



## PREFACE BY THE CHAIRMAN OF THE SUPERVISORY BOARD

The European Investment Fund reached an important stage in its development in 1997 when the European Union's Heads of State and Government acknowledged the part that the Fund can play in stimulating investment in Europe. The Amsterdam Summit in June gave the Fund, in conjunction with the European Investment Bank, a role in developing instruments to support investment in SMEs and this was achieved in a remarkably short time with the signature of the European Technology Facility with the EIB during the special Employment Summit in Luxembourg in November. Since then the Fund has further developed its own equity operations with its other financial partners and has also been asked to operate additional equity and guarantee schemes in favour of SMEs with funds allocated by the European Parliament.

So far as its core business is concerned, the Fund took its portfolio of signed guarantees to over ECU 2 billion by the end of 1997 and further increased the proportion of its activity in the small and medium-sized enterprise sector, with signed volume reaching 31% of its portfolio compared with 22% the year before. A second guarantee operation was signed in Central and Eastern Europe and I am looking forward to further developments in that area as countries of the region prepare for accession to the European Union.

As noted above, a successful start was made on the Fund's equity participation activity, targeted particularly at venture capital funds investing in SMEs. With the resources made available by the EIB and, potentially, other EU

bodies, complementing its own resources, I believe that the Fund can develop into a major player in the venture capital sector throughout the Union. 1997 also saw a successful continuation of operations under the Growth and Environment scheme.

By moving to its new premises in the Kirchberg quarter of Luxembourg, and further reinforcing its small staff, the Fund has also affirmed its identity as an autonomous financial institution, while continuing to cooperate as closely as possible with its private and public shareholders.

During 1997, Gerbrand Hop replaced Thomas Oursin as Chairman of the Financial Committee and Michel Berthezène succeeded François Lagrange as the Member of the Financial Committee representing the financial institutions. As Chairman of the Supervisory Board, I should like to thank the previous Financial Committee for their contribution to the growing success of the Fund, and to welcome the new Financial Committee, including David McGlue who will continue as the European Commission's representative.

My warm thanks on behalf of the Supervisory Board also go to the small staff of the Fund for their hard work and professionalism throughout 1997, and in particular to Helmut Kuhrt, who made an important contribution as Secretary General during the formative stages of the Fund and has now returned to a senior post in the EIB.

I commend this Annual Report to you.



A handwritten signature in dark ink, appearing to read 'Brian Unwin', written in a cursive style.

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).

The EIF's essential business is to provide guarantees and credit enhancement for debt finance in these, concentrating on guarantees.

*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.*

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 billion was subscribed at 31 December 1997, 800m by the European Investment Bank, 600m by the European Union and 399m by the financial institutions. The amount open for new subscription by banks or financial institutions thus stands at 201m. 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 fund 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 2239 million by the end of 1997. TEN operations account for ECU 1548 million of this (i.e. 69% of the total, including 26% for transport, 23% for energy and 20% for telecommunications). SME operations accounted for ECU 690 million at the end of 1997 (i.e. 31% of all signed guarantee operations).

Making a start on equity operations in 1997, the EIF had signed nine operations totalling ECU 25.5 million by the end of the year. It had also signed two investments under the European Technology Facility (ETF) – see box on page 14.

**Table 1 - Key Figures for 1997**

		ECU
Operations approved	1994-1997	3 020m
Guarantees signed and outstanding	31.12.1997	2 172m
Balance sheet total	31.12.1997	410m
Subscribed capital	31.12.1997	1 799m
Paid-in capital	31.12.1997	360m
Profit for the year	1997	10.7m
<b>Total reserves and risk provisions*</b>		<b>31.3m</b>
- Provision for risk		12.1m
- Statutory reserve		10.7m
- Profit brought forward		8.5m

*\*before allocation of profit for 1997*

During 1997 the EIF made a net profit of ECU 10.7m after a transfer of ECU 7.7m to the provision

in respect of contingent losses which may arise from its guarantee portfolio.

## OPERATING PRINCIPLES

### ***Trans-European Networks (TENs)***

The EIF is the only financial instrument set up specifically to help finance TENs throughout the Union and its basic rationale is to support project finance and public-private partnerships in these projects.

EIF guarantees for TEN financing cover different types of maturities and credit risk. They normally apply to medium-long term debt but shorter maturities can be considered, e.g. with regard to construction risk, or longer maturities than those catered for by commercial banks. Guarantees can be issued against all types of debt, e.g. bank loans, public bonds, private placements, asset-backed securities, and cover all types of credit risk, i.e. both senior and subordinated.

In general, projects must have a certain size and display a European dimension. The EIF's participation normally involves private sector participation with regard to funding and/or to operational components such as concessions, licences etc.

The eligibility criteria cover the following areas:

- For *transport*
  - roads: motorways and major highways
  - air: airport infrastructure, including air traffic control
  - rail: international rail TENs (e.g. high-speed rail links), and major national and urban rail projects, including rolling stock
  - sea: harbour infrastructure and related equipment
  - combined transport networks.
- In *telecommunications* fixed links or wireless projects (including optical fibre networks, GSM, satellites) modernising or digitalising the telecommunications networks.
- For the *energy* sector the target is principally energy transmission and distribution. Power stations are also eligible if they are connected to the development of TENs.

The projects are mainly located within the European Union. However, within certain limits, the EIF is also able to finance investments of a cross-border nature in neighbouring countries.

Although the "tailor-made" nature of financing mechanisms for TEN project finance makes it difficult to pre-define products and pricing, the Fund works to guidelines based on market experience and risk modelling, normally with broad categories for "senior" risks with differentiated pricing assumptions and subordinated risk as a separate category. The latter can be an important part of the Fund's catalyst effect and must of course be priced accordingly.

### ***Small and Medium-sized Enterprises (SMEs)***

In the field of SMEs the EIF is providing a range of products:

- Credit insurance for loan portfolios
- Credit enhancement
- Structured finance operations

Guarantees are always offered on a portfolio basis and according to the principles of risk sharing and full delegation. The EIF does not guarantee financing to individual SMEs.

In SME operations the EIF is co-operating with a whole range of financial intermediaries, from banks and guarantee funds to special purpose financing vehicles. The underlying financing is usually in the form of debt, senior or subordinated. The EIF has a range of standard products, including notably credit insurance for loan portfolios, but undertakes tailor-made operations as long as they are of a sufficient size in order to support the corresponding costs.

A large number of operations have been concluded in the last two years in the framework of the Growth & Environment Project (G&E). Under this scheme 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 (see also box page 13).

The EIF is constantly developing new products in order to enhance its presence in the market and increase value added for its counterparties.

To comply with the EIF's statutory requirements, SMEs must have the following characteristics:

- Net fixed assets not exceeding ECU 75 million
- Number of staff not in excess of 500
- Independent of larger companies.

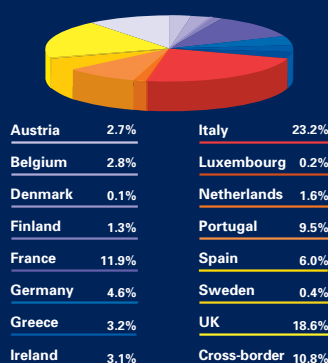
### ***Equity***

Since late 1996 the EIF has begun to provide equity in respect of SMEs, working through venture capital funds which make the specific decisions to invest in particular companies. The EIF is authorised to commit up to 20% of its own funds to equity participations (at present about ECU 78 million) between 1996 and 1998. In addition it has concluded an agreement with the EIB under which the Bank makes up to ECU 125 million available for investment in venture capital funds (ETF – see box on page 14). Most of this money will be directed towards venture capital funds. The key principles of its investments are:

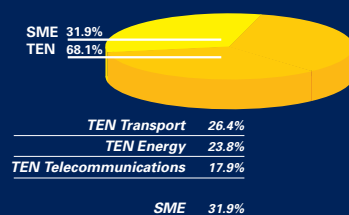
- to act as a catalyst for the involvement of private and institutional investors in venture capital funds
- to concentrate on those funds supporting innovative companies from the early stages of their development
- to ensure that an experienced team of professional venture capital managers is in place
- to invest only in funds that have a sufficient size to support such a strong managerial capacity
- to seek financial performance from its investments
- to establish a permanent and two-way information flow with beneficiary funds
- to take minority stakes (no more than 25%) in venture capital funds with a clear definition of their investment and exit strategies.

## OPERATIONS IN 1997

Signed guarantees  
*by country and volume*  
outstanding at 31.12.97:



Signed guarantees  
*by sector & volume*  
outstanding at 31.12.97:



### Guarantees

In 1997 there was a significant increase in the proportion of the EIF's business on the SME side, and somewhat slower growth in completed TENs transactions.

Twenty-three new guarantee operations were approved for a total of ECU 718m. The cumulative volume of approved operations since the inception of the Fund is now 3 billion.

EIF signed twenty-six guarantee contracts in 1997 for a total volume of 769.2m. Eight were in the TEN sector and eighteen covered SME operations. TEN operations accounted for 44% of the total, one each in transport and energy and six in telecommunications. The total for SMEs included fourteen operations under the Growth and Environment Pilot Project. Since the inception of the Fund the gross cumulative total of signed guarantee agreements, excluding repayments of principal, is 2234m at the exchange rates in effect on signature date.

During 1997, the EIF made significant progress in the geographical diversification of its portfolio and contracts have now been signed in all Member States. Of the gross portfolio of signed operations at 31 December 1997 ECU 555m (24%) concerned projects located in Objective I regions (those identified by the European Union as qualifying for special attention). The SME sector accounted for 86m and TEN projects 469m. In addition a number of the operations of national scope bring benefits to the regions concerned. A total of ECU 523m (23%) concerned projects located in the "Cohesion" countries (Greece, Ireland, Portugal and Spain), which qualify for particular attention from the EU in preparation for the achievement of Economic and Monetary Union). Of this amount, 72m involved the SME sector and 451m TEN projects.

By the end of 1997 cumulative disbursements on loans guaranteed by the EIF reached 959.13m and the net outstanding at 31 December 1997, after deduction of repayments of principal, was 917.8m plus interest of 47.8m.

**Table 2 - operations signed in 1997**

Name	Country	Party guaranteed	Amount	ECUm at signature date	Maturity	Signature date
1. TEN infrastructure						
1.1 Transport						
Rion-Antirion Bridge	Greece	EIB	ECU 55m	55.00	up to 7.5 years	17.12.97
1.2 Energy						
Lusitaniagas	Portugal	EIB	PTE 750m	3.78	up to 15 years	5.6.97
1.3 Telecommunications						
MATAV	Hungary	EIB	ECU 26.09m	26.09	up to 5 years	31.7.97
Omnitel (senior)	Italy	EIB/BNL	ITL 100bn	51.81	up to 8 years	29.8.97
Omnitel (subordinated)	Italy	Istituto S. Paolo, B Naz Lavoro, Soc. Générale	ITL 100bn	52.01	8 years	15.10.97
Digifone	Ireland	AIB, ABN-AMRO	IEP 20.05m	26.21	up to 10 years	3.10.97
Bouygues Telecom	France	ABN-AMRO, BNP, JP Morgan, WestLB	FRF 750m	113.55	10 years	23.10.97
Mobistar	Belgium	BNP	BEF 330m	8.12	10 years	16.12.97
telecoms sub-total				277.79		
TENs sub-total				336.57		
2. Small and Medium-sized Enterprises (SMEs)						
2.1 Ordinary guarantees						
Crédit Agricole	France	Crédit Agricole	FRF100m	15.11	up to 10 years	6.6.97
Groupe Banques Populaires 2	France	Groupe Banques Populaires	FRF 150m	22.68	up to 7 years	5.6.97
Mediocredito Umbria/ GEPAFIN	Italy	Mediocredito Umbria/ GEPAFIN	ITL 30bn	15.60	10 years	24.6.97
Mezzanine Loan Fund	UK	Syndicate, arranger NatWest	GBP 10m	14.52	up to 7 years	24.9.97
sub-total				67.91		

## 2.2 Growth & Environment Pilot Project

Banca Popolare di Verona	Italy	Banca Popolare di Verona	ITL 96bn	50.19	7 years	7.1.97
Merkur	Denmark	Merkur	DKK 18.5m	2.48	7 years	17.1.97
Kreditanstalt für Wiederaufbau	Germany	Kreditanstalt für Wiederaufbau	DEM 97.7m	49.90	5 years	21.4.97
Finnish Guarantee Board	Finland	Finnish Guarantee Board	FIM 86.9m	14.79	7 years	24.4.97
KERA Corporation	Finland	KERA Corporation	FIM 86.9m	14.79	7 years	24.4.97
Barclays Bank	UK	Barclays Bank	GBP 34.8m	49.65	7 years	20.5.97
Deutsche Ausgleichsbank	Germany	Deutsche Ausgleichsbank	DEM 97.25m	49.68	5 years	10.6.97
Raiffeisen Zentralbank	Austria	Raiffeisen Zentralbank	ATS 415.1m	29.42	7 years	31.10.97
Banco Comercial Português	Portugal	Banco Comercial Português	PTE 3.04bn	15.05	7 years	11.12.97
Banque Générale du Luxembourg	Luxembourg	Banque Générale du Luxembourg	ECU 4.5m	4.50	7 years	17.12.97
Alpha Credit Bank	Greece	Alpha Credit Bank	GRD 4.65bn	14.95	7 years	18.12.97
ING Bank NV	Netherlands	ING Bank NV	NLG 55.6m	25.00	7 years	18.12.97
Allied Irish Banks	Ireland	Allied Irish Banks	IEP 11.49m	15.06	7 years	22.12.97
Caja de Madrid	Spain	Caja de Madrid	ESP 4.9bn	29.25	7 years	23.12.97
<i>G &amp; E sub-total</i>				364.71		
<i>all SMEs sub-total</i>				432.62		
<b>TOTAL ECUM</b>				<b>769.19</b>		

The above total of 769.19m represents the aggregate ECU volume of loans covered by EIF guarantees signed in 1997, calculated on the basis of the conversion rates prevailing on the date of signature.



## DETAILS OF OPERATIONS SIGNED IN 1997

### *Trans-European Networks (TEN)*

The EIF signed eight operations in the TEN infrastructure category in 1997. An interesting evolution is that only four operations cover EIB lending, whereas in the other four projects the EIF is supporting different lenders including several shareholders.

#### *Transport*

The *Rion-Antirion Bridge* is a key road link in Western Greece and is part of the Patras-Athens-Thessaloniki (PATHE) motorway which is a TEN priority project. The EIF forms part of a syndicate providing a guarantee for an EIB loan during the construction period of the project.

#### *Energy*

The *Lusitaniagas* project concerns the distribution within West-Central Portugal of natural gas coming from Algeria via Spain.

#### *Telecommunications*

The *Bouygues Telecom* operation covers part of a syndicated senior debt facility for the financing of the third cellular phone network in France using DCS 1800 technology.

The *Digifone* operation supports the implementation of the second GSM mobile telephone network in Ireland.

The *Mobistar* guarantee supports the implementation of the second GSM network in Belgium.

In the *MATAV* operation the EIF is participating in a multi-currency guarantee facility on an EIB loan which contributes to the financing of the modernisation and expansion of the Hungarian telecommunications system. This is the Fund's second guarantee operation in Central and Eastern Europe.

*Omnitel Pronto Italia* is expanding Italy's second GSM network with a debt facility consisting of up to ITL 2.8 billion in senior debt and associated subordinated lending. The first part of the EIF's support for this operation consists of a guarantee covering part of the senior facility and the second part covers subordinated debt.

***The Financing of Public-Private Partnerships (PPPs) in Trans-European Transport Network Projects***

A group of senior public and private sector experts chaired by Commissioner Kinnock produced its final report and recommendation in May 1997 on Public-Private Partnership Financing of Trans-European Transport Network Projects. Both the conclusions of the Group and the discussions at ministerial level thereafter confirm that a consensus is emerging across the Union on the important role that PPPs can play in improving the quality and cost-effectiveness of both large and small transport projects. The EIF was an active participant in the work of the group.

The wide-ranging recommendations aim at the promotion of PPPs where the combination of public and private sector experience and skills can deliver better projects with lower public subsidies. Their recommendations have implications for all actors involved in the implementation of these projects, namely the Commission in terms of regulatory work in the public procurement and competition fields, the Member States, individually and collectively for cross-border projects as sponsors of the projects, the private sector as a source of entrepreneurial spirit and commercial and financial skills, as well as the EIB and the EIF.

The report pays particular attention to the specific difficulties associated with the construction and early operational stages of PPP transport projects and to the role which existing financial instruments at national and Community level (including the EIB and the EIF) can play in facilitating the financing of these stages. Structurally subordinated and early operational loans have been recognised as an important element in PPP financing structures. The report also addresses the need for additional equity and quasi-equity for transport PPP projects.

### ***Small and medium-sized enterprises (SME)***

The EIF made further substantial progress in 1997 in developing its guarantee activity in the SME sector, signing eighteen transactions, of which fourteen were under the Growth and Environment Pilot Project (see box).

The *Mezzanine Loan Fund* is designed to provide development finance to industrial SMEs in the UK. The EIF is guaranteeing part of the debt portion of GBP 24 million of the MLF's endowment of 34 million.

The *Crédit Agricole, Groupe Banques Populaires 2* and *Mediocredito Umbria/GEPAFIN* operations are loan portfolio guarantees covering lending to SMEs in France and Italy respectively.

### ***The Growth and Environment Pilot Project - a progress report***

Under this scheme, 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 (for full details of the scheme see the 1996 Annual Report and separate brochure available from the Fund).

By the end of March 1998 the EIF had signed twenty-two guarantee agreements with financial intermediaries across Europe for a total amount of ECU 547 million. The Growth and Environment scheme is operational in all 15 Member States.

#### ***The twenty-two participating institutions at 31 March 1998 were:***

1	<i>Austria</i>	Bank Austria
2		Raiffeisen Zentralbank
3	<i>Belgium</i>	Kredietbank
4	<i>Denmark</i>	Finance for Danish Industry (FIH)
5		Merkur
6	<i>Finland</i>	Finnish Guarantee Board
7		KERA Corporation
8	<i>France</i>	Banque Populaire du Haut-Rhin
9		Crédit Lyonnais
10	<i>Germany</i>	Deutsche Ausgleichsbank
11		Kreditanstalt für Wiederaufbau
12	<i>Greece</i>	Alpha Credit Bank
13		Ionian and Popular Bank
14	<i>Ireland</i>	Allied Irish Banks
15	<i>Italy</i>	Banca Popolare di Verona
16		Finlombarda/Cariplo
17	<i>Luxembourg</i>	Banque Générale du Luxembourg
18	<i>Netherlands</i>	ING Bank NV
19	<i>Portugal</i>	Banco Comercial Português
20	<i>Spain</i>	Caja de Madrid
21	<i>Sweden</i>	FöreningsSparbanken AB
22	<i>UK</i>	Barclays Bank

### ***The European Technology Facility (ETF)***

In the conclusions of the Amsterdam Summit of June 1997 the EU Heads of State and Government acknowledged the important part played by the EIB and the EIF in job creation in Europe and in stimulating investment. They called on the EIB, inter alia, to establish a facility for the financing of high-technology projects of small and medium-sized enterprises in co-operation with the EIF. The EIB developed a structured response to this invitation under the title of "Amsterdam Special Action Programme" (ASAP), as part of which it decided to mandate the Fund to invest up to ECU 125 million over a period of three years. The ETF will invest in venture capital funds targeting SMEs developing or using advanced technologies in industry or services. This should leverage between 500 and 800 million for investment in SMEs.

### ***Proposed EU Schemes***

During the special Employment Summit in Luxembourg on 21-22 November 1997 EU Heads of State and Government invited the European Commission to make proposals for new financial instruments to support innovative and job-creating small and medium-sized enterprises. Following this invitation and consultation of the EIF, the European Commission services have prepared a formal proposal to the European Parliament and Council to launch a "Growth and Employment Initiative" comprising three facilities. The EIF has been called to manage two of these facilities on a trust basis, i.e:

- *ETF Start-Up*: 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 ETF and the EIF's own risk capital facilities.
- *SME Guarantee Facility*, providing 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.

These new facilities will not create any exposure or liability on the EIF balance sheet and the management of them will represent an important extension of the EIF's current equity and SME guarantee operations. The costs for both mandates will be covered by the management and/or performance fees earned under the agreements concerned.

Taken together these schemes leverage a considerable amount of lending and equity investment and their implementation will make the EIF a key player in the provision of guarantees and equity to SMEs in the European Union.



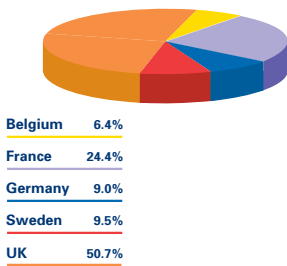
### ***Equity***

1997 saw the beginning of the EIF's equity activity. At first this was limited to operations on its own account, but by the end of the year it had made a start on investments under the European Technology Facility using funds made available by the EIB (see table 3).

A substantial deal flow was established for operations from the Fund's own resources. It is authorised to commit up to 20% of its own funds (approximately 78m at the end of 1997) to equity participations before the end of 1998. During 1997 nine investments were signed for a total of 25.5m in venture capital funds managed in Belgium, France, Germany, Sweden and the United Kingdom, some of them planning to operate on a pan-European basis.

The first two investments under the ETF, totalling 6.5m, were signed in December 1997.

Equity investments signed  
*by country of management  
and volume, 1997*



**Table 3 – equity investments signed in 1997**

Date of signature	Name of fund	Country of management	Amount invested (million)	ECUm*
<b>EIF own resources</b>				
9.1.97	Sofinnova Capital II	France	FRF 19.5	2.97
15.1.97	Prelude Trust plc	UK	GBP 2	2.74
25.4.97	MTI Three B Ltd. Partnership	UK	GBP 2	2.85
30.4.97	Alta Berkeley V C.V.	UK	ECU 3	3.00
16.5.97	Baltic Rim Fund Limited	Sweden	USD 3.4	2.95
26.6.97	Capricorn Venture Fund N.V.	Belgium	BEF 84.6	2.08
22.10.97	Strategic European Technology N.V.	Germany	NLG 6.5	2.92
30.10.97	SPEF pre-IPO European Fund	France	ECU 3	3.00
17.12.97	Kennet I Limited Partnership	UK	GBP 2	2.96
			<b>Total</b>	<b>25.47</b>
<b>European technology facility</b>				
12.12.97	SPEF pre-IPO European Fund	France	ECU 2	2.00
19.12.97	Kennet I Limited Partnership	UK	GBP 3	4.43
			<b>Total</b>	<b>6.43</b>

\* converted at rates in effect on signature date

## THE EIF IN 1998 AND BEYOND

The development of the EIF's **TEN guarantee business** will be influenced by the progress made in implementing TEN and TEN-related investments throughout Europe, the acceptance of the principle of private-public partnerships in the realisation of these investments, and the appetite of the banking sector, including increasingly capital market investors, for the associated project finance risk. The general improvement in the economic climate, with real growth rates of over 3% forecast for the EU over the next three years, the introduction of the Euro and the impact of the Asian economic crisis should facilitate infrastructure investment in the EU and provide opportunities for the EIF. Further opportunities may come in 1998 and beyond from the liberalisation of telecommunications and energy markets in the EU and the opening of the negotiations for the accession of new Member States, particularly from Central and Eastern Europe. Progress on public-private partnerships in the transport sector will be extended by the work undertaken at EU level and in the Member States to follow-up the conclusions of the report issued in 1997 by a high-level group from the public and private sectors chaired by the EU Transport Commissioner Neil Kinnock (see page 12).

In the **SME guarantee** sector, the business is likely to be dominated in the coming two years by an expansion of the schemes promoted by the EU. In addition, the EIF's management will be seeking opportunities to provide credit insurance for loan portfolios on its own account as well as other more specialised transactions which would contribute to the earnings of the shareholders.

The EIF has concluded a significant number of **equity investments** on the basis of the strong deal flow. This activity is expected to expand significantly. Alongside the equity participations from its own funds, the EIF will be managing trust funds which should enable it to build up a significant presence in the market. It is envisaged that the portfolio of ECU 78 million available for equity participations from the Fund's own resources will be fully invested by the end of 1998. This amount will be complemented by the ETF resources of 125 million and by the funds that the EU is expected to make available under its Start-Up facility, currently under negotiation (see page 15 - box on proposed EU schemes). The investment guidelines set by the EIF for operations on its own account and by its partners for the operations on mandate will allow the Fund to target some of the fastest-growing segments of the venture capital market and those where it can add maximum value by its intervention. These include especially early-stage and technology funds.

Looking to the future and with the prospects of an increase in volume of the business and associated contingent liabilities, the EIF is also introducing a more sophisticated approach to the classification and management of risk.

## CAPITAL AND TREASURY

The EIF's total authorised capital is ECU 2 billion. During 1997 the Fund welcomed a new shareholder in the Raiffeisen Zentralbank Österreich which subscribed 3 shares, and the Kreditanstalt für Wiederaufbau increased its participation from thirty shares to forty. The subscribed capital thus increased from 1.786 billion to 1.799 billion, or 89.95% of the total authorised capital. Banks and financial institutions have now subscribed 399m, or 66.5% of the amount of 600m available to them for subscription.

On 5 November 1997 the General Meeting agreed that the three shares held by the Banco Português de Investimento could be acquired by the Banco de Fomento e Exterior, increasing its shareholding in the Fund from three to six shares (ECU 6 million).

The fourth and final instalment of paid-in capital was received in August 1997, bringing the total paid in to 359.8m at the end of 1997.

**Table 4 - Capital Position of the EIF (ECU m)**

	at 31.12.1996	at 31.12.1997
Authorised capital	2 000	2 000
Subscribed capital	1 786	1 799
- <i>EIB</i>	800	800
- <i>European Community</i>	600	600
- <i>Financial institutions</i>	386	399
Paid-in capital	267.9	359.8
- <i>EIB</i>	120	160
- <i>European Community</i>	90	120
- <i>Financial institutions</i>	57.9	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. The Fund's treasury totalled 385m at 31 December 1997.

It was invested in money market and short-term deposits for 135.7m (35.2%) and ECU-denominated securities totalling 249.3m (64.8%). ECU-denominated assets accounted for 98% of treasury funds.

## ADMINISTRATION



*David McGlue, Gerbrand G. Hop, Michel Berthezène (l. to r.)*

The 1997 Annual General Meeting was chaired by Sir Brian Unwin, representing the European Investment Bank, who holds the Chairmanship of the General Meeting until the 1998 Annual Meeting.

The General Meeting appointed Mr Gerbrand G. Hop as Chairman of the Financial Committee on the retirement of Mr Thomas Oursin and Mr Michel Berthezène as member of the Financial

Committee in succession to Mr François Lagrange. Mr David McGlue was confirmed as a member of the Financial Committee for another period of three years. Mr Hop took up his appointment on 16 September 1997 and Mr Berthezène on 1 September.

On 10 June 1997 the General Meeting appointed Mr Svante Öberg to succeed Mrs Isabel Correia Barata as a member of

the Supervisory Board nominated by the European Investment Bank. Mr Öberg subsequently resigned and was replaced by Mr Sven-Olof Johansson with effect from 29 August 1997.

The EIF expresses its thanks to Mr Oursin for his chairmanship of the Financial Committee during the year, to Mr Lagrange for his contribution to the Fund's development since inauguration and to Mrs Correia Barata and Mr Öberg for their work on the Supervisory Board.

The Board of Auditors was chaired by Mr Daniel van der Spree for the year ending on the date of the 1997 Annual Meeting.

At 31 December 1997 thirty-five persons were employed by the Fund, including the three members of the Financial Committee.

In September 1997 the EIF moved into its new office premises in the Kirchberg banking and administrative quarter of the city of Luxembourg.



*Luc Winand, Christopher Sibson, Guido Prud'homme (l. to r.)*

## ANNEXES

<b>Financial Statements and Notes</b>	<b>22</b>
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## FINANCIAL STATEMENTS

### Results for the year

The Fund made a net profit for 1997 of 10 721 187, compared with 11 506 907 in 1996. Of gross income of 23 372 802, 66.4% arose from income on investments and 33.6% from commission on guarantee operations (1996: 69.2% and 30.8% respectively). A transfer of 7 694 984 was made to the provision for risk, equal to two thirds of gross commission on guarantees issued, plus an additional amount of 4 000 000 following a decision taken by the Financial Committee and endorsed by the Supervisory Board.

The balance sheet total progressed from 386 139 468 at 31 December 1996 to 410 099 633 at 31 December 1997, an increase of 6.2%. Assets included the Fund's first equity investments, while on the liabilities side the provision for risk stood at 12 146 118. The statutory reserve stood at 10 683 120.

The Supervisory Board has decided to propose to the General Meeting that it allocate the net profit for the year, i.e. 10 721 187, as follows:

- 5 360 594 to the statutory reserve
- 3 598 000 for distribution to shareholders
- 1 762 593 to profit brought forward.

### Unit of account

As required by Article 6 paragraph 2 of the Statutes the Fund's unit of account is 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 is:

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

The conversion rates between the currencies of the Member States of the European Union and the ECU, which are determined on the basis of market rates, are published daily in the Official Journal of the European Union.

The Fund applies these rates in calculating the rates applicable to the other currencies used for its operations.

The following conversion rates were used for drawing up the balance sheet at 31 December 1997:

<b>1 ECU =</b>	<b>31.12.1997</b>
Deutsche mark	1.97632
French francs	6.61214
Pounds sterling	0.666755
Italian lire	1942.03
Spanish pesetas	167.388
Belgian francs	40.7675
Dutch guilders	2.22742
Swedish kronor	8.73234
Danish kroner	7.52797
Austrian schillings	13.902
Finnish markka	5.98726
Greek drachmas	312.039
Portuguese escudos	202.137
Irish pounds	0.771961
Luxembourg francs	40.7675

### Statistical Note

*With the exception of those in tables 2 and 3, amounts in ECU indicated in this Annual Report are based on conversion rates at 31 December 1997.*

*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 1997 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.*

## AUDITORS' REPORT

*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 1997. 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 31 December 1997 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, 3 April 1998

*KPMG Audit  
Réviseurs d'Entreprises*

*D.G. Robertson*

# BALANCE SHEET

## AS AT DECEMBER 31, 1997

(expressed in ECU)

ASSETS	NOTES	1997	1996
Current assets			
Cash at bank and in hand:	3.1		
current accounts		2.052.458	4.776.587
term deposits		133.710.382	143.000.000
		<u>135.762.840</u>	<u>147.776.587</u>
Debtors	3.2	636.494	191.094
Fixed assets			
Debt securities and other fixed-income securities held as fixed assets	3.3, 3.4	249.317.877	140.763.738
Investments in Venture Capital Funds	3.4	8.862.598	-
Intangible assets	3.4	48.620	-
Tangible and other fixed assets	3.4	5.591.635	203.697
Subscribed capital called, but not yet due for payment	4.2	-	89.300.000
Prepayments and accrued income	3.5	9.879.569	7.904.352
<b>Total assets</b>		<b>410.099.633</b>	<b>386.139.468</b>
<b>LIABILITIES</b>	<b>NOTES</b>	<b>1997</b>	<b>1996</b>
Creditors	4.3	1.569.369	1.836.413
Accruals and deferred income	4.4	5.646.602	2.910.057
Provision for liabilities and charges			
Provisions for pensions		741.766	229.985
Provision relating to guarantees	4.1	12.146.118	4.451.134
Other provisions		291.207	360.664
		<u>13.179.091</u>	<u>5.041.783</u>
Capital	4.2		
Subscribed		1.799.000.000	1.786.000.000
Uncalled		(1.439.200.000)	(1.428.800.000)
		<u>359.800.000</u>	<u>357.200.000</u>
Share premium account		32.169	-
Statutory reserve	4.5	10.683.120	4.929.667
Profit brought forward		8.468.095	2.714.641
Profit for the financial year		10.721.187	11.506.907
<b>Total liabilities</b>		<b>410.099.633</b>	<b>386.139.468</b>
<b>OFF-BALANCE SHEET ITEMS</b>			
Guarantees in respect of loans granted by third parties:	5.1		
Drawn		965.620.381	629.265.209
Undrawn		1.206.202.177	793.990.546
		<u>2.171.822.558</u>	<u>1.423.255.755</u>
Commitments	5.3	24.610.112	-
Assets held for third parties	5.4	25.472.941	9.857.781
Fiduciary operations	5.5	6.499.604	-
		<u>2.228.405.215</u>	<u>1.433.113.536</u>

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

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1997

(expressed in ECU)

	NOTES	1997	1996
Net interest and similar income	6.1	15.528.079	12.586.971
Commission income	6.2	7.844.723	5.589.189
Net profit/(loss) on financial operations		(14.405)	152.275
Other operating income		-	90.386
General administrative expenses			
Staff costs:			
- wages and salaries		(2.154.712)	(2.217.475)
- social security costs		(310.125)	(237.626)
of which: ECU 247.126 relating to pensions (1996: ECU 184.358)			
- other staff costs	6.3	(555.053)	(437.717)
		(3.019.890)	(2.892.818)
Other administrative expenses		(1.753.947)	(1.285.700)
		(4.773.837)	(4.178.518)
Value adjustments in respect of tangible and intangible assets		(168.389)	(83.927)
Transfer to the provision relating to guarantees	4.1	(7.694.984)	(2.649.469)
<b>Profit for the financial year</b>		<b>10.721.187</b>	<b>11.506.907</b>

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

## 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 reports of March 1998 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, 11 May 1998

*The Board of Auditors*

*R. DIEPVENS*

*D. VAN DER SPREE*

## NOTES TO THE ANNUAL ACCOUNTS DECEMBER 31, 1997

### 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 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 European Currency Units ("ECU") and the accounting records are maintained in that currency.

Fixed assets denominated in a foreign currency are reported using the exchange rate at the date of the transaction (historical cost).

All other assets, liabilities and off-balance sheet items expressed in a currency other than ECU are reported using the closing foreign exchange rate. Share capital subscriptions paid in national currencies were converted to ECU at the rate prevailing on the payment date.

Income and charges in foreign currencies are converted into ECU by applying the exchange rate at 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.

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

The profit or loss arising on forward foreign exchange transactions covering balance sheet items is amortised on a pro-rata basis over the actual duration of the contract.

### **2.3 Issued guarantees**

The amount recorded 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 funds

Investments in venture capital funds 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:</b>	
Software	over 2 years
<b>Tangible:</b>	
Buildings	30 years
Fixtures and fittings	10 years
Office equipment	5 years
Computer equipment, 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 apportionment basis over the life of the guarantee.

## 2.9 Interest and similar income

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

### 3. DETAILED DISCLOSURES RELATING TO ASSET HEADINGS

#### 3.1 Cash at bank and in hand

Remaining life of term deposits is detailed as follows:

	1997 ECU	1996 ECU
Up to three months	123.510.382	143.000.000
From three months to one year	10.200.000	-
	<b>133.710.382</b>	<b>143.000.000</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 shareholders of the Fund.

#### 3.2 Debtors

Debtors include an amount of ECU 228.978 due by the EIB in relation to employees' pension obligations (1996: nil).

#### 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 35.154.244 (1996: ECU 41.730.400).

Securities issued by the European Investment Bank amounted to ECU 7.543.230 (1996: ECU 4.411.230).

The market value of securities held amounted to ECU 248.965.412 as at 31 December 1997 (1996: ECU 145.400.647).

The Fund participates as lender in a Securities Lending and Borrowing Programme with Euroclear. As at 31 December 1997, the balance of securities lent amounts to ECU 3.642.171 (1996: nil).

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

Headings	Purchase price at the beginning of the year	Additions	Disposals	Purchase price at the end of the year	Cumulative value adjustments (depreciation) at the end of the year	Carrying amount at the balance sheet date
Debt securities and other fixed income securities held as fixed assets	140.763.738	171.238.786	(62.684.647)	249.317.877	-	249.317.877
Investments in venture capital funds	-	8.862.598	-	8.862.598	-	8.862.598
Intangible assets	-	49.511	-	49.511	(891)	48.620
of which:						
a) Software	-	5.653	-	5.653	(891)	4.762
b) Payments on account	-	43.858	-	43.858	-	43.858
Tangible and other fixed assets	287.624	5.570.874	(15.438)	5.843.060	(251.425)	5.591.635
of which:						
a) Land and buildings	-	5.050.505	-	5.050.505	(52.598)	4.997.907
b) Office equipment	1.615	43.141	-	44.756	(2.356)	42.400
c) Fixtures and fittings	-	386.568	-	386.568	(12.804)	373.764
d) Computer equipment	188.414	56.930	(428)	244.916	(108.749)	136.167
e) Vehicles	97.595	29.963	(15.010)	112.548	(74.918)	37.630
f) Other fixed assets	-	3.767	-	3.767	-	3.767
<b>TOTAL</b>	<b>141.051.362</b>	<b>185.721.769</b>	<b>(62.700.085)</b>	<b>264.073.046</b>	<b>(252.316)</b>	<b>263.820.730</b>

### 3.5 Prepayments and accrued income

Prepayments and accrued income are analysed as follows:

	1997 ECU	1996 ECU
Interest receivable on debt securities	7.430.152	4.648.487
Interest receivable on term deposits	603.519	197.408
Accrued discount on debt securities	1.032.037	2.639.002
Accrued commission on guarantees	783.691	418.070
Prepaid expenses and others	30.170	1.385
	<b>9.879.569</b>	<b>7.904.352</b>

The total amount of the discount to be accrued on the remaining life of the debt securities amounted to ECU 4.960.695 as at 31 December 1997 (1996: ECU 821.598).

#### 4. DETAILED DISCLOSURES RELATING TO LIABILITY HEAD- INGS

##### 4.1 Provision relating to guarantees

As at 31 December 1997, the Fund had increased the general provision by ECU 7.694.984 in respect of contingent losses which may arise from its guarantee portfolio.

	1997 ECU	1996 ECU
Balance at the beginning of the year	4.451.134	1.801.665
Transfer to the provision relating to guarantees	7.694.984	2.649.469
Balance at the end of the year	<b>12.146.118</b>	<b>4.451.134</b>

Two thirds of gross utilisation commission is normally allocated each year to the risk provision. 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, starting this year with an additional provision of ECU 4 000 000.

1.799 shares with a nominal value of ECU 1.000.000 each and called for an amount of ECU 359.800.000 representing 20% of the subscribed share capital.

The subscribed share capital is represented as follows:

	1997 ECU	1996 ECU
Subscribed and paid in	359.800.000	267.900.000
Subscribed, called but not yet due for payment	-	89.300.000
Subscribed but not yet called (80%)	1.439.200.000	1.428.800.000
	<b>1.799.000.000</b>	<b>1.786.000.000</b>

##### 4.2 Capital

The authorised capital amounts to ECU 2 billion, divided into 2.000 shares with a nominal value of ECU 1.000.000 each.

During the year the subscribed capital of the Fund has been increased by ECU 13.000.000 following the issue of 13 shares with a nominal value of ECU 1.000.000 each.

As at 31 December 1997, the subscribed share capital amounted to ECU 1.799.000.000 representing

	1997	1996
The capital is subscribed as follows:		Number of shares
European Investment Bank	800	800
European Commission	600	600
Financial Institutions	399	386
	<b>1.799</b>	<b>1.786</b>

### 4.3 Creditors

Creditors are analysed as follows:

	1997 ECU	1996 ECU
Trade creditors in relation to services received	949.050	1.156.393
Payments received on account from the Commission	500.000	500.000
Staff costs payable	105.321	180.020
Amount payable to the EIB	14.998	-
	<b>1.569.369</b>	<b>1.836.413</b>

Trade creditors include ECU 633.085 (1996: ECU 1.041.992) payable to the EIB in relation to services received.

### 4.4 Accruals and deferred income

Accruals and deferred income are analysed as follows:

	1997 ECU	1996 ECU
Deferred commission on guarantees issued	2.667.486	2.896.207
Premium amortised on forward debt securities	2.954.823	13.850
Loss amortised on forward foreign currency transactions	24.293	-
	<b>5.646.602</b>	<b>2.910.057</b>

The total amount of the premium to be amortised on the remaining life of the debt securities amounted to ECU 8.387.994 as at 31 December 1997 (1996: ECU 3.694.488).

### 4.5 Statutory reserve

Under the terms of Article 31 of the Fund's Statutes, the Fund is required to appropriate to a

statutory reserve at least 20% of its annual net profit until the aggregate reserve equals 10% of subscribed capital. Such reserve is not available for distribution.

A minimum amount of ECU 2.144.237 is required to be appropriated in 1998 with respect to the year ended 31 December 1997.

## 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:

	ECU Drawn	ECU Undrawn	ECU Total 1997	ECU Total 1996
Up to five years	155.749.955	-	155.749.955	87.310.015
From five years to ten years	424.203.305	846.484.463	1.270.687.768	555.788.848
From ten years to fifteen years	163.795.874	121.284.396	402.229.192	440.997.323
Over fifteen years	221.871.247	157.712.455	343.155.643	339.159.569
	<b>965.620.381</b>	<b>1.206.202.177</b>	<b>2.171.822.558</b>	<b>1.423.255.755</b>

The drawn down portion of guarantees issued includes an amount of ECU 47.807.599 (1996: ECU 36.990.524) representing the present value of future interest covered by guarantees.

Of the above total amount, ECU 1.129.985.419 (1996: ECU 998.546.949) has been issued in favour of the EIB.

### 5.2 Statutory ceiling on guarantee operations

Under the terms of Article 30 of the Fund's Statutes, the overall commitments 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 2.171.822.558.

### 5.3 Commitments

Commitments are analysed as follows:

Investments in venture capital funds committed and not yet drawn down amount to ECU 16.798.988 (1996: nil).

Forward foreign exchange contracts:

			ECU
Purchase of ECU against GBP	Maturity	07.01.98	3.599.523
Purchase of ECU against FRF	Maturity	07.01.98	2.211.841
Purchase of ECU against NLG	Maturity	16.06.98	1.829.845
			<b>7.641.209</b>

The forward foreign exchange contracts cover the net foreign exchange position of balance sheet assets.

Other commitments: as at 23 December 1997, the Fund entered into a purchase agreement for a total amount of ECU 169.915 to acquire computer equipment and related software.

## 5.4 Assets held for third parties

Assets held for third parties represent a trust account established by the Fund 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.

## 5.5 Fiduciary operations

Pursuant to Article 32 of its statutes, the Fund acquires, manages and disposes of investments in venture capital funds, in its own name but on behalf of and at the risk of the EIB, according to a Fiduciary and Management Agreement concluded with the EIB.

Investments in venture capital funds made according to the Fiduciary and Management Agreement are analysed as follows:

## 5.6 Contingent liability

The Fund has issued a guarantee in 1995 in relation to a subordinated debt issue of FF 350 million (ECU 53 million) which is one element of a major project 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 at 1 April 1998, interest FF 21.7 million (ECU 3.3 million) to the debt holders and guarantee commission FF 7.7 million (ECU 1.2 million) to the Fund. Since, at that date, the concessionaire had insufficient resources to honour fully these commitments, the Fund and principal debt holders agreed

to waive their rights to commission and interest respectively until May 4, 1998, at which time the concessionaire is expected to have received the necessary funds from the municipality to enable the payments to be made.

Under the terms of the decision to rescind the concession, the concessionaire is to be indemnified. The concessionaire has introduced a specific request for indemnification, which, if met in full would allow for complete reimbursement of the debt guaranteed by the Fund. It is at this stage too early to evaluate the outcome of this process.

	1997 ECU	1996 ECU
Investments made on behalf of the EIB	67.491	-
Commitments made on behalf of the EIB not yet drawn down	6.432.113	-
	<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:

	1997 ECU	1996 ECU
Interest on term deposits	6.026.371	6.398.821
Interest on debt securities	12.112.304	4.715.158
Accrued discount on debt securities	408.747	1.317.647
Interest on current accounts	56.123	181.604
Other interest and similar income	-	147
Premium amortised on debt securities	(3.015.745)	(13.850)
Interest and similar charges	(59.721)	(12.556)
	<b>15.528.079</b>	<b>12.586.971</b>

### 6.2 Commission income

Commission income comprises:

	1997 ECU	1996 ECU
Commission on guarantees issued in respect of loans drawn down	5.542.475	3.974.204
Commission on guarantees issued in respect of loans not yet drawn down	1.566.797	816.843
Up-front commissions in respect of guarantees issued	488.099	729.098
Commission in respect of guarantees cancelled	205.825	69.044
Commission in respect of bond lending activities	41.527	-
	<b>7.844.723</b>	<b>5.589.189</b>

### 6.3 Other staff costs

This heading includes the cost of temporary staff and of staff seconded by the EIB.

Certain comparative costs within this caption have been reclassified to facilitate comparison with the current year's presentation.

## 7. Personnel

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

	1997	1996
Financial Committee	3	3
Employees	25	19
<b>TOTAL</b>	<b>28</b>	<b>22</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.

# LIST OF SHAREHOLDERS AND CAPITAL SUBSCRIPTIONS

(Situation: 31 December 1997)

	Number of shares	Subscription in the capital
<b>European Investment Bank</b>	<b>800</b>	<b>800 000 000</b>
<b>European Community</b>	<b>600</b>	<b>600 000 000</b>
<b>Kingdom of Belgium</b>	<b>16</b>	<b>16 000 000</b>
KREDIETBANK N.V.	4	4 000 000
ASLK-CGER BANK N.V./S.A.	3	3 000 000
GÉNÉRALE DE BANQUE S.A./GENERALE BANK N.V.	3	3 000 000
CRÉDIT PROFESSIONNEL S.A./ BEROEPSKREDIET N.V.	3	3 000 000
CRÉDIT COMMUNAL DE BELGIQUE S.A.	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
DEUTSCHE GIROZENTRALE-DEUTSCHE KOMMUNALBANK	5	5 000 000
LANDESKREDITBANK BADEN-WÜRTTEMBERG	5	5 000 000
SÜDWESTDEUTSCHE LANDESBANK GIROZENTRALE	5	5 000 000
BAYERISCHE LANDESANSTALT FÜR AUFBAUFINANZIERUNG	5	5 000 000
LANDESBANK RHEINLAND-PFALZ GIROZENTRALE	3	3 000 000
LANDESBANK SACHSEN GIROZENTRALE	3	3 000 000
LANDESBANK BERLIN GIROZENTRALE	3	3 000 000
DEUTSCHE AUSGLEICHSBANK	5	5 000 000
BAYERISCHE LANDESBANK GIROZENTRALE	5	5 000 000
BREMER LANDESBANK	3	3 000 000
LANDESBANK SCHLESWIG-HOLSTEIN	3	3 000 000
LANDESBANK HESSEN-THÜRINGEN	5	5 000 000
<b>Hellenic Republic</b>	<b>12</b>	<b>12 000 000</b>
IONIAN AND POPULAR BANK OF GREECE S.A.	3	3 000 000
COMMERCIAL BANK OF GREECE S.A.	3	3 000 000
ALPHA CREDIT BANK A.E.	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	5	5 000 000
BANCO DE NEGOCIOS ARGENTARIA, S.A.	3	3 000 000
BANCO CENTRAL HISPANOAMERICANO, S.A.	3	3 000 000
BANCO BILBAO VIZCAYA, 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>
GROUPE NATEXIS	15	15 000 000
CRÉDIT LOCAL DE FRANCE	10	10 000 000
CAISSE NATIONALE DE CRÉDIT AGRICOLE	10	10 000 000
GROUPE BANQUE POPULAIRES	3	3 000 000
CAISSE CENTRALE DE CRÉDIT COOPÉRATIF	3	3 000 000
CAISSE DES DÉPÔTS ET CONSIGNATIONS	15	15 000 000
<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
ISTITUTO MOBILIARE ITALIANO S.p.A.	10	10 000 000
BANCA DI ROMA S.p.A.	5	5 000 000
BANCO DI NAPOLI S.p.A.	5	5 000 000
BANCA NAZIONALE DEL LAVORO S.p.A.	5	5 000 000
CARIPLO - CASSA DI RISPARMIO DELLE PROVINCIE LOMBARDE S.p.A.	5	5 000 000
BANCA COMMERCIALE ITALIANA S.p.A.	5	5 000 000
CREDITO ITALIANO S.p.A.	5	5 000 000
BANCO AMBROSIANO VENETO S.p.A.	5	5 000 000
MEDIOCREDITO CENTRALE S.p.A.	5	5 000 000
BANCA MONTE DEI PASCHI DI SIENA S.p.A.	5	5 000 000
ICCRI - ISTITUTO DI CREDITO DELLE CASSE DI RISPARMIO ITALIANE S.p.A.	5	5 000 000
BANCA POPOLARE DI NOVARA	3	3 000 000
ISTITUTO CENTRALE DELLE BANCHE POPOLARI ITALIANE	3	3 000 000
BANCA POPOLARE DI MILANO	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 S.A. LUXEMBOURGEOISE	4	4 000 000
BANQUE ET CAISSE D'ÉPARGNE DE L'ÉTAT	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.	5	5 000 000
COÖPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A. (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
DIE ERSTE ÖSTERREICHISCHE SPAR-CASSE-BANK	3	3 000 000
RAIFFEISEN ZENTRALBANK ÖSTERREICH	3	3 000 000
<b>Portuguese Republic</b>	<b>17</b>	<b>17 000 000</b>
CAIXA GERAL DE DEPÓSITOS, S.A.	5	5 000 000
BANCO COMERCIAL PORTUGUÊS, S.A.	3	3 000 000
BANCO DE FOMENTO E EXTERIOR, S.A.	6	6 000 000
BANCO ESPIRITO SANTO E COMERCIAL DE LISBOA, S.A.	3	3 000 000
<b>Finnish Republic</b>	<b>6</b>	<b>6 000 000</b>
KERA CORPORATION	3	3 000 000
FINNISH GUARANTEE BOARD	3	3 000 000
<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 (UK) 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>

## 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

		Representing:
Chairman	Sir Brian UNWIN, President, European Investment Bank	EIB
Members	Inga Maria GRÖHN, Deputy to the Director of Finance, Ministry of Finance, Helsinki,	EIB
	Isabel CORREIA BARATA, Sub-Directora Geral da Tesouro, Direcção Geral do Tesouro, Ministerio das Finanças, Lisbon, <i>until June 1997</i>	EIB
	Svante ÖBERG, Generaldirektör of Konjunkturinstitutet, <i>from June to August 1997</i>	
	Sven-Olof JOHANSSON, Director General for International Affairs, Ministry of Finance, Stockholm <i>from August 1997</i>	
Alternates	<i>Jan VANORMELINGEN, Ere-Directeur-Generaal van de Administratie der Thesaurie, Ministry of Finance, Brussels,</i>  <i>Gerhardt RAMBOW, Ministerialdirektor a.D., Bonn/Berlin,</i>	
Members	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
Members	Hans REICH, Mitglied des Vorstandes, Kreditanstalt für Wiederaufbau, Frankfurt	Financial Institutions
	Antonio PEDONE, Presidente, CREDIOP, Rome	Financial Institutions

*Alternates*

*Maarten F. SECKEL, Executive Vice-President,  
ABN-AMRO Bank, Amsterdam*

*Fernando BECKER ZUAZUA, Presidente,  
Instituto de Credito Oficial, Madrid*

## FINANCIAL COMMITTEE

Chairman

Thomas OURSIN, *until September 1997*  
Gerbrand G. HOP, *from September 1997*

Member

David McGLUE

*Alternate*

*Gerassimos THOMAS, from March 1997*

Member

François LAGRANGE, *until September 1997*  
Michel BERTHEZENE, *from September 1997*

*Alternate*

*Raymond PASTORET, until June 1997*  
*Simon HAUXWELL, from June 1997*

## BOARD OF AUDITORS

Chairman

René DIEPVENS, former Directeur Général  
de la Trésorerie, Brussels

Member

Daniel van der SPREE, Head of Unit,  
Directorate General XX.2 Financial Control,  
Commission of the European Communities, Brussels

## MANAGEMENT AND PROFESSIONAL STAFF

### Secretariat General

Helmut KUHRT, Secretary General, *until September 1997*  
Christopher SIBSON, *from September 1997*  
Pé Verhoeven  
Luis Garrido

### Finance and Risk Administration

Christopher SIBSON, Director of Finance,  
*until September 1997*  
Luc WINAND, *from September 1997*  
Maria Hallengren  
Jobst Neuss  
Nikos Milianitis  
Parminder Plahé  
Frank Tassone  
Philippe Niard  
Ferdy Wouters  
Jean-Louis Garnier  
Frédérique Schepens

### Operations

Guido PRUD'HOMME, Director of Operations  
Rudi Asselberghs  
Daniel Hallgarten  
Jean-Eric Vimont  
Alessandro Tappi  
Marc Leistner  
Christa Karis  
Philippe Poggioli  
Roger Pett

*(Situation: 31 December 1997)*

