<u>EUROPEAN INVESTMENT FUND</u> December 2007

EIF
CORPORATE OPERATIONAL PLAN
2008-2010

1. INTRODUCTION

Reflecting EIF's dual statutory objectives of contributing to the pursuit of Community objectives and generating an appropriate return on its resources, this COP addresses EIF's policy objectives as well as activity forecasts and financial aspects.

EIF's product lines continue to provide attractive returns for the Fund. In particular, reflows from venture capital investments remain strong while the guarantees business has seen calls for a total amount of EUR 760k during the first 3 quarters of 2007, 1 upgrade and no downgrades in 171 tranches. Overall, deal-flow in both activities remains of good quality and quantity with, in particular, strong demand in evidence for both the guarantee and venture capital elements of CIP.

EIF's strong financial performance in recent years, coupled with the 2007 increase in capital, has boosted EIF's investment capacity in core areas of activity while supporting key operational developments. Moreover, the success of the capital increase should firmly establish EIF's financial self-sufficiency over the longer-term with no additional request for capital envisaged during the current Financial Perspectives period (2007-2013). After lengthy periods of gestation, both CIP[1] and JEREMIE[2] are now fully operational and will contribute to the Fund's ongoing development.

An overview of EIF's suite of interventions, its three core product lines, is shown hereafter.

[1] Competitiveness & Innovation framework Programme.

[2] Joint European Resources for Micro to Medium sized Enterprises.

EIF's dynamic suite of interventions

EIF's central mission is to support small and medium sized businesses by enhancing their ability to access finance. Working in partnership with public and private institutions, EIF designs and develops market instruments to specifically target this market segment. EIF intervenes on market terms, even when using public funds, to ensure an appropriate financial return for its shareholders while achieving its core policy objective. More specifically, EIF utilizes venture capital, portfolio guarantee and securitisation instruments – or a blend of all three – to achieve these dual objectives. Improving SMEs' access to finance requires a multifaceted approach which covers both debt and equity. This approach follows successive orientations from ECOFIN on the delivery of the Lisbon agenda.

An active role in European Venture Capital and Private Equity

Through its venture and private equity interventions, EIF now has a crucial presence throughout the value chain of enterprise creation, from the earliest stages of intellectual property development, where incubators and business angels' side funds play a critical role yet from which venture capitalists typically shy away, through to mid-stage SME funds. EIF has a particular role to play in support of research and innovation and is poised to employ technology transfer financing with increasing intensity to target this area.

EIF's investments in expansion funds offer second and third rounds of financing to successful early stage investments, and involvement in mid-stage, mid-sized companies boosts job creation and encourages the creation of an integrated European VC market.

A prime position in the Guarantee and Securitisation markets

While EIF's venture investments aim to improve the equity environment for SMEs, it is equally important to target the debt environment as many SMEs seek finance through this more traditional avenue. EIF uses both its own resources and resources managed on behalf of third parties to enhance the ability of SMEs to access debt finance.

By facilitating the transfer of risk, making otherwise illiquid assets - such as SME loans - more liquid for financial intermediaries, it allows them to provide debt financing to SMEs on more attractive terms. EIF has carved out a niche at the cutting edge of European SME loan securitisation, being heavily involved in deal structuring and being a key player in mezzanine finance. Through its guarantee and securitisation instruments, EIF has an important influence in terms of reaching SMEs, having indirectly supported well over 700,000 since guarantee activities commenced. European Commission mandated guarantees alone have supported nearly 2 million jobs.

JEREMIE: A new approach to supporting SMEs in developing regions

The Joint European Resources for Micro to Medium Enterprises (JEREMIE) began in 2005 as an initiative launched by the European Commission in partnership with EIF and EIB to promote SME access to finance in EU Member States and regions through the more effective use of structural funds over the period 2007-2013.
Under this initiative, national and regional authorities are given the option to deploy financial resources from the European Regional Development Fund (ERDF) in the form of a tailored portfolio of market-driven financial instruments, blending equity and guarantees as appropriate, implemented via a holding fund. With the evaluation phases having been completed, EIF has now signed a contract with the first (Greece) of these holding funds, with further such contracts expected in due course.

2. EIF INVESTMENTS: CURRENT ACTIVITIES

2.1. Summary of activity

There was a notable slowdown in headline activity in 2007, largely due to the delays in CIP becoming operational, but also due to a marked deterioration in credit market liquidity in the middle of the year. It would appear that the worst effects of this credit crisis have passed and, with CIP due to become fully operational in the imminent future, it can be expected that activity levels will rebound strongly in 2008 and are projected to remain relatively stable in the years thereafter. It should be noted that EIF's investment strategy maintains a focus on quality rather than being volume driven with a view to achieving for its shareholders an adequate return on equity.

Since the previous COP, there have been a number of noteworthy achievements, including:

- The 50% increase in the EIF's capital has been successfully completed;
- The NEOTEC and Dahlia funds-of-funds began to deploy their resources while two further funds-of-funds have been developed to the point of being imminently operational;
- Two joint guarantee deals with the European Investment Bank, with two further deals expected before end 2007;
- The first JEREMIE funding agreements has been signed with Greece.

The table below presents an overview of EIF's activity in recent years as well as operational forecasts for the next three years. Venture and guarantee volumes represent gross commitments. It is more difficult to forecast the net position, which depends on reflows from VC and maturity of guarantees. Volumes are also dependent on market opportunities and risk/reward considerations. More detailed signature forecasts based on overall expectations are shown in Annexes 1, 2 and 3 (capital utilisation).

Summary of Activity

	Actual		Expected			
EUR million	2005	2006	2007	2008	2009	2010
Venture Capital	367.8	832.5	715 / 840	745 / 850	700 / 800	650 / 760
TTA	-	20.2	5 / 5	10 / 20	20 / 30	30 / 40
Hybrid Products OR	-	45.0	0 / 0	0 / 0	0 / 0	0 / 0
New Products	-	-	0 / 0	25 / 30	25 / 30	25 / 30
Guarantees OR	429.3	909.3	750 / 1050	675 / 825	700 / 850	700 / 850
Group Joint Operations OR	42.9	240.0	250 / 250	200 / 300	250 / 350	250 / 350
Guarantees MAP - CIP	1,213.3	990.7	10 / 10	700 / 900	700 / 900	700 / 900
Group Joint Operations MAP - CIP	-	40.0	0 / 0	0 / 0	0 / 0	0 / 0
TOTAL*	**2,053.2**	**3,077.7**	**1730 / 2155**	**2355 / 2925**	**2395 / 2960**	**2355 / 2930**
Change in %	14%	32%	-27%	36%	1%	-1%

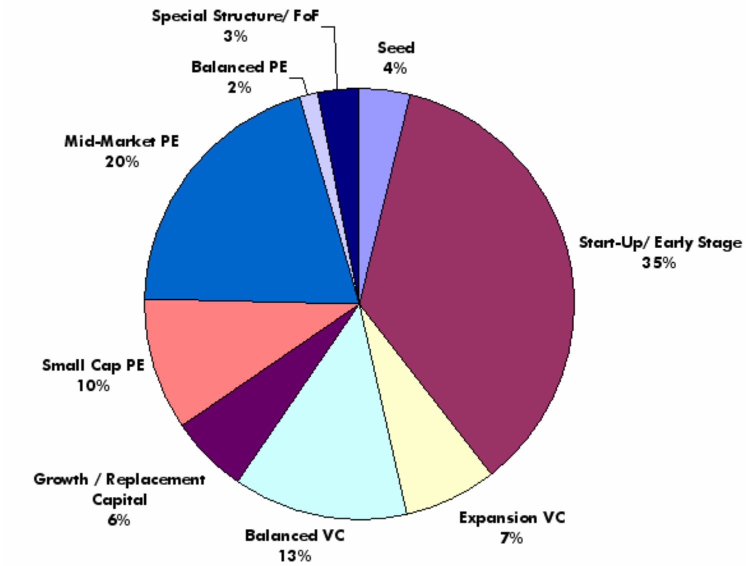
In terms of the evolution of EIF's core business since the 2001 reforms, the VC portfolio has doubled from EUR 2bn invested in 57 funds (at end 2001) to some EUR 4.1bn invested in 264 funds (at end September 2007; and excluding such f-o-f structures as NEOTEC & Dahlia) while the guarantee portfolio has expanded from EUR 3.3bn of guarantees supported in 87 operations to some EUR 11bn in 186 operations over the corresponding period. *With respect to articles 2 and 24 of EIF's Statutes, and the importance of this core business to the overall policy and financial performance of the Fund, it is envisaged that this core business will continue to evolve along similar lines which have been tried, tested and, ultimately successful.*

2.1 Product lines: venture capital

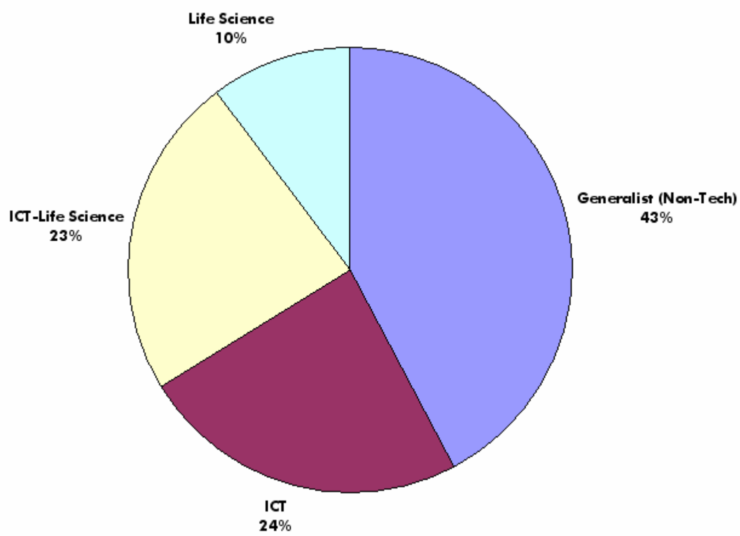
2.1.1. Own Resources

Volumes are in part linked to co-investments (RCM[3], CIP (once operational), ERP[4], JEREMIE, and fund-of-funds structures; all of which EIF invests alongside), quality of investments, market developments and opportunities, and as such are difficult to forecast with a high degree of accuracy. The focus of EIF's venture and private equity operations remains on primary investments in top quartile (and some B graded) funds, balancing high-risk-high-return investments in early-stage high-tech with mid-size, mid-stage funds. This approach allows own resource equity investments to be managed on a portfolio basis and has contributed, alongside improving market conditions, to a significant improvement in financial performance. Reflows have picked up and have allowed EIF to achieve own resource activity levels at or above the higher end of forecast ranges in 2006 and 2007 (projected). Reflows for 2007 should account for 55-60% of disbursements.

Stage Breakdown Own Resources[5]



Sector Breakdown Own Resources



The current estimate for 2007 own resources, EUR 70-80m is slightly higher than projections in the previous COP (EUR 60-65m). For the period 2008-2010, forecasts remain stable, as in the previous COP, at an annual level of EUR 65-70m. It is now envisaged that TTA activity will be more evenly split between own resource and mandated activity, with TTA activity on own resources now forecast to increase steadily from circa EUR 5m in 2007 to EUR 15-20m in 2010, as shown in Annex 1.

[3] Risk Capital Mandate

[4] See 2.2.5 below

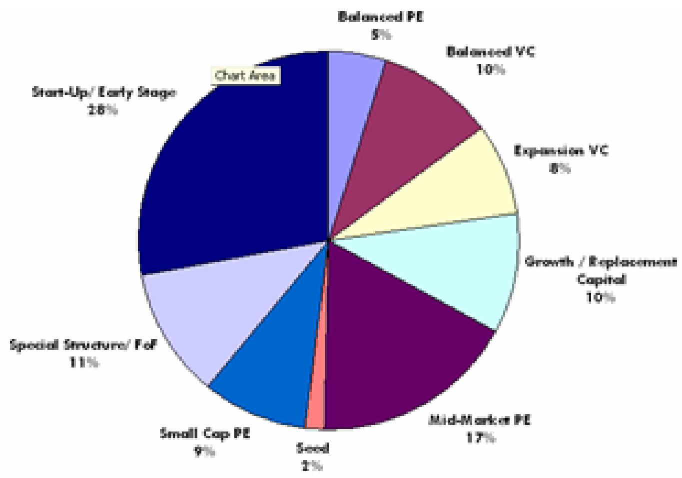
[5] Both charts indicate situation as at end September 2007.

2.1.2. RCM

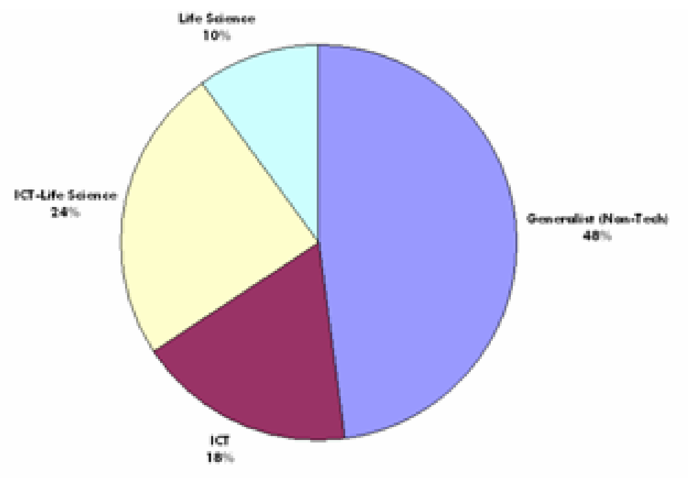
It is now expected that the final RCM tranche, amounting to EUR 200m (with 200% gearing) will be drawn down in 2008 due to stronger reflows and dividends to RCM, later than the mid-2007 date forecast in the previous COP. Depending on the level of reflows, which are difficult to forecast, this last tranche should be fully utilised by 2010 after which time RCM activity will be financed solely from reflows.

The current estimate for 2007 RCM activity, EUR 350-400m, is broadly in line with the range foreseen in the previous COP (EUR 360-420m). EIF's investment levels under RCM are expected to remain stable over the period 2008-2010 and, as stated above, will be dependant to a large extent on reflows from past investments. Reflows continue to improve strongly as the revised investment policy bears fruit and the market remains strong. They are expected to match in 2007 the high 2006 figures, which would represent two thirds of projected 2007 outflows. Reflows are forecast to rise steadily over the period 2008-2010.

Stage Breakdown RCM



Sector Breakdown RCM



Furthermore, with a view to establishing its financial self-sufficiency, EIF has continued to explore possibilities for further external mandates in light of the running down of the RCM. In this vein, two further fund-of-funds structures, in addition to NEOTEC and Dahlia, PVCi (Portugal) & iVCi (Turkey) are set to become fully operational thus leveraging EIF involvement in these developing VC markets. Over the period 2008-2010, the possibility for new funds-of-funds structures cannot be excluded, but this depends on the maintenance of market appetite for EIF involvement in such ventures. A dedicated working party on fund-of-funds structures is due to report back to the Board of Directors imminently. EIF services will also develop a strategy paper which should orientate EIF's f-o-f activity over the period 2008-2010.

Further to the recent Evaluation report on the RCM/ETF mandates, EIF intends to consult EIB services with respect to several of the report's recommendations, with a view to securing the Bank's and EIF Board approval for any proposed modifications. In particular, EIF may propose that a reformulation of the mandate's key objective to take into account the contribution of Ms^2 [6] transactions to the Lisbon objective of 'sustaining economic growth' be considered and the criteria for judging financial sustainability be clarified.

[6] Mid-size, mid-stage private equity funds.

Moreover, the key objective of the mandate may be reviewed over time to reflect economic developments and the EU's changing political priorities. Finally, the added value of continuing systematic EIF co-investment alongside RCM will be analysed in the context of a wider resource allocation policy. The Board has already signaled its support for diverging from the 'one size fits all' approach adopted in previous years towards a more *à la carte* approach where different interventions (RCM, CIP, JEREMIE etc.) are utilised as appropriate.

2.1.3. European Commission

The Multi-annual Programme for Enterprise and Entrepreneurship 2001-2005 (MAP; subsequently extended until end 2006), has now expired with the final signatures, some EUR 35m having been signed in early 2007.

Signatures for 2007 under the Commission mandates had been forecast to reach some EUR 115-125m (in the previous COP). Due to the delays in finalizing MAP's successor, the Competitiveness and Innovation Framework Programme (CIP), 2007 VC signatures will come in significantly below previous forecasts. Several deals have been approved by the Board for investment through CIP and, depending on how quickly deals in this pipeline can be closed, CIP signatures for 2007 could range from EUR 0-35m, bringing total combined MAP / CIP signatures for the year to EUR 35-70m.

The GIF[7] Framework Management Agreement was signed on 22 November 2007 and, with several operations already having been approved by the Board, the first signatures are expected imminently. It should be noted that the GIF element of the CIP entails additional operational constraints compared to MAP, which may impact on marketability and costs.

The CIP will extend both the range of EIF's investment spectrum, up-stream to business angels and down-stream to developing SMEs under GIF II, and its scope with, for instance, significant resources to be devoted to the emerging "clean tech" sector. Clearing the backlog caused by the delay in implementing the mandate should ensure the signing of 12-15 funds over the 2007-2008 period, with much activity originally envisaged for 2007 now expected to spill-over into 2008. Activity should stabilize at 6-7 funds (or EUR 100-120m) annually thereafter.

2.1.4. Eco-innovation

There has been a marked increase in deal-flow of eco-innovation start-ups in recent times, with this market segment being seen as increasingly important by market operators[8]. This has not yet, however, manifested itself in many eco-innovation funds of sufficient quality. Under CIP, it is envisaged that substantial resources will be devoted to the emerging 'eco-innovation' or 'clean-tech' sector where quality funds are in evidence as EIF remains committed to investing in only those environmental technology funds of real investment grade standard. With a dedicated eco-innovation team, EIF envisages that there could be 1-2 eco-innovation investments per year under CIP, or up to 9-10 funds over its lifetime.

[7] Guarantee element of CIP.

[8] 38% of respondents to a survey, the results of which were published in EVA Barometer, September 2007.

These activity levels are based on the assumption that sufficient quality funds come to the market. This being a relatively new sector, it allows EIF the opportunity to support emerging teams in a sector of high policy additionality.

2.1.5. ERP

The ERP-EIF Dachfonds continues to invest in VC funds focusing mainly, but not exclusively, on Germany-based high-tech early stage companies. This co-investment facility is managed by EIF on behalf of the German Federal Ministry of Economics and Technology (BMWi) and the European Recovery Programme (ERP), from which EUR 250m were committed, matched by an RCM and EIF co-investment.

Total signatures in 2007 are foreseen to remain fairly stable compared to 2006, in a EUR 40-50m range (although lower than the EUR 60-80m foreseen in the previous COP), bringing total signatures, and conditional signatures, under ERP and the co-investment mandates to EUR 287m to date. The Board has approved further investments with a potential investment amount of EUR 105m bringing total utilisation to date to some EUR 390m. With such a strong pipeline, ERP is expected to be fully committed by mid-2008 some months in advance of the contractually agreed end of the investment period.

2.1.6. NEOTEC

This fund-of-funds mandate was launched in 2005 with the Centre for the Development of Industrial Technology (CDTI: Centro para el Desarrollo Tecnológico Industrial), a Public Business Entity of the Spanish Ministry of Industry, Tourism and Commerce, and EIF have had a local, Madrid-based team in place since May 2006.

EIF's investment represents just over 25% of the fund's final size of EUR 183m. The programme has brought together Spanish public and private sector investors to boost investments in Spanish SMEs which will foster innovation, research and development. NEOTEC leverages EIF resources to ensure a coordinated approach between EIF, national public bodies and the private sector, and furthermore, gives Spanish public and private investors access to EIF's know-how in fund-of-funds management.

Since the launching of the fund-of-funds, NEOTEC Capital Riesgo has also established a Co-Investment Vehicle, which invests directly into technology SMEs, alongside selected private equity and venture capital funds. For non-Spanish based funds, Neotec brings in-depth market knowledge, as well as the opportunity to become Neotec's partner for Spanish Investments.

NEOTEC's Investment Committee has already approved investments totalling EUR 35m, EUR 5m of which concerns the holding of one third of the equity in Debaeque II, a Spanish seed / early-stage fund with the remaining EUR 30m consisting of co-investments alongside other early-stage funds. Neotec sponsored the 2007 Spanish Tech Tour, during which several contacts with both Spanish and pan-European VC funds were made, and there is a healthy pipeline with further deals totalling between EUR 35-45m expected to be put to the Investment Committee during the final quarter of 2007.

2.1.7. Dahlia

This pan-European fund-of-funds was launched jointly with Natixis Private Equity (NPE) in 2006. EIF has invested EUR 75m in the equity tranche on a *pari passu* basis. The initial fund amount totalled EUR 300m with Natixis having taken on EUR 150m debt upfront on their own risk in addition to their EUR 75m equity share. Final closing is scheduled for 15 December 2007. Signatures have reached some EUR 83m to date during 2007, and are expected to reach 100m by year end. Approvals are expected to remain stable into 2008 and 2009.

2.1.8. Technology transfer

To date, EIF has signed three technology transfer operations: IP Venture Fund, Chalmers Innovation (both signed in 2006) and CD3 (signed January 2007), the latter in collaboration with Katholieke Universiteit Leuven.

There are several deals in the pipeline, the most advanced of which are in UK, Nordic countries and France respectively. EIF is also exploring opportunities for supporting tech transfer through CIP and the JEREMIE holding funds.

Having seen investment levels (both own resources and mandated activity) dip from EUR 20m in 2006 to EUR 5m in 2007, they are foreseen to increase progressively over the 2008-20010 period to reach EUR 30-40m by 2010, slightly less than was forecast in the previous COP. Notably, it is expected that this activity will be split roughly 50/50 between own risk and mandated activity from 2008 onwards – with more activity coming from own resources (and less coming from mandates) than had been forecast in the previous COP

2.1.9. Geographic breakdown of investments

Geographic breakdown, by investment focus of VC portfolio at 30/09/07[9]

Country	Signatures (EURm)	%
Multi-Country	1268	30.7
United Kingdom	639	15.5
France	539	13.0
Germany	310	7.5
Italy	301	7.3
Spain	277	6.7
Central and Eastern Europe	193	4.7
Sweden	110	2.7
Finland	103	2.5
Ireland	99	2.4
Austria	71	1.7
Denmark	56	1.4
Turkey	54	1.3
Belgium	44	1.1
Netherlands	21	0.5
Luxembourg	19	0.5
Portugal	16	0.4
Greece	14	0.3
Grand Total	4134	100

EIF's equity portfolio continues to become more geographically diversified, with Turkey coming to prominence, for instance, as we prepare to launch our Istanbul based fund-of-funds, iVCi. Spain is also becoming increasingly important as NEOTEC deploys its

9 Total = EUR 4.13bn (excludes NEOTEC & Dahlia, a further EUR 125m).

investments while a similar impact can be expected in Portugal as PVCi comes online. The nascent private equity markets of newer Member States continue to mature, albeit from a low base which should lead to interesting investment opportunities over the coming years, notably under such broad based tools as CIP (GIF I & II) and JEREMIE. Comparatively speaking, EIF's equity investments are far more geographically diversified than other funds-of-funds.

2.1.10 Outlook

Recent problems in the credit market have spilled over into the private equity to a certain extent. The impact is less critical, however, in the VC and Ms^2 market segments in which EIF operates due the lesser weight of the debt component in such deals. Fundraising has remained buoyant, with record 2006 figures likely being matched in 2007. Despite resurgent capital markets, however, a worsening of the credit crisis with significant knock-on effects for venture & private equity cannot be ruled out at this stage.

In the short-term, some exits may prove to be more challenging for funds in which EIF is invested while valuations may be hit, particularly for later stage funds whose valuations use quoted markets as benchmarks. Unless the credit crisis worsens, however, financial performance over the life of these funds is not expected to be significantly affected. The final expected IRRs of the EIF and EIB portfolios continue to evolve positively.

EIF's equity portfolio is relatively balanced and thus well shielded from short-term market fluctuations. EIF will continue to invest in a blend of early-stage, high-tech funds balanced with top quartile Ms^2 funds, a strategy designed to deliver on policy goals while achieving an appropriate return for shareholders. Equity activity will continue to focus on the European early Stage (tech-transfer and business angels through to VC) to a far greater degree than any pure market operator could contemplate. This sector is expected to represent up to one half of expected 2008 commitments. These high-risk, early-stage investments will continue to be balanced with investments in the lower mid-market sector where there is also significant support for EU SMEs (also expected to represent around half of 2008 commitments).

Expected returns from European VC-investing will be lower and take longer to come through than investments in the US or in other asset classes. Given that the mainstay of EIF equity resources - RCM - will soon be fully utilised (with the last tranche of initial capital due to be called before 2010), we are relying on capital reflows and dividends (the latter geared up at 200%) to create and maintain the evergreen nature of this EIB mandate. To feed the reflows we must invest in policy-acceptable funds showing high return potential – supporting the rationale for continued involvement in the lower mid-market.

In line with orientations from the Board of Directors[10] EIF recognises that equity interventions may require greater differentiation so as to maximize the policy and financial added value of the portfolio at large. This is of particular salience as EIF's range of intervention along the investment spectrum. Furthermore, EIF is now equipped to manage tail end funds under its management while it is prepared to look at further secondary operations on an opportunistic basis under guidance from the Board. Demand for EIF

[10] At the Board of 12 March 2007, the CHAIRMAN "noted the Board's consensus on the need for different interventions for different stages of the VC market and stressed that regardless of the state of development, only high-quality funds should be selected for investment."

participation as Limited Partner in venture & private equity funds is strong, and is expected to remain so over the short-to-medium term.

EIF will continue to measure the added value of its equity operations not only in terms of additional risk or catalytic effect, but also in terms of demonstrated support for SME's and the prospect of good financial returns.

2.2 Product lines: guarantees and securitisation

2.2.1 Own resources

As ever, overall activity levels depend on suitable opportunities including the development of the SME securitisation market, adequate RAROC[11] considerations, and the investment policy as outlined by the Board. EIF continues to adopt a balanced portfolio approach; guaranteeing different levels of tranches so as to maintain the average portfolio at or reasonably close to the present level (weighted average rating of the own risk portfolio remains stable at iBaa1). The portfolio has undergone further geographic diversification during 2007. With few recent operations in Germany & Italy, as of end September 2007, these two countries accounted for 12.6% and 20.9% of the total portfolio (guarantee volumes) respectively while the UK was the third country in the portfolio, accounting for 11%.

In the primary market, EIF, as a specialised guarantor in the SME securitisation segment, is expected to be in a stronger negotiating position as a result of recent market uncertainties and should be able use this leverage to secure enhanced policy additionality in the transactions it concludes. The likely impact of these recent difficulties cannot yet be quantified, but could be quite significant.

In line with orientations from the Board of Directors, and supplementary to its primary market activities, EIF also participates in secondary operations on a selective basis (Forecast: some EUR 50m during 2007 or less than 5% of own risk guarantee activity), targeting, in particular, operations in which EIF is already invested. Given the prevailing market environment in the wake of the 'sub-prime' crisis, EIF activity should continue its small scale support for the secondary market thus contributing to enhanced liquidity while achieving an attractive return.

Total signatures for 2007 under own resources were forecast in the previous COP to fall within the EUR 800-1050m range (including own resources attributed to joint operations). Actual signatures for own risk operations in 2007, as at end September, totalled some EUR 680m. With a reasonably strong pipeline foreseen for the final quarter (see Annex 7)and subject to more favourable individual conditions it is expected that total own risk guarantee operations will now fall in the range EUR 1,000-1,300m.

[11] Risk Adjusted Return on Capital

2.2.2 European Commission's guarantee programmes

There was 1 new MAP signature in 2007, the deadline for signatures having been extended to 30 June 2007. There were also extensive preparations during 2007 for the implementation of its successor, the Competitiveness and Innovation framework Programme (CIP), with strong market expectations in evidence and a significant pipeline built up in anticipation of its launch. EIF is now working through this pipeline with a view to the first signatures in early 2008, including some early commitments from end 2007.

One key development in the SME Guarantee Facility under CIP, for which the Framework Management Agreement was signed on 20 September 2007, is the inclusion for the first time under the Commission mandate of a securitisation window, building on EIF's existing key competencies in this area. This new securitisation window is expected to provide capital relief and better access to capital markets especially to smaller financial institutions, thus enhancing access to finance to SMEs in an innovative way and complementing the other well-tested guarantee windows.

The geographic scope of MAP has been extended under CIP and will include, subject to contributions from the relevant countries, EU-25, EFTA countries which are members of the EEA, candidate countries benefiting from a pre-accession strategy, plus those countries of the Western Balkans with whom the Commission will establish framework agreements and other third countries when agreements so allow. This extension is of particular relevance for the SME Guarantee Facility as while many of these newly eligible countries would not have many appropriate opportunities for venture capital (GIF) their SME lending markets are developing at a fast pace and are likely to be receptive of the guarantee support provided by the SME Guarantee Facility.

2.2.3 Joint Operations with EIF's Shareholders

Two joint operations (Gracechurch Corporate Loans 2007 and SMILE 2007) were signed in 2007. At least two further joint operations (both leasing securitisations in Poland) are in the pipeline and expected to be signed before year end which should see joint operations with EIB coming in at circa EUR 100m for 2007.

To date, joint EIB Group operations have been concentrated in the securitisation market, typically with EIB investing as a cash investor in the senior tranches and EIF investing in the riskier mezzanine tranches as a guarantor. Another example of Group operational cooperation is the recently concluded (16 October 2007) framework agreement which sets out the general terms and conditions upon which EIB and EIF might agree, on a case by case basis, on certain rating services which EIF would provide to EIB.

As JEREMIE becomes fully operational and as EIF's Technology Transfer activities become more sophisticated, further opportunities for joint operations – possibly including joint offers – will be explored. In the case of JEREMIE, the regional holding funds could be supplemented by loans to the regions themselves or through global loans, thus enhancing the impact of ERDF funding. As concerns Technology Transfer, EIF could use its support of "intellectual aspects" to complement the EIB's support for infrastructural requirements.

With both CIP and JEREMIE soon to commence operations, and with a larger range of products on offer than was previously the case, there will be renewed scope for business cooperation with EIF's financial shareholders.

As a result of recent difficulties in the credit market, which virtually blocked any new issuance in the securitisation markets, the number of joint operations closed in 2007 will come in below the actual number signed (5) in 2006. It is expected, however, that the number of joint operations will resume its upward trend from 2008 onwards.

The 'Gracechurch' deal is a fine example of EIF cooperation with shareholders in a securitisation deal. Firstly, Barclays, the originator, is a long-term financial shareholder of EIF and has a strong track record in the UK SME loan securitisation market with EIF having participated in its loan portfolio transactions in the past, notably GCL 2005-1. This deal allows Barclays to obtain economic and regulatory capital relief which enhances its ability to extend further SME lending. Indeed, this transaction has a 5 year replenishment period which should ensure significant further SME lending. Secondly, EIB invested GBP 300m in the senior tranche of this deal, thus complementing EIF's investment in the mezzanine (and part of the senior) tranche. This transaction was underpinned by a GBP 3.5bn portfolio of primarily SME loans.

2.2.4 Microfinance

EIF has identified interesting opportunities as a guarantor in the microfinance field. An obvious example is the microfinance window under CIP, where EIF may provide direct loan portfolio guarantees to dedicated micro-banks as well as MFIs. Implementation of the microfinance window in potential candidate countries is expected to substantially widen the geographic scope of EIF involvement in support of commercially viable microfinance activity.

Following first contacts with microfinance institutions in 2005-2006, EIF also strongly believes that many opportunities can be identified in the credit enhancement field using EIF own resources. EIF is currently considering the development of standardised products (applying well-established structured finance techniques) to target MFIs and micro-banks that are in need of regulatory capital relief and/or medium to long-term funding. The demand for such products is expected to increase under Basel II since most of the micro-banks are so called "standardised banks" (i.e. using Basel II standardised approach), which may benefit from substantial regulatory capital relief also from the transfer of the most senior risk in a synthetic securitisation transaction. These banks also typically need to manage strong loan portfolio growth with correspondingly higher capital requirements and in some cases in an environment where growth of microfinance activity suffers as a result of changes to the regulatory environment.

It should be noted in this context that EIF is gaining insight into the microfinance field through external mandates and through its co-arranger experience in facilitating asset-backed financing for MFIs.

2.2.5 New products

This reserve has been put aside to allow EIF to invest in products which might appear in the coming years and that are, by definition, new, and yet to be clearly determined. There is particular promise for new products in the area of microfinance. Such instruments may for instance be used to help bring economic stability to the Western Balkans so as to better integrate the region into the EU's economy.

2.2.6 Outlook

During 2007, focus has understandably been on own risk guarantee activity while the preparations for implementing CIP were being finalized. Over the coming months, into early 2008, CIP will become fully operational, initially with MAP successor operations which intermediaries are keen to put in place as soon as possible. In particular, the securitisation window, although very challenging – and time-consuming – to implement due to the number of parties typically involved (arranger, originator, rating agency etc.) will provide new opportunities for combining own resources for mezzanine tranches with EC resources, with EIB as a potential investor in the senior part. EIF's guarantee activities should thus take on a more integrated approach with its own resources, along with those of EIB and the Commission, being blended to optimum effect.

It is still too early to say whether the recent crisis in the credit markets has passed, or if its effects could be felt over the medium-to-long term. The prevailing market climate would seem to suggest, however, that the steady upward trend in securitisation activity has been checked and significant curtailments in future activity cannot excluded. Being a market-driven entity, the development of EIF's guarantee business, both in terms of own risk and trust activities, is dependent to a large extent on the recovery of the capital markets and on the SME securitisation segment in particular. With credit market spreads having widened, it has become both more difficult and more expensive for SMEs to access corporate loans. EIF (with its zero-weighting under Basel II) remains best placed to continue to retain its strong presence in the market and help SMEs.

One upside to the recent market turmoil is that the risk-return profile in both primary and secondary markets has improved markedly for investors. Should this sentiment prevail in the market over the coming years, it bodes well for the prospects for EIF's financial returns from guarantee activities. Moreover, while the target remains SME support, participation in 'mixed-pool' transactions, in which SME loans constitute an important element, could also serve to off-set risk from higher risk transactions.

Once CIP has been initiated, the focus for guarantee activities can be expected to become once again more balanced, allowing EIF to explore opportunities for developing further mandates, including closer cooperation with individual countries and supporting initiatives at Member State level. Furthermore, as the geographic range of EIF's guarantee activity gradually expands, there is sure to be new business opportunities, and scope for developing new products, particularly in the field of microfinance and SME loan securitisation including new Member States and new originators. EIF will continue to develop and reinforce its relationships with other multilateral financing institutions with a view to reaching over the medium-to-long term a large number of entrepreneurs who would otherwise be excluded from EIF support. Opportunities are also being explored for operational synergy with JEREMIE, whereby guarantee operations could utilise a blend of funding sources including CIP and EIF resources.

2.3 Product lines: JEREMIE

2.3.1 Background

JEREMIE[12] is a joint initiative of the European Commission (DG REGIO[13]) with EIF and EIB to facilitate SME access to finance and promote financial engineering products in the EU Member States and regions. In this framework, the national and regional public authorities responsible for implementing the EU Structural Funds 2007-2013[14] (so-called "Managing Authorities") can decide to allocate money to a holding fund consisting of a portfolio of market-driven guarantee and equity instruments with a revolving character, instead of grants. This represents an innovative shift of emphasis away from the traditional grant approach to SME support and allows developing regions to benefit from EIF's long-standing experience in SME financial products.

Funds allocated by Managing Authorities to the JEREMIE initiative will be administered through a Holding Fund, the manager of which will be either EIF, a national body or will be selected by open tender. For those Holding Funds to be directly administered by EIF, the JEREMIE Team in cooperation with EIF Legal Division and the Legal Service of the European Commission have elaborated during 2007 structuring options consistent with EU Regulations.

2.3.2 The first steps: Evaluation & Preparation of Implementation

During 2006 and 2007, the EIF JEREMIE Team focused on evaluation of market weaknesses and gaps in SME financing in the European Member States and regions and conducted in total about 30 Evaluation Studies. The results were discussed with the Managing Authorities and made available to the European Commission. Further extensive preparatory work was undertaken in those countries/regions which decided to implement JEREMIE so as to tailor each Holding Fund to the specific region in which it is to operate. Costs for the evaluation & implementation preparation phase (staff, administrative expenses, equipment, premises, missions, consultants) are covered 75% by the European Commission technical assistance budget and 25% by EIF.

To monitor the progress of the JEREMIE initiative, its Steering Committee (EIF and DG REGIO with EIB as observer) meets approximately every four months to review and decide on strategic issues and to provide guidance on significant operational issues. The Commission is expected to continue to give budgetary support into 2008 for horizontal activities (e.g. communication) and implementation preparation, though clarification on 2006 finalisation and 2007 is still pending (problems similar to those encountered by JASPERS & JESSICA.) Specific support may also be given to the Microfinance Action Plan.

2.3.3 Outlook: Implementation of JEREMIE Mandates

From 2008 onwards, the JEREMIE activity will be supported by the management cost coverage included in each funding agreement (limited to an average of 2% per year) depending on the size of the national/regional funds and on the workload involved through the agreed action plan. Remuneration could also derive from technical assistance assignments.

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[12] Joint European Resources for Micro to Medium Enterprises

[13] Directorate-General for Regional Policy in the 27 EU Member States

[14] ERDF - European Regional Development Fund and ESF – European Social Fund

The overall number and amount of JEREMIE Holding Funds that interested Member States or Regions will ask EIF to manage are uncertain at this stage. To date, Greece has signed in June 2007 a funding agreement with an initial commitment of over EUR 100m. Negotiations are advanced with Romania, Bulgaria and Slovakia on Funding Agreements. Other Member States and regions are in advanced negotiations with EIF, e.g. Sweden, Czech Republic, Italian regions, Cyprus, Malta, Andalucía, four Polish regions though the timing and probability of conclusion is still open.

In geographical terms, future EIF JEREMIE activity is expected to focus on the Eastern and Southern parts of the EU, with several "hot-spots" in more developed EU-15 areas, mainly at regional level. Furthermore, once several countries/regions signed the first funding agreements, particularly at regional level, this should have a demonstrative effect, encouraging other regions to participate.

After the structuring of the Holding Funds and the signing of funding agreements with Managing Authorities, JEREMIE is becoming operational in the respective countries/regions through the establishment of a local presence, where possible shared with EIB or Commission premises, with support from the horizontal back office and product specialists in EIF Luxembourg. A recruitment process for Project Managers was launched during the second half of 2007. The Holding Fund prepares an Investment Strategy and Business Plan on the implementation of the JEREMIE funds for presentation to the national/regional JEREMIE Investment Board (which comprises representatives of the different Managing Authorities contributing to the Holding Fund) and first contributions from the EU Structural Funds to the Holding Fund are made. On the basis of the approved Business Plan, the Holding Fund will select and sign Funding Agreements with national/regional financial intermediaries after transparent calls for expression of interest.

JEREMIE anticipates a wide spectrum of SME finance operators as financial intermediaries, like venture capital funds, micro finance providers, banks, guarantee funds and possibly technology transfer vehicles etc. Financial intermediaries will invite SMEs to present their investment proposals which will be evaluated and finance will be allocated to selected SMEs. The Holding Fund will monitor the use of the funds by financial intermediaries and SMEs and report back to the JEREMIE Investment Board and national/regional Managing Authorities.

A role as permanent adviser to Managing Authorities could also be an option for EIF, notably where a national Holding Fund is appointed. This would offer EIF the possibility to deploy its expertise in a very positive way in support of SME access to finance EU-wide, notably in the field of venture capital, technology transfer and microfinance; the JEREMIE evaluation exercise has given access to a number of agencies and institutions, which will have the possibility to rely on EIF expertise.

Some complimentarity and leverage, notably for regional VC funds, is expected with CIP. Guarantee operations may be organised at regional level, in cooperation with CIP funded guarantee schemes at national level. Close coordination will be organised with other EIF investment teams during implementation in the areas where EIF acts as Holding Fund.

The development of financial engineering and revolving instruments in the context of European regional policy needs to be considered as a positive move, which will reduce the use of grants and improve the overall efficiency of the financial system, preparing the ground for more future EIF investments after 2013/15, either in the new Member States or at regional level. Last but not least, JEREMIE offers a unique opportunity to develop an active cooperation with all shareholders, a Group approach and to strengthen ties and cooperation with the Commission.

2.4 New Developments

2.4.1 GEEREF

The Global Energy Efficiency and Renewable Energy Fund 'GEEREF' is a proposed fund-of-funds dedicated to promoting energy, energy efficiency and renewable energy projects in developing countries and economies in transition for which EIF will advise on and co-ordinate its establishment, before end 2007, as a Luxembourg based fund-of-funds. EIF may also take care of specific back-office functions, such as risk management, legal and compliance. It is a Commission project originated and driven by DG Environment and DG AIDCO, being financed by EU budgetary resources (over 50%) and other sponsoring countries.

EIF shall act as a trustee for holding the participation of the European Community in GEEREF. In this capacity EIF shall administer that participation and represent the Commission in the structure. This new activity will entail modest human resource requirements which will be covered by fee based remuneration derived from it.

Annex 1

Signature breakdowns per resources and mandates

EIF Own Resources

	Actual		Expected			
EUR million	2005	2006	2007	2008	2009	2010
EIF VC (incl. co-investments)	31.3	80.1	70 / 80	65 / 70	65 / 70	65 / 70
TTA	-	4.1	5 / 5	5 / 10	10 / 15	15 / 20
Hybrid Products OR	-	45.0	0 / 0	0 / 0	0 / 0	0 / 0
New Products	-	-	0 / 0	25 / 30	25 / 30	25 / 30
Guarantees OR	429.3	909.3	750 / 1050	675 / 825	700 / 850	700 / 850
Group Joint Operations OR	42.9	240.0	250 / 250	200 / 300	250 / 350	250 / 350
TOTAL*	503.4	1,278.5	1075 / 1385	970 / 1235	1050 / 1315	1055 / 1320
Change in %	-32%	112%	-8%	-10%	7%	0%

Other Mandates

	Actual		Expected			
EUR million	2005	2006	2007	2008	2009	2010
RCM	265.1	578.6	350 / 400	360 / 420	360 / 420	360 / 420
ETF Start-up MAP / CIP	38.9	86.8	35 / 70	130 / 150	100 / 120	100 / 120
ERP	32.5	41.4	50 / 60	40 / 50	25 / 30	25 / 30
TTA	-	16.1	0 / 0	5 / 10	10 / 15	15 / 20
CDTI, Dahlia A+B, etc…	-	41.5	210 / 230	150 / 160	150 / 160	100 / 120
Of which EIF Mandates (RCM, EC, EIF OR)		*10.3*	*40 / 50*	*30 / 40*	*30 / 40*	*25 / 30*
Guarantees MAP - CIP	1,213.3	1,030.7	10 / 10	700 / 900	700 / 900	700 / 900
TOTAL*	1,549.8	1,795.1	655 / 770	1385 / 1690	1345 / 1645	1300 / 1610
Change in %	46%	5%	-40%	116%	-3%	-3%

* Total ranges are narrowed as appropriate.

** Activity figures for funds-of-funds reflect the total investment of the funds-of-funds, not only the proportion accounted for by EIF's investment, thus demonstrating leverage.

Signature breakdowns per activity: venture capital, portfolio guarantees (own resources and non-own resources)

Venture Capital

	Actual		Expected			
EUR million	2005	2006	2007	2008	2009	2010
EIF VC (incl. co-investments)	31.3	84.2	70 / 80	65 / 70	65 / 70	65 / 70
RCM	265.1	578.6	350 / 400	360 / 420	360 / 420	360 / 420
ETF Start-up MAP / CIP	38.9	86.8	35 / 70	130 / 150	100 / 120	100 / 120
ERP	32.5	41.4	50 / 60	40 / 50	25 / 30	25 / 30
TTA	-	20.2	5	10 / 20	20 / 30	30 / 40
CDTI, Dahlia A+B, etc…	-	41.5	210 / 230	150 / 160	150 / 160	100 / 120
TOTAL*	367.8	852.7	720 / 845	755 / 870	720 / 830	680 / 800
Change in %	3%	132%	-6%	4%	-5%	-5%

Guarantees

	Actual		Expected			
EUR million	2005	2006	2007	2008	2009	2010
Guarantees OR	429.3	909.3	750 / 1050	675 / 825	700 / 850	700 / 850
Group Joint Operations OR	42.9	240.0	250 / 250	200 / 300	250 / 350	250 / 350
Guarantees MAP - CIP	1,213.3	990.7	10 / 10	700 / 900	700 / 900	700 / 900
Group Joint Operations MAP - CIP		40.0	/	/	/	/
New Products	-	-	0 / 0	25 / 30	25 / 30	25 / 30
TOTAL*	1,685.4	2,180.0	1010 / 1310	1600 / 2055	1675 / 2130	1675 / 2130
Change in %	17%	29%	-33%	58%	4%	0%

* Total ranges are narrowed as appropriate.

** Activity figures for funds-of-funds reflect the total investment of the funds-of-funds, not only the proportion accounted for by EIF's investment, thus demonstrating leverage.

Venture Capital

	2005	2006	2007	2008	2009	2010	2007-2010	2011-2013
Over-commitment VC (1)	100%	100%	115%	115%	115%	115%	115%	115%
Utilisation (new signatures)								
EIF VC	-31	-80	-75	-68	-68	-68	-278	-195
TTA	0	-4	-5	-8	-10	-13	-35	-30
Annual utilisation	-31	-84	-80	-75	-78	-80	-313	-225
Cumulated signatures	-268	-352	-432	-507	-548	-582	-665	-807
Realease								
Cancellation (1)	0	0	0	37	46	9	91	48
Total utilisation	-268	-352	-423	-470	-502	-574	-574	-759
Resources								
Ceiling (50% of own funds)	301	337	409	509	544	575	145	108
Increase in Paid-In Capital	0	0	77	9	8	6	100	0
Total Headroom	301	337	486	518	552	581	581	689
Available	32	-16	63	48	50	7	7	-70
With overcommitment	100%	100%	115%	115%	115%	115%	115%	115%
Total headroom	301	337	559	596	635	668	668	793
Available	32	-16	136	125	132	94	94	34

Guarantees

Utilisation	2005	2006	2007	2008	2009	2010	2007-2010	2011-2013
Hybrid Products OR		-	0	0	0	0	0	0
New Products	-	-	0	0	0	0	0	0
Guarantees OR	-31.0	-55.0	-74	-59	-62	-62	-256	-150
Guarantees Jeremie	-							
Group Joint Operations OR	-4.6	-12.5	-25	-25	-25	-25	-100	-30
Annual utilisation	-66.4	-67.5	-99	-84	-87	-87	-356	-180
Cumulated allocation	-154.1	-221.6	-321	-395	-458	-506	-578	-686
Realease								
Cancellation	0	0	9	24	39	17	89	84
Total utilisation	-154	-222	-311	-372	-419	-489	-489	-602
Resources								
Ceiling (50% of own funds)	301	337	409	509	544	575	145	108
Increase in Paid-In Capital	0	0	77	9	8	6	100	0
Total Headroom	301	337	486	518	552	581	581	689
Available	147	115	175	146	133	92	92	88
Total Available VC & Guarantees	179	99	237	194	182	99	99	18
Total Available VC & Guarantees with VC overcommitment	179	99	310	272	265	186	186	122

(1) based on the planned end date of fund + 1 extension year N.B. It should be noted that this presentation of the capital allocation forecast, using IFRS figures, does not imply a change in the interpretation of the statutory ceiling on VC commitments as approved by the EIF Board.

Annex 4

EIF Equity Operations

Equity operations signed in 2007 at 25/10/2007

All figures in EUR millions

Fund Vehicle	Country	BMWA	Commission	EIB	EIF	Grand Total
Abingworth Bioventures 5	Multi-country			9.5	2.4	11.9
Accent Equity 2008	Multi-country			24.0	6.0	30.0
Actera Fund I	Turkey			40.0	4.0	44.0
Aescap Venture	Multi-country		3.5			3.5
Big Bang Ventures II	Belgium		5.3			5.3
Cape Natixis II	Italy			12.0	3.0	15.0
Capital-E	Multi-country		8.9			8.9
CD3	Belgium				4.0	4.0
Consilium Private Equity Fund	Italy			12.0	3.0	15.0
Creandum II L.P.	Sweden		15.0			15.0
Creathor	Germany	0.3	0.3			0.6
Debaeque II FCR	Spain		1.4			1.4
Eden Two	UK			11.7	2.9	14.6
Gilde Healthcare II	Multi-country		1.2	0.9	0.2	2.3
Global Venture Capital II	Multi-country			8.0	2.0	10.0
GMT Communication Partners III	Multi-country			10.0		10.0
Innovacom 6	Multi-country			16.0	4.0	20.0
Kennet 3	Multi-country			16.0	4.0	20.0
Litorina Kapital III	Sweden			15.5	3.9	19.4
Lyceum Capital Fund II	UK			20.5	1.5	22.0
Mercapital Spanish Buyout Fund III	Spain			45.0	5.0	50.0
MVM Fund III L.P.	Multi-country			17.6	4.4	22.0
Neuhaus III GmbH & Co.KG	Multi-country	0.1		0.1		0.3
Royalton Capital Investors II	CEE			13.0	2.0	15.0
Scope Growth II	Sweden			14.3	0.8	15.0
TL com II	Multi-country			14.0	1.0	15.0
Turkish Private Equity Fund II	Turkey			7.5	2.5	10.0
Wellington Partners III Life Science Fu	Germany	1.0	1.0			2.1
Wellington Partners IV Technology Fu	Multi-country	15.0		12.0	3.0	30.0
Grand Total		**16.5**	**36.5**	**319.6**	**59.5**	**432.1**

EIF Guarantee Operations Guarantee operations signed in 2007 at 30/09/2007 All figures in EUR millions			
Contract name	**Country**	**Signatures**	**Capital Allocation / Budgetary**
Gracechurch Corporate Loans 2007-1	UK	38.0	1.0
Gracechurch Corporate Loans 2007-1	UK	6.0	1.1
SMILE 2007	Netherlands	10.0	0.2
PREPS 2007-1	Multi-country	15.0	0.3
Promise-I 2002-1	Germany	109.5	2.2
PULS CDO 2007	Germany	40.0	0.8
FCC GIAC 6	France	22.5	2.3
Aqua Sme (Finibanco)	Portugal	15.0	2.6
Ascot Black 2007	UK	234.3	17.2
S-Core	Germany	29.3	4.4
CoSMO	Germany	116.0	5.2
MARS 2004	Netherlands	5.0	1.0
ScandiNotes IV	Denmark	13.0	0.3
Noble Venture Finance II	Multi-country	29.5	6.5
Total Own Funds guarantees signed		**683.1**	**45.1**
Banka Koper - LGF (SMEG 2001)	Slovenia	8.0	0.5
Total Trust (MAP) guarantees signed		**8.0**	**0.5**

EIF Equity Pipeline

Forecast signatures in 2007: 26/10/2007 - 31/12/2007

All figures in EUR millions

Fund Vehicle	Country	BMWA	Commission	EIB	EIF	Grand Total
APE	Italy			17.0	3.0	20.0
BioMed	Germany	11.0		10.0	1.0	22.0
Egeria III	Netherlands			16.0	4.0	20.0
Explorer II	Portugal			9.0	1.0	10.0
Global Venture Capital II	Multi-country		5.6		1.4	7.0
GLSV III	Multi-country	20.0		18.0	2.0	40.0
Pentech	UK		5.0	10.0		15.0
SHS	Germany	10.0	10.0			20.0
TLcom I LP	Multi-country				2.0	2.0
TOTAL (forecast signatures)		**41.0**	**20.6**	**80.0**	**14.4**	**156.0**

EIF Guarantee Pipeline
Forecast signatures in 2007: at 25/10/2007 - 31/12/2007
All figures in EUR millions

Contract name	Country	Amount	Capital Allocation / Budgetary commitment
Anaptyxi Secondary	Greece	11	0.22
Gracechurch Corporate Loans 2005-1 - Secondary 1	UK	10	0.2
Gracechurch Corporate Loans 2005-1 - Secondary 2	UK	10	1
SMILE 2007-1 Secondary	Netherlands	7.5	0.75
Stichting MARS 2006 Secondary	Netherlands	3.5	0.07
Raiffeisen Leasing Polska*	Poland	33.6	1
Rete Fidi Liguria	Italy	93.0	2.75
ScandiNotes V	Denmark	90.0	1.8
ScandiNotes V	Denmark	63.0	6.3
Millenium Lease*	Poland	18.2	2.72
Fortis SME CLO	Belgium	262.0	19.8
Goodwood Gold SME CLO	UK	108.0	8.02
* Joint EIB Group transactions	**Total**	**709.8**	**44.6**