Total</b>	<b>38</b>	<b>28</b>

## 8. Taxation

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

## 9. Contingent liability and post balance sheet subsequent events

The Fund has issued a guarantee in 1995 in relation to a subordinated debt of FRF 350 million (ECU 53 million) which is one element of a major financing involving the concession by a municipality to a private entity. This guarantee extends, under certain terms and conditions, to unpaid amounts of principal and interest in relation to the debt issue. The concession was rescinded on 27 February 1998 following a court decision. As a consequence thereof, the ownership of the project has been transferred from the concessionaire, who issued the debt which the Fund has guaranteed, to the municipality.

Under the terms of the debt issue, the concessionaire was obliged to pay on 1 April 1998, interest of ECU 3.3 million to the debt holders and guarantee commission of ECU 1.2 million to the Fund. Since at that date the concessionaire had insufficient resources to honour fully these commitments, the Fund effected payment under the guarantee for a total of ECU 2.96 million in respect of the interest coupon initially due on 1 April 1998. The EIF received in full its guarantee commission due then. Of the amount of ECU 1.17 million due, ECU 0.76 million came from the remaining liquidity of the company and ECU 0.41 million was obtained by exercising the guarantee issued by the concessionaire's shareholders.



Under the terms of the decision to rescind the concession, the concessionaire is to be indemnified. The indemnification request, if met in full, would allow for complete reimbursement of the debt guaranteed by the Fund and other amounts due to the Fund.

In the second half of 1998 a voluntary conciliation procedure under the auspices of the president of the administrative court was initiated. As a result of this arbitration the municipality, following a recommendation from the court based on interim reports provided by a panel of experts, has effected an advance payment in respect of the total indemnification owed to the former concessionaire.

This payment, received on 4 January 1999, was essentially applied to retiring a substantial part of the senior credit facilities and the deferred interest payments thereon. In turn, the senior lenders reduced retroactively their interest margin and renounced claims for penalty interest payments and early reimbursement indemnities.

Based on final reports from the experts, expected for the beginning of April 1999, the court will make a settlement proposal. This will serve as the basis for a further and possibly final compensation payment. It is expected that as from the issuing of the court's proposal the settlement negotiations will take a few months.



# list of shareholders and capital subscriptions

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(situation: 1 March 1999)

	Number of shares	Subscription to the capital
◆ European Investment Bank	800	800 000 000
◆ European Community	600	600 000 000
<b>Kingdom of Belgium</b>	<b>16</b>	<b>16 000 000</b>
◆ KBC BANK N.V.	4	4 000 000
◆ ASLK-CGER BANK N.V./S.A.	3	3 000 000
◆ CREDIT COMMUNAL S.A.- GROUPE DEXIA	3	3 000 000
◆ CREDIT PROFESSIONNEL S.A./ BEROEPSKREDIET N.V.	3	3 000 000
◆ GÉNÉRALE DE BANQUE S.A./GENERALE BANK N.V.	3	3 000 000
<b>Kingdom of Denmark</b>	<b>3</b>	<b>3 000 000</b>
◆ FINANSIERINGSINSTITUTTET FOR INDUSTRI OG HÅNDVÆRK A/S - FINANCE FOR DANISH INDUSTRY A/S	3	3 000 000
<b>Federal Republic of Germany</b>	<b>100</b>	<b>100 000 000</b>
◆ KREDITANSTALT FÜR WIEDERAUFBAU	40	40 000 000
◆ WESTDEUTSCHE LANDESBANK GIROZENTRALE	10	10 000 000
◆ BAYERISCHE LANDESANSTALT FÜR AUFBAUFINANZIERUNG	5	5 000 000
BAYERISCHE LANDESBANK GIROZENTRALE	5	5 000 000
DEUTSCHE AUSGLEICHSBANK	5	5 000 000
◆ DGZ - DEKABANK - DEUTSCHE KOMMUNALBANK	5	5 000 000
◆ LANDESBANK BADEN-WÜRTTEMBERG	5	5 000 000
◆ LANDESKREDITBANK BADEN-WÜRTTEMBERG - FÖRDERBANK	5	5 000 000
LANDESBANK HESSEN-THÜRINGEN - GIROZENTRALE	5	5 000 000
BREMER LANDESBANK KREDITANSTALT OLDENBURG - GIROZENTRALE	3	3 000 000
◆ LANDESBANK BERLIN - GIROZENTRALE	3	3 000 000
◆ LANDESBANK RHEINLAND-PFALZ GIROZENTRALE	3	3 000 000
◆ LANDESBANK SACHSEN GIROZENTRALE	3	3 000 000
LANDESBANK SCHLESWIG-HOLSTEIN GIROZENTRALE	3	3 000 000
<b>Hellenic Republic</b>	<b>12</b>	<b>12 000 000</b>
ALPHA CREDIT BANK A.E.	3	3 000 000
◆ COMMERCIAL BANK OF GREECE S.A.	3	3 000 000
◆ IONIAN AND POPULAR BANK OF GREECE S.A.	3	3 000 000
NATIONAL BANK OF GREECE	3	3 000 000

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

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

◆ denotes founder member of EIF or successor entity to founder member



# members of the organs

## and management of the fund

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

- the General Meeting of all shareholders
- the Supervisory Board
- the Financial Committee, responsible for the executive management of the Fund
- the Board of Auditors.

### Supervisory Board

<b>Chairman</b>	Sir Brian UNWIN, President, European Investment Bank	<b>Representing:</b> EIB
<b>Members</b>	Inga Maria GRÖHN, Deputy to the Director of Finance, Ministry of Finance, Helsinki, until June 1998  Paul McINTYRE, Deputy Director, Head of European Union Group (Overseas Finance), H.M. Treasury, London, from June 1998  Sven-Olof JOHANSSON, Director General for International Affairs, Ministry of Finance, Stockholm	EIB   EIB
<b>Alternates</b>	Jan VANORMELINGEN, Ere-Directeur-Generaal van de Administratie der Thesaurie, Ministry of Finance, Brussels, until June 1998  Lars TYBJERG, Managing Director, The Mortgage Bank of Denmark, Copenhagen, from June 1998  Gerhardt RAMBOW, Ministerialdirektor a.D., Bonn/Berlin, until April 1998  Wedige Hanns von DEWITZ, Ministerialdirektor, Bundesministerium für Wirtschaft, Bonn/Berlin, from April to June 1998  Xavier MUSCA, Sous-directeur des Affaires multilatérales, Direction du Trésor, Ministère de l'Economie, des Finances et de l'Industrie, Paris, from June 1998	

<b>Members</b>	Giovanni RAVASIO, Director General for Economic & Financial Affairs, Commission of the European Communities, Brussels	Commission
	Eneko LANDABURU, Director General for Regional Policy and Cohesion, Commission of the European Communities, Brussels	Commission
<b>Members</b>	Hans REICH, Mitglied des Vorstandes, Kreditanstalt für Wiederaufbau, Frankfurt	Financial Institutions
	Antonio PEDONE, Presidente, CREDIOP, Rome	Financial Institutions
<b>Alternates</b>	Maarten F. SECKEL, Executive Vice-President, ABN-AMRO Bank, Amsterdam	
	Fernando BECKER ZUAZUA, Presidente, Instituto de Crédito Oficial, Madrid	

## Financial Committee

<b>Chairman</b>	Gerbrand G. HOP
<b>Member</b> Alternate	David McGLUE
	Gerassimos THOMAS
<b>Member</b> Alternate	Michel BERTHEZENE
	Simon HAUXWELL

## Board of Auditors

<b>Chairman</b>	Daniel van der SPREE, Head of Unit, Directorate General XX.2, Financial Control, Commission of the European Communities, Brussels
<b>Member</b>	René DIEPVENS, former Directeur Général de la Trésorerie, Brussels

## Management and professional staff

### Secretariat General & Administration

**Christopher SIBSON**

#### Accounting

Frédérique SCHEPENS

#### Treasury

Nikos MILIANITIS

### Legal

**Maria LEANDER**

Jobst NEUSS

### Human Resources

**Luis GARRIDO**

### Marketing

**Guido PRUD'HOMME**

Pé VERHOEVEN

### Infrastructure Finance

**Alain TERRAILLON**

Rudi ASSELBERGHS

Jean-Eric VIMONT

Bodo BAVING

Francesca DE CAROLI

### SME Portfolio Guarantees

**Gerassimos THOMAS**

Marc LEISTNER

Alessandro TAPPI

Christa KARIS

Muriel AZA

Per-Erik ERIKSSON

### Venture Capital

**Roger PETT**

Philippe POGGIOLI

Thomas KOHLMAYER

Markus WANKO

### Management Information Systems, Planning & Control

**Frank TASSONE**

Jean-Louis GARNIER

Parminder PLAHE

Ferdinand WOUTERS

### Risk Management

Guillaume PIAT



