

European Investment Fund  
Annual General Meeting 2007

Activity Report  
by the Chairman of the Board of Directors,  
Mr Philippe Maystadt

Ladies and Gentlemen,

Thank you all for making the time to participate in this year's Annual General Meeting.

It is with great pleasure that I welcome you here to Leuven; a city which has for centuries been a 'fountain of wisdom'. The continuity of this tradition can be seen in EIF's linking up during 2006 with the Catholic University here on one of our first Technology Transfer projects.

Long may this tradition continue.

As you will be aware, the period since our last AGM has seen the accession of several new EIF shareholders. With this in mind, I would like to extend a particularly warm welcome to the first-time representatives of, HBOR, the Croatian development bank, IDEA from Andalucia, SAB of Germany, Scottish Enterprise and TSKB, the Industrial Development Bank of Turkey.

My intention today is to:

- Present briefly EIF's activities last year;
- Give an overview of EIF's future activities;
- Cover several items on today's agenda including;
  - The annual report and financials
  - The imminent increase in EIF's capital.

## 1. Overview

The European Investment Fund continued to expand and develop during 2006, entering new areas of activity and added value, such as Tech Transfer, and laying the foundations for others such as JEREMIE for which the implementation phase is imminent and CIP, the successor to the EU Commission's mandate.

In institutional terms, the Fund was happy to see its AAA rating reconfirmed once again in 2006 by all three agencies. Implementation of IFRS accounting standards was completed and today and henceforth, EIF will report its accounts on a full IFRS basis.

Following the signing of the Audit Board's Charter, its *modus operandi* has become more clearly defined while its third annual activity report will be presented today.

## 2 Operations in 2006

**Total Venture Capital and Guarantee commitments** amounted to EUR 2.7bn in 2006, bringing the total outstanding to some EUR 15bn at year end.

In terms of **venture capital** operations, agreements were signed for EUR 688m in 34 funds bringing total equity investments outstanding to nearly EUR 3.8bn across 244 funds by year end. Disbursement levels have progressed steadily in recent years, while overall reflows from dividends and capital repayments have improved substantially in line with the market upturn.

New **guarantee** volumes exceeded EUR 2bn, of which roughly EUR 1bn each for credit enhancement (own risk) activities; and MAP activities for the Commission. This brought the total guarantee portfolio to over EUR 11bn at year end.

In 2006, EIF played a key role in structuring and backing several innovative SME securitisation transactions. In particular, EIF participated in one of the largest securitisations ever structured in Central & Eastern Europe with our shareholder, **RZB** and in **several joint transactions with EIB**. The average rating of the guarantee portfolio remained stable over this period at Baa1.

Under the Commission's **MAP** mandate, full utilization had been achieved by the end of the mandate period and we now look forward to initiating the **CIP**.

### 3. Going forward

#### 3.1 Core activity

Activity in the core areas of venture capital and securitisation is expected to remain stable over the coming years and will serve to underpin developments into new areas; notably JEREMIE and CIP.

#### 3.2. JEREMIE (Joint European Resources for Micro to Medium Enterprises)

EIF's dedicated JEREMIE team has carried out 'gap analyses' during 2006 with more due to be completed during 2007. The next step is to develop tailored holding funds in targeted regions with a view to converting a proportion of their structural funds into a combination of market instruments for supporting SMEs. Once these holding funds become operational, to be managed in some cases by EIF, they will lead to efficient leverage of public resources and scope for combining different sources of public funds to optimal effect. We anticipate the continued ramp-up towards being full operational over the coming months.

#### 3.3. CIP (Competitiveness and Innovation Framework Programme)

The CIP will cover the period out to 2013 and will be of both greater scale and scope than its predecessor, with over 1.1bn dedicated to its financial instruments. Following the MAP, the CIP will also build on that experience and is consequently designed to provide a more comprehensive range of interventions for European SMEs.

#### 3.4. Article 23.

As a specific business matter related to the CIP, the Board proposes a modification to Article 23 of the EIF Statutes so as to align the geographic scope of EIF's activities with those of the CIP – essentially to cover all of South Eastern Europe and EFTA countries. Once the appropriate decision making process has been completed at EIB and the Commission, the intention is to refer this to the General Meeting by Written Procedure. This can be expected in over the coming weeks.

#### **4. Agenda Items**

##### **4.1 Annual Report and accounts**

As you will have seen, the Annual Report and the accounts, which are presented for your approval today, show for 2006 an IFRS basis return on equity close to 7.5%, and a net profit of EUR 48.6m. For the sake of comparison, this would have represented a return on equity of nearly 9% under the previous accounting standards – or the fifth successive increase.

##### **4.2 Appropriation Policy**

In line with last year's appropriation policy the Board of Directors proposes to maintain the increased allocation to the statutory reserve at 40% of Net Income. As before, 40% of Net Income will be returned to shareholders in the form of dividend payments while the remaining 20% will be allocated to Profit Brought Forward. A dividend payment of EUR 9,715 per share is thus proposed, being a total of EUR 19.4m and the fourth successive year-on-year increase.

##### **4.3 Capital Increase**

For the first time since the inception of the Fund, shareholders are being asked today to approve an increase in its authorised share capital from EUR 2bn to EUR 3bn. Both EIB and the Commission have completed the necessary decision-making processes, with the EU Council and Parliament

having recently given their approval to the proposal and to Community's participation; approval today by the General Meeting is the final step with all shareholders having already indicated that they will vote in favour. I can also confirm that EIB will pay its full share by 30 June 2007 to show its ongoing commitment to EIF.

This increase in capital will serve to strengthen the hand of the Fund in pursuing its policy objectives while ensuring its financial self-sufficiency until 2013. I would hope that as many of the shareholders as possible will join us and the Commission in this endeavour.

## 5. Conclusion

As a final word, I would like to recognise that EIF has fulfilled its policy objectives for 2006 and exceeded expectations in terms of financial returns. For these achievements, I wish to pay tribute to the Chief Executive, Francis Carpenter, as well as all of EIF's staff for their tireless work and capacity to innovate. With the Chief Executive's mandate having been extended to end February 2008, we look forward to a smooth transition and consolidation of the recent years' success.

Thank you for your attention.

I would now like to pass the floor to Mr. David McGlue, representing the Commission