EUROPEAN
INVESTMENT
FUND

Annual Report 2006

EIF highlights at 31 December 2006

2006 activities		EURm
Venture capital / Private Equity signatures	(34 funds)	688
Venture capital / Private Equity disbursements		392
Guarantee signatures	(54 operations)	2 040
Total outstanding		**14 910**
Venture capital / Private Equity signatures	(244 funds)	3 774
Guarantees	(188 operations)	11 136
2006 key financial data on full IFRS basis		
Subscribed capital		2 000
Own funds		673
Treasury and debt securities		570
Net income for the year		48.6
Return on equity		7.5%
Dividends declared		19.4
Shareholders*		
European Investment Bank		60.9%
European Union via the European Commission		30.0%
29 financial institutions		9.1%

* as at 2 April 2007

Venture Capital and Private Equity – An overview of EIF's added value

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.

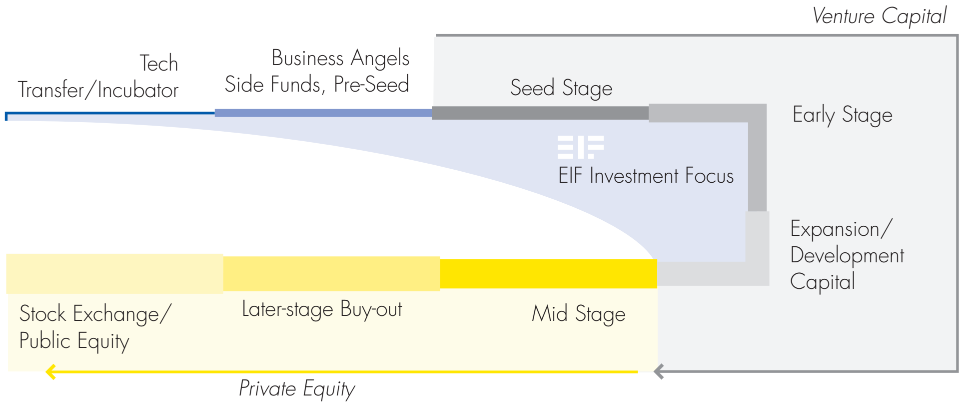
In September 2006, the European Council of Finance Ministers (ECOFIN) recognised that the European venture capital (VC) environment requires further development since funding bottlenecks remain, particularly in terms of early stage financing. EIF, as the leading European early stage investor (with an estimated 15% market share), is particularly active in finding solutions for funding gaps and can act as a catalyst for other investors, notably from the private sector.

EIF 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'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.

The ECOFIN meeting also highlighted the need to address the weak links between universities and businesses in Europe and the lack of available financing for the research and realisation of commercially-oriented projects. 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 VC investments continue to have strong potential for bringing value added and a positive economic impact across European markets in terms of both innovation and job creation, in line with the Lisbon agenda, while using market instruments to obtain satisfactory returns.



Improving SMEs' access to finance requires a multifaceted approach which covers both debt and equity. 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. By intervening in the debt markets through guarantees and securitisation, EIF can improve the availability and terms of debt for beneficiary SMEs by using these products to improve the capital situation, and thus the lending capacity, of financial intermediaries.

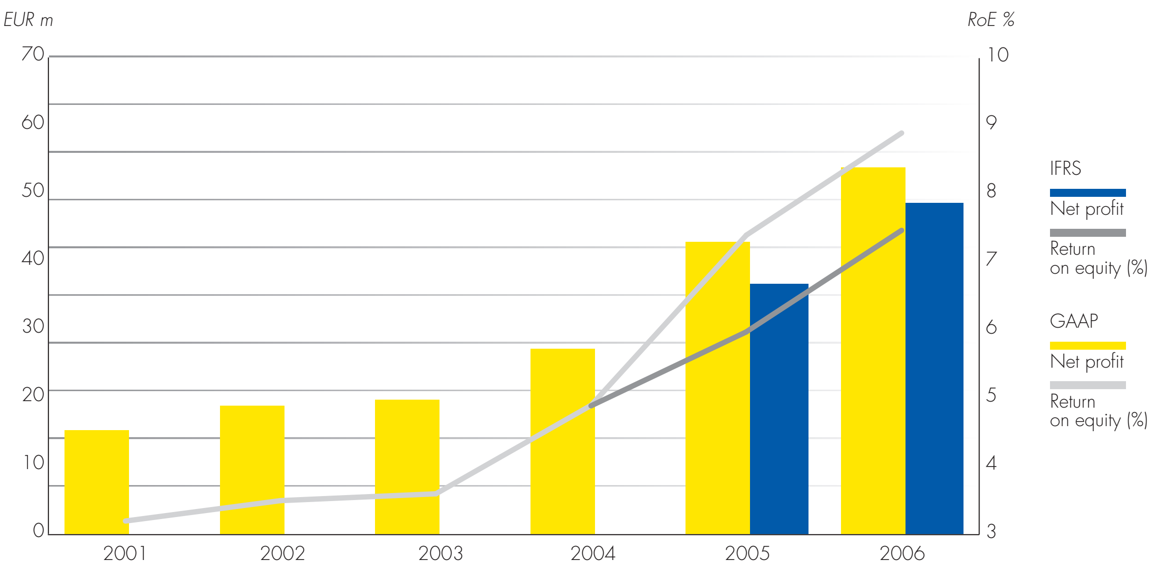
Overview of Financial Performance

Profits for the financial year

EUR m	2001*	2002	2003	2004	2005	2006
IFRS						
Net profit	-	-	-	-	36.70	48.60
Return on equity (%)	-	-	-	-	5.98	7.47
Dividends declared	-	-	-	-	17.10	19.40**
Net Asset Value	-	-	-	-	667.80	692.50
GAAP						
Net profit	15.20	18.80	19.70	27.20	42.90	53.80
Return on equity (%)	3.20	3.50	3.60	4.90	7.40	8.90
Dividends declared	15.60	7.50	7.90	10.90	17.10	19.40**
Net Asset Value	551.90	555.00	567.30	586.60	618.60	655.20

* EUR 60.5m of exceptional income in 2001 resulted from the transfer of the activities to EIB, as part of the EIF Reform.

** Subject to approval by the AGM.



Extending the SME value chain

Overview of activity

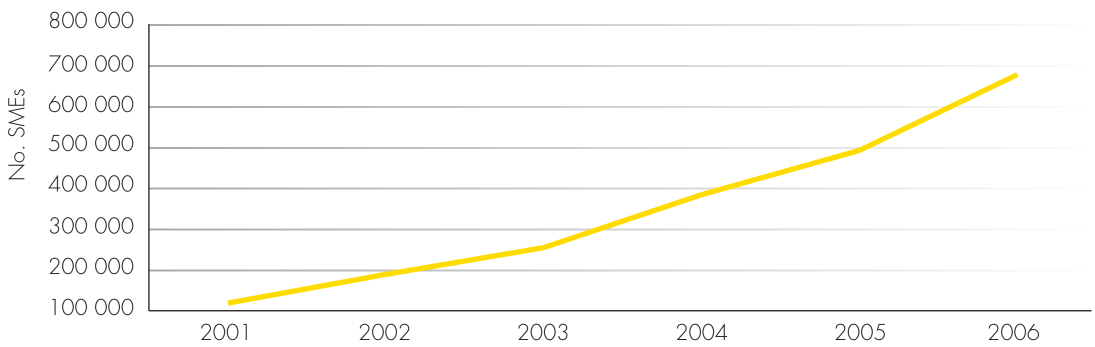
Venture and Equity signatures						
EUR m	2001	2002	2003	2004	2005	2006
All mandates	800.1	471.5	134.4	357.7	367.8	687.9
EIF	52.1	37.7	35.4	48.3	31.3	74.5
EIB Risk Capital Mandate	699.2	409.1	94.5	257.1	265.1	482.7
European Commission	48.8	24.7	4.5	14.8	38.9	89.4
ERP*	–	–	–	37.5	32.5	41.4

Venture and Equity disbursements						
EUR m	2001	2002	2003	2004	2005	2006
All mandates	256.3	233.0	214.3	242.3	317.7	392.4

Guarantee commitments						
EUR m	2001	2002	2003	2004	2005	2006
European Commission	554.9	711.9	1 657.3	749.7	1 213.3	1 028.2
EIF	403.2	523.7	594.1	697.1	472.1	1 011.4

* ERP: Co-investment facility on behalf of the German Federal Ministry of Economics and Technology (BMWi)

Cumulative number of SMEs supported



Since activity commenced in 1994, it is estimated that EIF has indirectly supported some 670 000 SMEs, of which more than 3 000 were VC portfolio companies.

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Foreword by the Chairman of the Board

Philippe Maystadt

Solely focusing on small enterprises (SMEs) – EIF is one of the engines of economic growth and innovation. Through its guarantee and venture capital business, it plays a crucial supporting role in delivering on European Union objectives for SMEs.

While the quality of European research is of the highest order, the EU is endeavouring to ensure that its intensity matches that of other economic regions. Where EIF can bring most added value to European innovation is in encouraging greater private investment in Research and Development and by enhancing access to finance for high-tech SMEs, thus better enabling the transfer of technologies from universities and laboratories to the market. Support for this approach was endorsed by the European Parliament in June 2006.

Furthermore, in response to the European Council of Finance Ministers' (ECOFIN) recommendations in September 2006, EIF aims to contribute positively over the coming years to the deepening of risk capital markets, in particular through the development and implementation of the Competitiveness and Innovation Framework Programme, with its increased focus on technology transfer and financing of the key growth phase of innovative companies as well as equity investments in clean technologies.

With the accession of Bulgaria and Romania to the EU, the need to sustain a successful enlargement policy comes once more to the fore. In light of this, it is therefore gratifying to see significant progress on JEREMIE (Joint European Resources for Micro to Medium Enterprises), a trilateral initiative combining the strengths of the European Commission, EIF and EIB. With opening operations expected in mid 2007, this initiative should enhance access to various forms of finance for SMEs across the EU 27, actively promoting economic cohesion and convergence.

2006 has seen a steady increase in the extent of EIB Group coordination with several large securitisation transactions involving both the Fund and the Bank. By increasing the Group's potential range of action, this allows for more precise tailoring of financial products to the needs of target SMEs.

EIF continues to demonstrate that fulfilling ambitious policy objectives need not in any way undermine the pursuit of an appropriate return on resources.

Several new shareholders have joined us during 2006 and more are expected in 2007, further enhancing the geographic coverage of EIF's shareholder base which had extended already to 17 countries by year end. The forthcoming increase in the Fund's share capital by 50% should serve to reinforce its capital structure while ensuring financial sustainability over the medium to long term.

Introduction by the Chief Executive

Francis Carpenter

EIF performed ahead of expectations in 2006. In terms of both the scope and the scale of its operational activity, coupled with its capacity to innovate in response to evolving market dynamics, EIF remains at the forefront of SME financing.

In 2006, EIF broadened the range of its venture capital investments by adding more pre-seed and mid-to-later-stage funds to its portfolio. The venture capital portfolio remains focused on technology and life science. One significant development in this regard was the signing of two Technology Transfer investments. Likewise, the range of the guarantee portfolio was extended to incorporate more higher-risk lower tranches.

EIF entered into new agreements for over EUR 2.7bn in 34 venture funds and 54 guarantees backed by EIF's own resources as well as by resources under mandate. As EIF entered the final stage of implementation of the European Commission's Multiannual Programme for Enterprise and Entrepreneurship, energies increasingly concentrated on the preparation of its successor, the Competitiveness and Innovation Framework Programme, the enhanced focus of which will dovetail with EIF's own strategy of extending the value chain.

With a view to the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative becoming fully operational in 2007, significant progress was made in 2006 with gap analyses being undertaken and Memoranda of Understanding being signed with several Member States and further such agreements being imminent.

Two funds of funds, NEOTEC and Dahlia, came on stream in 2006, in partnership with the Centre for the Development of Industrial Technology in Spain and Natixis Private Equity in France respectively. This is a significant development both in terms of the increased sophistication of EIF's market interventions and its ability to leverage public resources through joint ventures with private sector actors.

EIF's AAA/Aaa/AAA ratings were once again confirmed by rating agencies Standard & Poor's, Moody's and Fitch, while the switch to full IFRS accounting requirements was completed.

As far as financial performance is concerned, EIF showed a continued positive evolution, reporting an IFRS (International Financial Reporting Standards) basis net profit of EUR 48.6m (EUR 53.7m GAAP (Generally Accepted Accounting Principles) and a return on equity of 7.45% (8.94% GAAP) for 2006. For the sake of comparison, GAAP net profit reached EUR 42.9m in 2005. While reporting under IFRS served to reduce the net income, equity and reserves were increased by EUR 42.5m, bringing total year end equity to EUR 692.5m before dividend payout.

These results could not have been accomplished without the dedication and commitment shown by EIF staff in pursuing the Fund's objectives. I would like to extend my gratitude to them and to the Board for their ongoing support in ensuring that EIF continues to be at the beating heart of European SME finance.

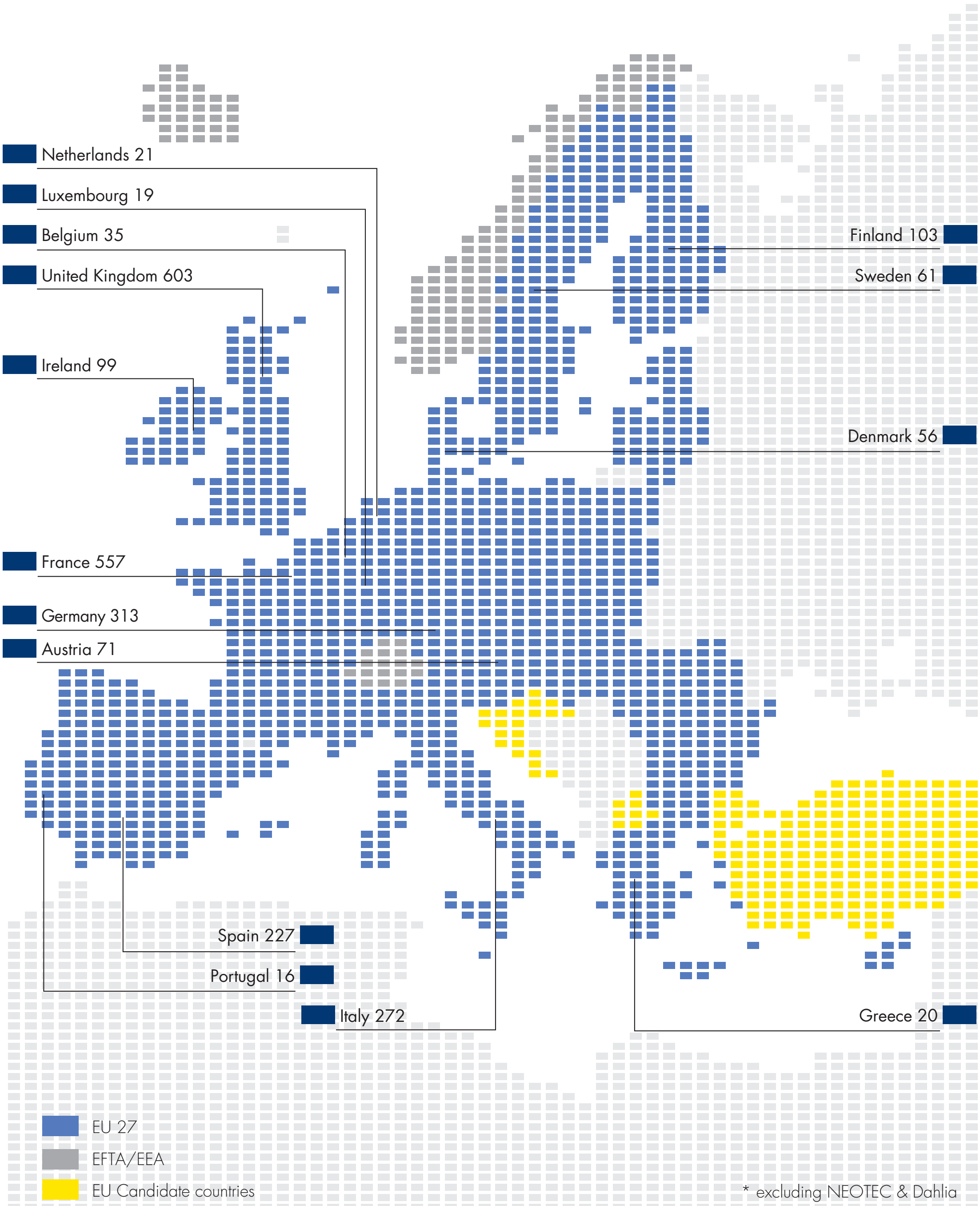
F. Carpenter.

An active role in
European Venture Capital
and Private Equity

Cumulative Equity Portfolio: EUR 3,774m at 31 December 2006*

All figures in EURm; rounded where appropriate.

Multi-Country 1 109
Central and Eastern Europe 193



* excluding NEOTEC & Dahlia

The European market environment

2006 was a year of consolidation in the European venture capital industry. Still cautious following the boom and bust cycle earlier in the decade, venture firms with money to invest are highly selective in their investments, but seem prepared to follow through with larger deals, thus concentrating venture capital in fewer but better funds. So, although the number of deals actually fell compared to 2005, volume was strongly ahead at its highest level since 2002.

EIF is heartened to see the decline of interest in seed and early stage deals arrested and reversed with early stage fundraising enjoying its best year. There is evidence that venture capitalists are investing larger amounts of capital at an earlier stage of the business life cycle, albeit in fewer companies. Thus, selectivity is a trait which has developed across the investment stage spectrum.

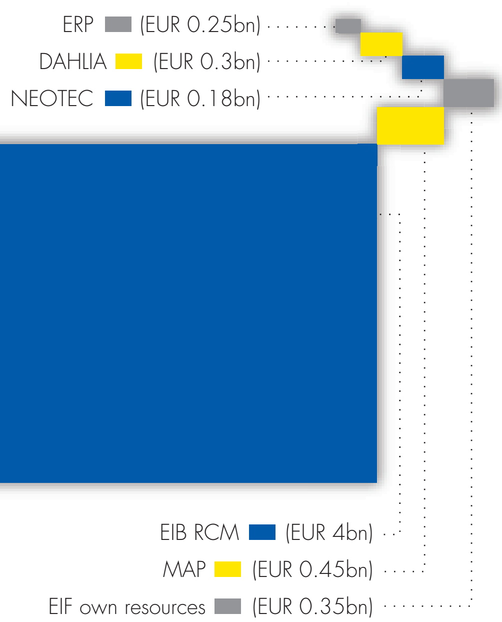
In terms of sector focus, high-technology such as software and semi-conductors remained strong, but an interesting development has been the more intense focus on the energy sector, where rising oil prices and government regulation are driving demand for clean technologies.

Venture Capital

EIF's core objectives remain the support of SME finance for innovation, research and development, entrepreneurship, growth, and job creation within the Lisbon objectives. EIF operates in support of SMEs, not through direct investments, but through equity investments in venture capital funds that support SMEs, particularly early-stage and technology-oriented SMEs. Generally, EIF invests in relatively new funds, taking significant minority stakes. A more detailed outline of the EIF approach can be found in the 'EIF's value added' section on the front cover flap.

For venture capital investments, EIF uses its own resources, as well as mandated resources: the Risk Capital Mandate (RCM) from EIB, and the Multiannual Programme for Enterprise and Entrepreneurship (MAP) from the European Commission. An important third mandate, from a non-shareholder, is the ERP-EIF Dachfonds, which EIF manages on behalf of the German Federal Ministry of Economics and Technology (BMWi) and the European Recovery Programme (ERP).

VC resources and mandates under EIF management and co-management (EUR bn)



Investments in 2006

EIF venture capital and private equity signatures in 2006 totalled EUR 688m in 34 funds compared to EUR 368m (21 funds) in 2005, reflecting the broader range of activities and the increased level of resources being mobilised.

EIF equity investments in 2006

All figures in EUR m (historical exchange rate)

Fund Name	Principal Resources	Geographic focus	Signatures
EIB and EIF — *focus on early to mid-stage funds investing in tech and mid-cap companies*			
Amadeus III	EIB	Multi-country	7.2
Euroknights V	EIB	Multi-country	42.0
GEM Benelux	EIB/EIF	Multi-country	18.5
GMT Communication Partners III	EIB/EIF	Multi-country	30.0
Life Sciences Partners III B.V.	EIB	Multi-country	3.0
Polish Enterprise Fund VI	EIB/EIF	Central & E. Europe	50.0
High Tech Europe IV	EIB/EIF	Austria	12.5
Nordic Biotech Venture Fund II KS	EIB	Denmark	4.9
Eqvitec Technology Fund III	EIB/EIF	Finland	25.0
21 Centrale Partners III	EIB/EIF	France	35.0
Quadriga Capital Private Equity Fund III	EIB/EIF	Germany	40.0
Alto Capital II	EIB	Italy	17.5
Corpfin Capital Fund III	EIB/EIF	Spain	10.0
GED Sur FCR	EIB	Spain	7.5
Ibersuizas Capital Fund II	EIB/EIF	Spain	40.0
Mercapital Spanish Buyout Fund III*	EIB/EIF	Spain	-
Dunedin Buyout Fund II	EIB/EIF	United Kingdom	23.7
Gresham 4 Fund	EIB/EIF	United Kingdom	14.6
ISIS Equity Partners IV	EIB/EIF	United Kingdom	37.1
RJD Private Equity Fund II	EIB/EIF	United Kingdom	29.7
Scottish Equity Partners III	EIB/EIF	United Kingdom	44.0
EC — *notably targeting new or smaller funds with early-stage, high-tech focus*			
Aescap Venture	EC	Multi-country	11.6
Auriga Ventures III	EC/EIB/EIF	Multi-country	30.0
Gilde Healthcare II	EC/EIB/EIF	Multi-country	17.7
New Tech Venture Capital Fund II	EC	Multi-country	7.4
The Environmental Technologies Fund	EC	Multi-country	15.0
Innogest Capital	EC	Italy	10.0
Talde Capital II, F.C.R.	EC	Spain	1.0
IP Venture Fund	EC/EIB/EIF	United Kingdom	20.3
ERP — *focusing mainly on Germany-based, high-tech, early-stage companies*			
Atlas Venture VII	ERP/EIB/EIF	Multi-country	39.3
Neuhaus III GmbH & Co. KG	ERP/EIB/EIF	Multi-country	12.3
Creathor	ERP/EC	Germany	16.2
Wellington Partners III Life Science Fund L.P.	ERP/EC	Germany	15.0
EIF			
CD3*	EIF	Belgium	-
Grand total			**687.9**

* Mercapital Spanish Buyout Fund III EUR 50m and CD3 EUR 4m commitments, both of which are to be signed in 2007.

Total portfolio

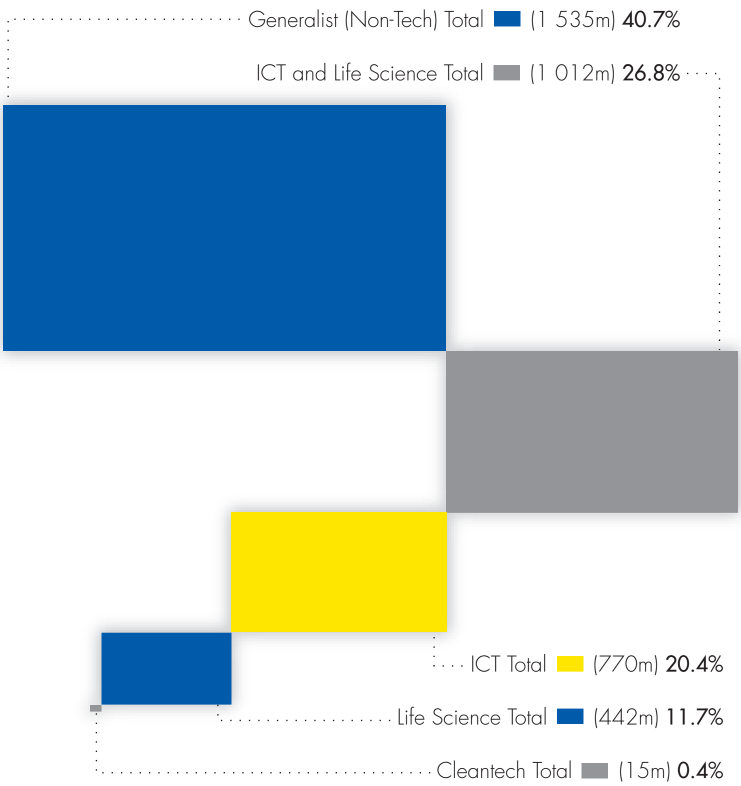
EIF's total equity investments amounted to EUR 3.8bn at end 2006, invested in 244 funds. In turn, the funds in which EIF has invested have raised over EUR 21bn from other investors.

EIF's portfolio, derived from all resources, remains focused on the early stage sector with over 40% of its portfolio in seed and start-up funds. In line with its early stage focus, EIF has begun investing in tech transfers. The EIF portfolio is, however, being extended across the SME value chain towards both earlier and later stage sectors. More mid- and later-stage funds are being included to balance the portfolio by offsetting the higher risks inherent in early stage investing. Overall, the largest component of the portfolio remains early-stage technology, primarily information and communications technologies and life sciences.

EIF's VC and Private Equity (PE) portfolio demonstrates a healthy geographic diversification (page 7). Roughly one quarter of the portfolio is invested in multi-country funds, partly to support the development of a pan-European VC and PE market and partly because smaller countries, or those with a less developed VC market, may be unable to support country-dedicated funds. An important development in 2006 was the beginning of EIF's operations in Turkey. During the year, the Board approved investments of up to EUR 124m, including the sponsorship of a dedicated investment programme with a commitment of up to EUR 50m alongside Turkish domestic investors.

The scale and scope of EIF's investments as well as its expertise, catalytic role and influence in developing best practice and corporate governance have established EIF as a leading institution on the European VC market. To further enhance its leverage of public funds, EIF has undertaken to manage joint investment facilities with public partners while exploring possibilities for such facilities with the private sector. The fruits of these efforts can be seen in the development of the NEOTEC and Dahlia initiatives which represent a new approach to venture capital investing by EIF.

EIF total equity investments: sector breakdown
Total: EUR 3 774m



EIB's Risk Capital Mandate

EIF has operated the Risk Capital Mandate (RCM) on behalf of EIB since 2000, when the Fund became responsible for all EIB Group venture investments in Europe. The majority of EIF's venture capital investments are carried out using the EUR 4bn available under this evergreen mandate. EIF generally co-invests alongside RCM using its own resources.

The mandate's main objective is to support technology and industrial innovation throughout early stage, expansion and development capital, with emphasis on innovative EU companies and generalist funds in Accession Countries and in various neighbouring countries.

By end 2006, amounts signed using EIB resources reached almost EUR 3.2bn. In terms of geographic focus, multi-country operations make up some 29% of the EIB portfolio, followed by investments in the UK, France, Spain, Italy and Germany.

In 2006, capital repayments for the RCM portfolio totalled EUR 187m and dividends received EUR 23m. Since the portfolio's inception and at end 2006, EIB has received EUR 507m in capital repayments and EUR 56m in dividends. The evolution of these payments over recent years is illustrated below. Unrealised capital gains for the RCM portfolio stood at EUR 148.1m at end 2006, up from EUR 64.1m at end 2005.

The decline in values of venture capital markets at the beginning of the decade influenced the performance of the RCM portfolio. The timing of investments is also significant since a large number of investments took place after mid-2000, making it still a relatively young portfolio in which venture capital funds have not yet matured.

As outstanding resources under the RCM near full utilisation over the next three of years, investment levels will depend to a large extent on reflows from prior investments. Reflows have been much higher than in the past thanks to the revised investment policy and market improvements and currently represent two thirds of the outflows.

EURm	2002	2003	2004	2005	2006
Disbursements	206.2	177.3	209.1	259.4	310.8
Capital repayments	33.1	45.1	66.6	118.5	187.4
Unrealised gains	-	10.6	29.4	64.1	148.1
Dividends	1.4	0.5	3.0	10.3	23.0

European Commission mandate

Since 2001, under the European Commission's Multiannual Programme for Enterprise and Entrepreneurship (MAP), EIF has managed venture capital windows, the ETF Start-up facility and the Seed Capital Action. The period for MAP approvals expired at the end of 2006 and the new mandate from the Commission, the Competitiveness and Innovation Framework Programme (CIP) is being put in place. These mandates have been designed in close collaboration between the European Commission and EIF.

The ETF Start-up Facility and Seed Capital Action target seed or early stage funds, aiming to finance the development of innovation and research as well as small business 'incubators'. Seed Capital Action is a small grant scheme that supports the recruitment of additional investment managers in seed capital business.

In 2006, new signatures in the MAP VC portfolio totalled EUR 89m, bringing the cumulative portfolio to EUR 265m invested in 35 funds (inclusive of MAP's predecessor, the Growth & Employment scheme). Capital repayments totalled EUR 7.8m and dividends received EUR 3.9m. In 2006, there was a continued – though reduced – positive effect on cash flow as a result of the early-stage investment in Mangrove Capital Partners, an early backer of 'Skype'. Unrealised capital gains for the EC portfolio stood at EUR 8.4m at end 2006, down from EUR 19.6m at end 2005.

The financial instruments of the CIP's Entrepreneurship and Innovation Programme will be managed by EIF and will include the High Growth Innovative SME Facility, which will focus on seed and start-up investments and may also co-invest in funds and investments promoted by business angels. The programme provides greater support to technology transfer activities and enterprise creation. CIP will also incorporate a specific eco-innovation window, an area where EIF is planning to develop its activities, and a new window which will target SMEs in their expansion stage.

EURm	2002	2003	2004	2005	2006
Disbursements	13.5	12.3	9.5	14.5	23.2
Capital repayments	0.1	0.2	0.8	12.1	7.6
Unrealised gains	-	-	2.9	19.6	8.4
Dividends	0.4	-	0.1	7.3	3.9

Investment in first clean technology dedicated fund

Environmental Technologies Fund

Snapshot

Clean technology, or 'clean tech', is a rapidly growing area in the venture industry. In Europe, EUR 1bn has been invested in the sector from venture investors with EUR 400m of this coming in 2006. In the United States, clean tech has become the third largest investment category after biotechnology and software, growing from less than 2% in 1999 to 13% in 2006.

There are several key macro-economic drivers underpinning the rise of clean tech. In particular, the increasingly high political profile given to global warming spotlights a problem which technological innovation will play a central role in addressing.

Project profile

The Environmental Technologies Fund (ETF) is the first sustainable clean tech dedicated fund to receive EIF support. It will invest in outstanding growth companies operating in the areas of clean technologies and services. The sector is broadly defined and includes energy storage and conservation, emissions reduction, renewable energy, water, 'smart building' technologies, applied materials and recycling.

Although ETF will invest in a range of clean technologies, its central focus will be on energy efficiency and alternative energy – thus its focus is closely aligned with the recently elaborated EU and EIB Group priority on energy.

With a target fund size of EUR 150m, the fund may invest in any European country. EIF participated at first closing with EUR 15m under the Commission's MAP mandate. It is envisaged that eco-innovation investments will become more frequent under the successor CIP programme.

ETF's high quality investor base, including Swiss Re as a cornerstone investor, may be seen as a vote of confidence in a first-time team which possesses a wealth of sectoral and venture capital experience. Moreover, the team has established a network of partnerships with extensive technology, intellectual property and early-stage investment expertise. This investment is motivated by important policy aims and is one from which an attractive return can be expected.

EIF added value

- Opportunity for EIF to lead the way in supporting the establishment of a significant European venture capital investor which has a strong technology base and has produced several leading companies in an emerging European business segment.
- Key role in securing a stable and broadened investor base for a very promising new team.
- Venture investment is a vital tool to stimulate new initiatives and technologies, which is exemplified by ETF's clean tech investment. The EIF investment will help to build a financially viable clean tech venture capital player with interests closely aligned with EU policy priorities.

Own resources

EIF generally co-invests its own resources alongside third party resources from EIB (Risk Capital Mandate), the European Commission, the ERP-EIF Dachfonds, and the new venture capital facilities NEOTEC and Dahlia.

In 2006, signatures under the own resources venture portfolio totalled EUR 74.5m. At end 2006, cumulative amounts signed using own resources reached over EUR 340m. Specific volumes are not targeted but are linked to co-investment possibilities and the quality of investment opportunities.

Capital repayments totalled EUR 20.8m and dividends received totalled EUR 6.9m. Since the portfolio's inception and at end 2006, the portfolio has received almost EUR 67m in capital repayments and close to EUR 22m in dividends. The evolution of these payments over recent years is illustrated in the graph below. Unrealised capital gains for the own resources portfolio stood at EUR 20.9m at end 2006, up from EUR 9.8m at end 2005. EIF continued to invest during the market downturn and is now reaping the benefits of the market upturn, almost reaching self-sufficiency in terms of VC cash flow.

EURm	2002	2003	2004	2005	2006
Disbursements	13.2	24.7	23.7	30.3	39.1
Capital repayments	0.8	1.7	7.8	12.5	20.8
Unrealised gains	-	5.3	7.0	9.8	20.9
Dividends	1.9	0.1	0.9	1.9	6.9

Towards successful commercialisation of early stage technologies

IP Venture Fund

Snapshot

IP Group's core business is the creation of value through the commercialisation of intellectual property originating from research intensive universities. Founded in 2001, IP Group has to date signed long-term partnerships with ten universities in the UK and more than 44 portfolio companies have been created from these partnerships. Eight of its portfolio companies have been listed on the Alternative Investment Market and there have been two trade sales.

The IP Venture Fund builds on this key expertise in transforming early stage technology into sustainable businesses and represents one of the first Technology Transfer Accelerator (page 18) (TTA) investments of EIF.

Project profile

The IP Venture Fund had a first closing at GBP 15.5m (EUR 23.4m) and is well on its way to reaching its target size of GBP 30m. It co-invests into spin-off companies arising from the partnership universities with whom IP Group has agreements, alongside IP Group and other investors. The fund invests at both seed and post-seed stages. It is not technology specific but generally invests into life science, ICT, materials/physics and nanotechnology.

EIF added value

The relationship between IP Group and EIF dates back to shortly after the foundation of the company and was intensified through the TTA study. The IP Venture Fund was a result of this relationship. EIF played a key role in structuring this fund and is the cornerstone investor.

The fund's activity contributes to the Lisbon strategy for European competitiveness:

- Benefits EU technology transfer and development of new technologies
- Stimulates economic growth and qualified job creation driven by innovation
- Underlines EIF's leadership in terms of investing into technology transfer/early stage high-tech investments

The IP Venture Fund has so far invested into three IP Group companies:

Oxford RF Sensors has developed highly sensitive, non-contact sensors which can detect and measure a variety of materials including metals, plastics, gases and liquids. RF sensors can function at extreme temperatures whilst being very energy efficient. The current target applications, where the technology has been identified as providing practical, cost-effective solutions, are fluid condition monitoring, bearing condition monitoring and identification of plastics for recycling.

Inhibox Ltd has developed novel software to screen large libraries of molecules against therapeutic targets in order to predict which molecules are likely to be appropriate candidates for new drugs. This approach enables Inhibox to undertake a range of drug discovery services and collaborations. Inhibox is also undertaking a number of proprietary programmes.

Perachem's business is focused on developing safe and environmentally-friendly solutions for the treatment of textiles. Examples include chlorine-free shrink resistant treatments for wool, flame retardant textiles, peroxide-free bleaching agents, and textiles with long lasting microbial protection against antibiotic-resistant bacteria.

Third Party funding sources

ERP-EIF Dachfonds

The ERP-EIF Dachfonds is a EUR 500m fund-of-funds investing in venture funds focusing mainly on Germany-based, high-tech, early-stage companies. EIF manages this co-investment facility 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 co-investments through a combination of RCM, Commission and EIF funds.

The climate for German venture capital funds focussing on early-stage, high-tech investments has been challenging. In 2006, the ERP-EIF Dachfonds committed EUR 56m in two funds, Atlas Venture VI and Creathor Venture Fund II with co-investment from EIB and EIF own resources on the former, and from European Commission funds for the latter.

Atlas Ventures is notable in that it displays both the skills and the critical size to pursue an investment strategy aimed at giving European companies access to the US market and thus building globally successful technology companies.

Creathor Venture Fund II invests in early-stage, high-tech companies with growth potential and supports the further development an efficient venture capital market in Germany and Europe.

At end 2006, the ERP-EIF Dachfonds had signed, alongside other EIF resources, a total of EUR 213m in 8 funds, which in turn helped to raise another EUR 912m from private investors, highlighting the programme's continued influence on the market.

NEOTEC

The NEOTEC Spain-based fund-of-funds was launched in February 2006 with the sponsorship of EIF and the Centre for the Development of Industrial Technology (CDTI: Centro para el Desarrollo Tecnológico Industrial), the tech transfer office of the Spanish Ministry of Industry, Tourism and Commerce.

This high-tech and innovation co-investment facility was subscribed by CDTI, EIF and several other private investors, mainly Spanish blue chips coming from a broad range of sectors, including utilities (CEPSA, Repsol, gasNatural, Iberdrola, Union Fenosa), banks (Grupo Santander), savings banks (La Caixa, Caixa Catalunya, Caja Madrid), venture capital (Axis, Enisa), ICT (Indra Sistemas), services (ACS) and telecommunications (Telefonica). It closed at EUR 183m in June 2006, of which the EIF commitment is EUR 50m.

During 2006, NEOTEC approved its first investment into a fund and two additional co-investment opportunities which closed in 2007.

Dahlia

Dahlia is a pan-European fund-of-funds, which EIF jointly sponsored with Natixis Private Equity (NPE) and into which EIF provided EUR 75m and Natixis EUR 225m on a 25%/75% basis, allowing for a trust close in mid 2006 at EUR 300m.

An interesting feature of Dahlia is that it combines primary and secondary investments, building up on the respective strengths of EIF and Natixis on those two market segments. EIF is therefore well positioned to reap opportunities on the venture and small-sized buyout segment at European level. Dahlia's first investments were carried out in early 2007.

Building self-sustainable European Life Science companies in a global market

NGN Biomed Opportunity I

Snapshot

The lack of life science companies that can carry their product development process through to commercialisation is one of Europe's principal shortcomings in capitalising on its wealth of research in biotech. The NGN Biomed Opportunity I investment illustrates EIF's strategy of focusing on those parts of the value chain which are crucial to making the European life science sector a sustainable success. NGN focuses on companies that have the potential to become self-sustainable market players based on their proprietary product pipeline but which need further equity finance to achieve this. Located in one of the main biotech clusters in Germany (Heidelberg) and in the US (New York), NGN is well equipped to capitalise on these investment opportunities.

Project profile

Return prospects in the targeted sector very much depend on the companies' access to 'intelligent' capital, cooperation with major pharmaceutical companies and finally, exit channels. Due to its strong US links and base, NGN is well placed to provide this access to its European portfolio companies, providing the means to create value in its individual investees. For instance, this arrangement allows access to the large-scale clinical trial infrastructure of the larger pharmaceutical companies, so important in the context of late stage clinical development.

Recent developments in NGN's portfolio, including several Initial Public Offerings and one successful trade sale, confirm the market opportunity and NGN's impact.

EIF added value

EIF, through the ERP-EIF Dachfonds team, had a cornerstone investor role in the set-up of this fund and facilitated the fundraising process with tangible input to the fund structuring, fund governance and terms and conditions. EIF's early investment helped the fundraising process with other institutional investors being brought in.

More generally, EIF's investment indirectly supports young life science companies in their development stage and as such stimulates innovation-led sustainable job creation, a key Lisbon objective. This is illustrated by Jerini AG, a company in NGN's portfolio.

Jerini AG is a development stage bio-pharmaceutical company with a Phase III candidate, Icatibant, for the treatment of Hereditary Angioedema (HAE). HAE is a debilitating, potentially life-threatening disease caused by attacks of body swelling. Jerini is concentrated on the discovery, development and commercialisation of novel drugs for diseases with limited or no treatment options.

NGN Capital led the last financing round prior to the listing of the company on the Frankfurt Stock Exchange in November 2005. Jerini AG has now begun to commercialise its first products.

EIF investment in NGN BioMed Opportunity I supports the further development of an efficient venture capital market in Europe and, more specifically, in Germany, which requires the support of new teams in the prevailing fundraising environment. More specifically, it supports the development of research and commercialisation clusters which are essential to attracting and retaining scientific know-how and world class scientists.

Technology Transfer – Bridging the gap in the funding of marketable research

Technology Transfer is the process by which the results of research and development are transformed into marketable products or services. This transformation can take place through a number of means, in particular:

- collaboration between research organisations and industry;
- licensing or assignment of intellectual property rights;
- creation of start-up businesses.

Results of fundamental research are often considered to be too new or high-risk to be transferred out of the research laboratory and pursued by industry. New discoveries and technologies developed in academic laboratories or early-stage companies may fail to realise their potential unless they become attractive to industry or downstream investors and this is where EIF aims to play an important role.

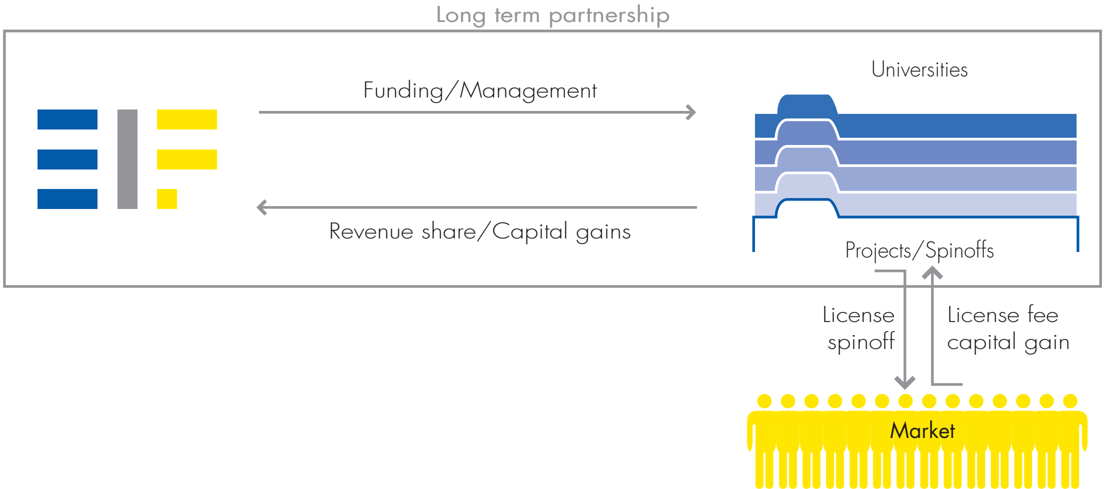
While many universities and research organisations have a Technology Transfer Office (TTO), dedicated to identifying research results of potential commercial interest and to developing strategies for their development, many TTOs have been established relatively recently and may face significant challenges in terms of delivering sufficiently attractive investment propositions.

The European Technology Transfer landscape suffers from a number of weaknesses, especially a lack of the critical mass necessary to build a strong ecosystem and attract the best professionals. In comparison, US universities on the East and West Coasts have the advantage of being resource rich and of being embedded in large and successful technology clusters.

However, analysis shows that when the right mix of research quality, entrepreneurial culture, management skills, and investors are brought together, the potential is significant and companies can be built into world leaders in their field.

Through its experience in the European venture capital market and as a result of its research, EIF has recognised that there is significant scope to unlock the commercialisation potential of European research. EIF supports the emergence of performing technology transfer initiatives, while reaping the associated financial rewards.

Example of alternative tech transfer financing



The intervention of EIF can take place in a number of ways. A possible approach is for EIF to build up partnerships with universities or research organisation and sector professionals, and provide capital to invest in the commercialisation projects. This capital is then deployed throughout the various stages of the lifecycle of start-ups, at pre-seed, seed and post-seed stages.

In 2006, EIF signed two technology transfer operations, namely, IP Venture Fund (in collaboration with IP Group (see case study on page 15)) and CD3 (in collaboration with Katholieke Universiteit Leuven).

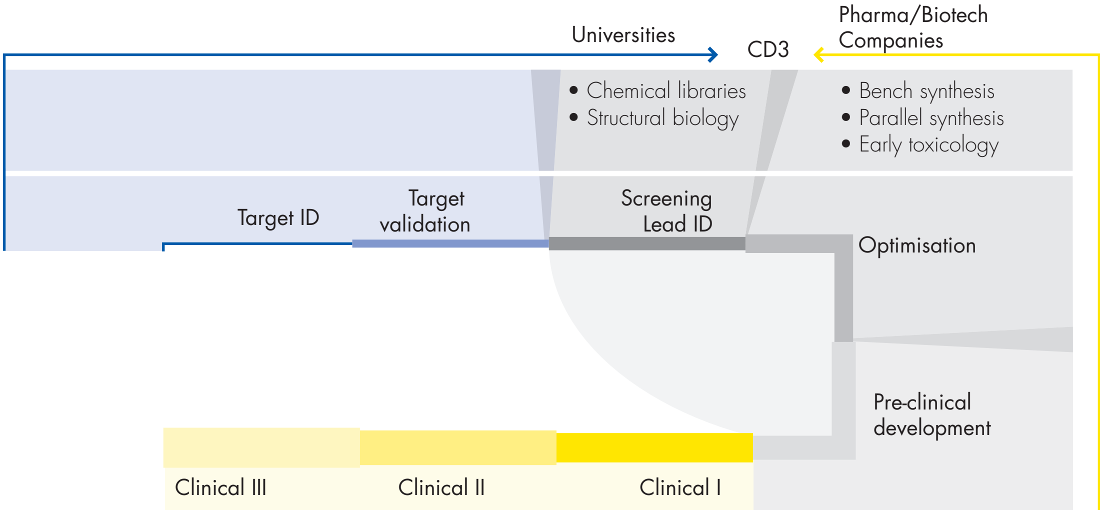
EIF's Board of Directors also approved a third operation with a leading Scandinavian technology transfer office while further operations are foreseen in 2007. EIF is assessing other TTA investment opportunities with the prospect of EU funding from the CIP and JEREMIE programmes.

EIF and EIB have joined forces, together with public, private and academic institutions, in two consortia designed to address seed funding issues in the biotech and ICT sectors. The project Access to Funding in the Biotech Sector (AFIBIO), for instance, seeks to develop an internet database for entrepreneurs in the biotech sector to access information on investors active in their relevant field. The originality of this approach is that it is the players in the sector, i.e. the entrepreneurs and the investors themselves, feed the database in order to ensure the most relevant and up-to-date information.

The Katholieke Universiteit Leuven (Catholic University of Leuven) and EIF entered a partnership agreement to create a Centre for Drug Design and Discovery, to bridge the gap between academic biomedical research and the needs of the pharmaceutical industry. This initiative will boost translational research and technology transfer in the life sciences field. CD3 started operation in January 2007. It is open not only to projects from the Katholieke Universiteit Leuven, but also to projects from third parties.

In conclusion, EIF is committed to continue developing its activities in the technology transfer field. It will do so by partnering with technology transfer professionals, developing adequate management and investment structures, and providing significant capital means.

Drug development process steps



CD3 will have projects addressing the unmet research need for several severe diseases such as Hepatitis B/C, HIV, Parkinson etc… CD3 addresses a demand from both ends of the chain

- from Universities: be able to offer more finished drug candidates to the industry
- from the Industry: enrich their pipeline with more proven candidates

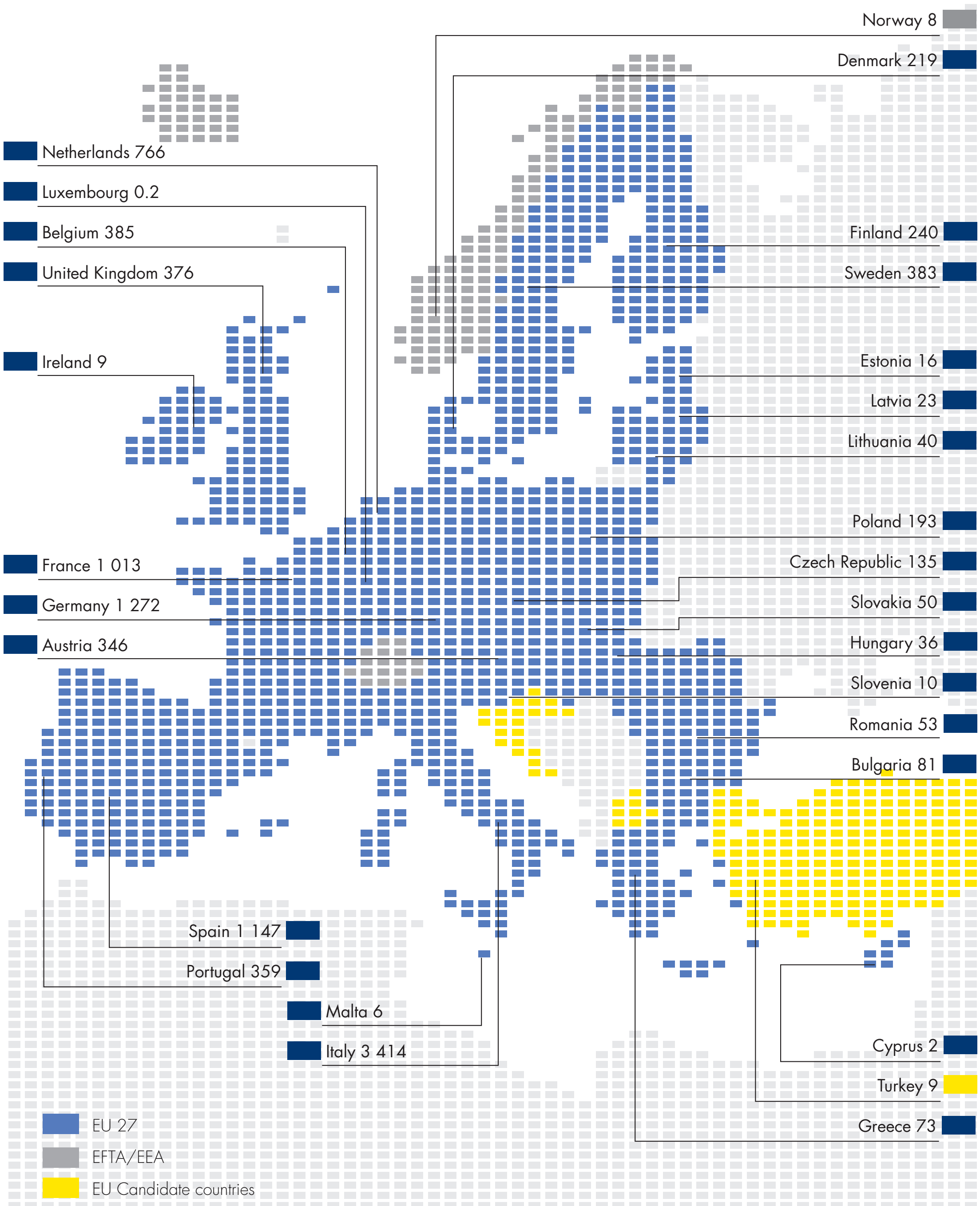
A prime position in the Guarantee and Securitisation markets

Cumulative Guarantee Portfolio:
EUR 11,136m at 31 December 2006

All figures in EURm; rounded where appropriate.

Non EU 20

Pan EU & Multi 455



EIF SME Guarantee products

EIF guarantees consist of two main products: credit enhancement – guarantees for securitised SME loan and lease portfolios, and credit insurance – guarantees and counter-guarantees for portfolios of SME loans or leases. A special case for which EIF uses credit insurance is the SME Guarantee Facility, under which the European Commission's Multiannual Programme for Enterprise and Entrepreneurship (MAP) mandate operates, managed by EIF.

Guarantees for micro-finance, provided under a window under the MAP Loan Guarantee Facility, and micro-finance securitisation have also become a particularly important activity in several countries.

Across its guarantee product lines, EIF acts as a unique market player, due to its status as an AAA/Aaa/AAA-rated European institution that operates on a risk/return related basis. EIF's particular added value is the overall leverage effect brought about by its participation in SME guarantee transactions. Thus, the level of geared SME investment indirectly supported by EIF is vastly greater than the budgetary allocation which EIF allows for this activity.

The European market environment

2006 was another record-breaking year for the European securitisation ([1]) market with a total volume exceeding EUR 542bn, up 41% on 2005, of which synthetic transactions totalled EUR 83bn, an increase of 45% on 2005 . SME securitisation has become established as an important sub-segment of this market, accounting for some 5.5%, or EUR 30bn, of the total volume showing an increase of 18% on 2005 ([2]) and 280% on 2004. This robust progression has been driven by a credit expansion resulting from Europe's improving macro-economic situation while the range of both investors and issuers continues to broaden, more countries beginning to see assets being securitised.

The growing importance of securitisation in Central and Eastern Europe is a particularly encouraging development. Although SME lending has been on the increase there in recent years, its intensity remains roughly one fifth of the corresponding Eurozone level. There thus exists a significant credit gap for SMEs based in this region, and important scope for improving the SME lending environment through instruments such as securitisation. By allowing commercial banks to actively manage their lending portfolio by transferring risk from the balance sheet, securitisation increases the level of credit which they can extend to clients such as SMEs. 2006 was a watershed in this regard with securitisation transactions in Bulgaria, the Czech Republic, Latvia and Poland amounting to well over EUR 650m and covering various asset classes of which EUR 450m stand for a multi-jurisdiction SME CLO ([3]).

The European securitisation market in general, and that of Central and Eastern Europe in particular, looks set to enjoy further strong volume growth if the macro-economic situation remains favourable and as the full implications of the Basel II regulatory capital regime become apparent. Moreover, EIF has a key role to play in supporting the nascent SME securitsation market in Central and Eastern Europe by continuing to use its expertise and experience to help structure transactions and facilitate their closing. EIF involvement is expected to continue also in respect of micro finance institutions.

([1]) For a guide to securitisation, turn to page 28.
([2]) Commerzbank Research.
([3]) See 'ROOF CEE 2006-I' case study on page 29.

Total portfolio

EIF's total guarantee portfolio amounted to EUR 11.1bn at end 2006, in 188 transactions.

EIF's credit enhancement activity is strong, with total commitments amounting to EUR 2,868m at end 2006. EIF is a key participant in the developing European SME securitisation sector and also looks towards emerging securitisation markets for new business opportunities.

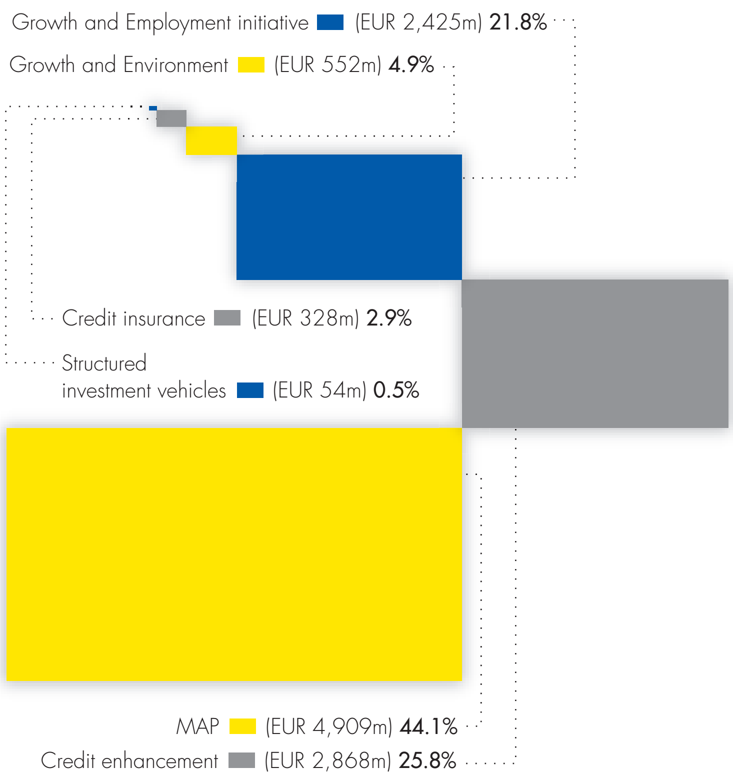
EIF performed very well under the Multiannual Programme for Enterprise and Entrepreneurship (MAP), the current programme under the European Commission's SME Guarantee Facility, with the total portfolio amounting to EUR 4,909m at end 2006.

Through the achievement of full utilisation of MAP funds EIF has contributed to economic growth and development in Europe. In total, EIF guarantees have supported over 660,000 SMEs since these activities began, of which 180,000 during 2006.

The geographical diversification of EIF's guarantee portfolio has further improved during 2006. EIF has initiated transactions in almost all of the countries in which it may operate, namely, EU Member States, Candidate Countries (Croatia, the Former Yugoslav Republic of Macedonia and Turkey) and EFTA countries (Norway, Iceland and Liechtenstein). Particularly noteworthy in 2006 was the shift in emphasis towards Central and Eastern Europe. With relatively few transactions in Germany and Italy, their combined share of the own resources portfolio has fallen to 42%.

In line with the balanced portfolio strategy EIF has guaranteed different levels of tranches so as to maintain the average portfolio at, or reasonably close to, the present level (weighted average rating of the total portfolio is stable at Baa1).

EIF guarantee operations: product breakdown EUR 11,136m in total commitments (at 31/12/06)



SME Guarantees in 2006

EIF's guarantees are backed by its own funds and EC funds provided under the guarantee scheme of the current EU programme, the Multiannual Programme for Enterprise and Entrepreneurship (MAP). The MAP guarantee window achieved full utilisation by end 2006 and is to be replaced in early 2007 by an expanded guarantee element under the Competitiveness and Innovation Framework Programme (CIP).

In 2006, guarantees granted were split relatively evenly between own funds and MAP, reaching an overall total of over EUR 2bn. EIF's own funds activity consisted of credit enhancements totalling some EUR 1bn while over EUR 1bn were signed under MAP.

Most of this year's securitisation transactions are deals with innovative structures, rather than 'plain vanilla' SME securitisations, entailing substantial structuring work by EIF as key investor. Of particular note in 2006 was the large club deal originated by Raiffeisenbank a.s. (the Czech Republic) and Raiffeisenbank Polska S.A. (Poland). To date, this is one of the largest securitisations structured in Central and Eastern Europe (see case study on page 29). In addition, EIF has shown increased appetite for risk, taking on a wider range of tranches, including many mezzanine level tranches.

In line with the EIB Group's strategy for strengthened cooperation between EIF and EIB, the number of joint guarantee operations continued to rise, with five operations being signed in 2006, up from two in 2005, with up to eight projected for 2007. In 2006, these five deals were: Banco Santander Central Hispano, S.A. (Spain), Raiffeisen Leasing Polska (Poland) EFG Eurobank (Greece), BBVA 5 FTPYME (Spain), Lusitano SME No 1 (Portugal) with Banco Espirito Santo.

EIF credit enhancement in 2006

Resources	Deal name	Country	*EUR m*
EIF Own funds			
	Opportunity Eastern Europe 2005-1	S.E. Europe	5.5
	Opportunity Eastern Europe 2005-1	S.E. Europe	7.9
	BEL SME 2006	Belgium	17.4
	Procredit Bulgaria	Bulgaria	50.0
	Sea Fort Securities plc	Finland	13.5
	CB MezzCap	Germany	5.2
	PRIME 2006-1 Funding LP	Germany	15.0
	SMART SME CLO 2006-1	Germany, Italy, Spain	47.0
	PULS SME CDO 2006-1	Germany, Switzerland	12.3
	Anaptyxi 2006-1	Greece	50.0
	Interconfidi Nordest SME CDO	Italy	53.4
	SanPaolo IMI SME CDO	Italy	11.2
	Stichting MARS 2006	Netherlands	14.0
	Raiffeisen Leasing Polska	Poland	58.0
	ROOF CEE 2006	Poland, Czech Rep.	304.9
	Lusitano SME 1	Portugal	75.0
	BBVA 5 FTPYME	Spain	57.0
	Frispar Företagskredit AB	Sweden	44.1
	Ascot Black CLO 2006	United Kingdom	154.9
	ETV	Pan EU	15.0
		Subtotal	1011.4

Resources	Deal name	Country	*EUR m*
MAP (Multiannual Programme for Enterprise and Entrepreneurship) SME Guarantee Facility			
	FDP - (Loan Guarantees)	Belgium	1.0
	RZB Bulgaria - (Loan Guarantees)	Bulgaria	10.0
	Cyprus Development Bank - (Loan Guarantees)	Cyprus	1.5
	Ceska Sporitelna S.A. - (Loan Guarantees)	Czech Republic	40.0
	The Danish Investment Fund - (Counter Guarantees)	Denmark	5.0
	Finnvera - (Counter Guarantees)	Finland	23.3
	ADIE - Microcredit	France	2.3
	Siagi - (Counter Guarantees)	France	11.2
	Siagi - (Counter Guarantees)	France	8.1
	SOCAMA - (Counter Guarantees)	France	185.2
	SOCAMA - (Counter Guarantees)	France	91.5
	DtA - (Loan Guarantees)	Germany	20.0
	DtA - (Micro-credit)	Germany	7.8
	TEMPME - (Counter Guarantees)	Greece	7.9
	Rural Credit Guarantee Foundation - (Loan Guarantees)	Hungary	5.7
	ATI - ACPERL - (Counter Guarantees)	Italy	35.0
	ATI Alleanza di Garanzia - (Counter Guarantees)	Italy	200.0
	ATI Alleanza di Garanzia - (Counter Guarantees)	Italy	50.0
	MCC - (Counter Guarantees)	Italy	26.0
	Hipoteku Banka - (Loan Guarantees)	Latvia	7.5
	INVEGA - (Counter Guarantees)	Lithuania	6.9
	INVEGA - (Counter Guarantees)	Lithuania	19.5
	Bank BPH S.A. - (Loan Guarantees)	Poland	46.6
	Polfund - (Counter Guarantees)	Poland	1.1
	SPGM - (Counter Guarantees)	Portugal	50.0
	Raiffeisen Bank - (Loan Guarantees)	Romania	2.3
	VUB - (Loan Guarantees)	Slovakia	5.0
	Slovene Enterprise Fund - (Counter Guarantees)	Slovenia	4.0
	Banco Santander - (Loan Guarantees)	Spain	40.0
	CERSA - (Counter Guarantees)	Spain	105.0
	La Caixa - (Micro-credit)	Spain	11.3
	Kredi Garanti Fonu Isletme ve Arastirma - (Counter Guarantees)	Turkey	3.9
	The Enterprise Fund - (Micro-credit)	United Kingdom	1.8
	The Prince's Trust - (Micro-credit)	United Kingdom	10.4
	Reductions and cancellations		-18.3
		Subtotal	1 028.2
		Grand total	2 039.6

European Commission mandates

Under mandate from the European Commission, EIF manages the SME Guarantee Facility as part of the Multiannual Programme for Enterprise and Entrepreneurship (MAP). EIF has worked since 1998 within this Facility to meet European Union policy objectives to support SMEs by providing enhanced access to finance. Thirty-one countries are eligible under MAP, namely, the EU 27, Turkey, Iceland, Norway and Liechtenstein.

Under the SME Guarantee Facility, EIF provides guarantees and counter-guarantees (re-insurance) to financial intermediaries for their portfolios of SME debt finance. EIF typically covers 50% of the individual loans or leases (75% for micro-finance) in the designated portfolio. EIF's obligation to pay its share of losses under a specific portfolio is capped at a pre-set amount. The most important component of the SME Guarantee Facility is the Loan Guarantee window which had supported an underlying loan volume of EUR 13,370m at end December 2006. The Equity Guarantee, which had reached EUR 269m by end 2006, aims to support own funds investments in SMEs with growth potential. The Micro-credit Guarantee is covered in detail in the micro-finance section on page 30.

This mandate has been a very successful mechanism for assisting SMEs due to the high leverage effect brought about, wherein each EUR 1 in budget allocation can result in EUR 89.4 of investment by SMEs, an excellent example of budget optimisation. The MAP programme managed by EIF has supported more than 320,000 SMEs in 28 countries. In view of the programme's effectiveness, the budget period was extended by one year, with approvals permitted until end 2006 and signatures for a further six months.

By end 2006, EIF had entered into 73 agreements in 28 countries, for a total guarantee commitment of EUR 7,335m and the estimated underlying loan volume supported by these intermediaries under MAP and the predecessor mandate was EUR 24,191m (by end December 2006) to almost 321,000 businesses. During 2006, EIF signed 34 guarantee operations under MAP amounting to EUR 1bn, of which 8 were new MAP operations while the remainder were extensions.

With the conclusion of the MAP mandate approaching, 2006 was a year of transition. Efficient implementation ensured full utilisation by year end, mainly through a combination of renewals and extensions of existing operations. This approach ensured the continuity of the facility for the guarantee beneficiaries and minimised interruptions until the implementation of the forthcoming Competitiveness and Innovation Framework Programme (CIP).

Banco Santander RDI Facility

This transaction was one of the last deals signed under the Multiannual Programme for Enterprise and Entrepreneurship. The Banco Santander deal targets Spanish SMEs with technological research, development and innovation (RDI) projects. In line with the MAP criteria, RDI investment loans or leases granted to SMEs with up to 100 employees are eligible. Through MAP, EIF supports the incorporation of science and technology in Spanish SME's business activities and create further opportunities for their increased productivity and growth.

It was the first occasion in the EU-15 when EIB funding combined with the EIF guarantee under MAP, with the EIB Group thus creating a catalytic effect in support of RDI investments in Spain. A large share of the facility is directed at EU regional development areas. Banco Santander estimates that it will be able to generate EUR 80m of loans to SMEs with RDI projects over the availability period (ending June 2007) as a direct result of the MAP guarantee and EIB funding.

From MAP to CIP – a positive development

The financial instruments of the Competitiveness and Innovation Framework Programme (CIP) are due to become operational in 2007 and will cover the period 2007-2013. CIP has been designed as a more ambitious programme than MAP. EUR 1.1bn has been earmarked for the CIP financial instruments under EIF management. CIP extends the range of instruments to include new market segments and products. For instance, there can be securitisation, business angel side-funds and technology transfers under CIP. The new mandate covers a larger geographical area than MAP.

As with MAP, the objectives of CIP are to enhance the ability of SMEs to access finance, as well as to boost productivity, competitiveness and innovation capacity in the EU. It is anticipated that the CIP facilities to be operated by EIF will have a similarly high leverage effect to those of MAP, optimising use of European Union funds to support SMEs' access to finance.

EIB Group joint operations

EIB Group joint operations in favour of the SME financial sector consist of EIF guarantees linked with EIB credit lines to SMEs and joint transactions on different risk layers in SME securitisation.

Securitisation has been the focus for joint operations. In 2006, five joint operations were signed: Anaptyxi 2006-1 (Greece), Banco Santander Central Hispano, S.A. (Spain), BBVA 5 FTPYME (Spain), Lusitano SME No 1 (Portugal) and Raiffeisen Leasing Polska (Poland). EIB Group brought important support to the Greek credit enhancement deal, the first SME loan securitisation in Greece.

The Banco Santander deal combines an EIB credit line to SMEs and an EIF guarantee under MAP and targets Spanish SMEs with technological research, development and innovation projects. For the BBVA-5 FTPYME SME transaction, EIF helped to facilitate SME credit risk transfer to capital markets, whilst EIB subscribed in full to one of the three senior Class A tranches. Important Group cooperation was also in evidence in Portugal through cooperation with Banco Espirito Santo, the third largest banking group in Portugal. Finally, the Polish leasing credit enhancement deal is the first leasing securitisation transaction to be launched in Poland.

There has been a concerted EIB Group attempt to increase its exposure to the Turkish market and 2006 saw strong development in this endeavour. In parallel to EIB increasing its total investments in Turkey by 70% during 2006, EIF approved in excess of EUR 124m in venture capital investments to the country.

Securitisation - EIF's increasingly sophisticated product

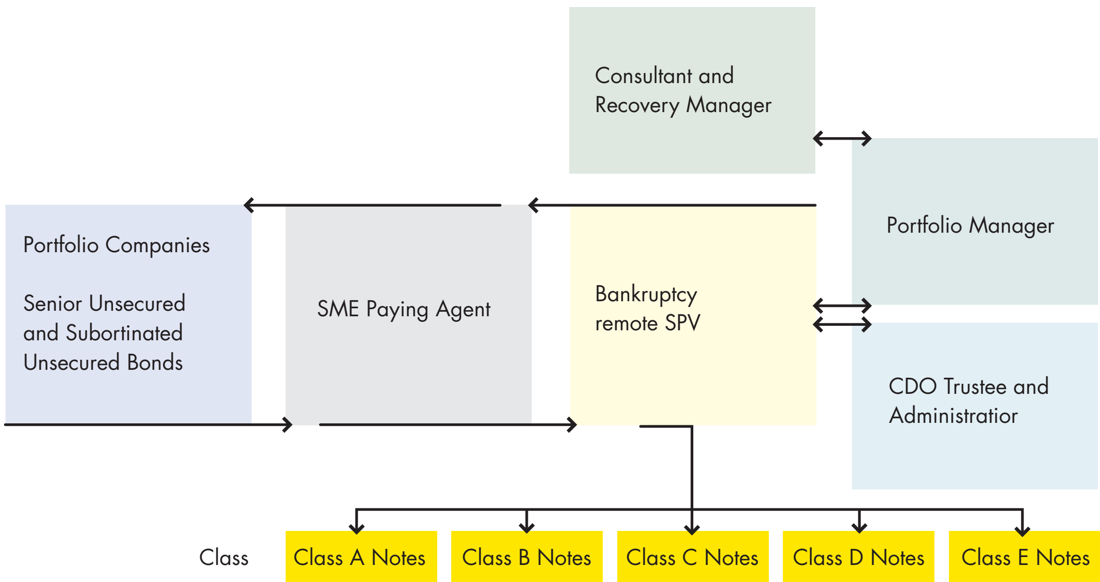
Securitisation is the mechanism by which financial assets (e.g. loans, bonds, leases, etc.) are packaged together in a pool which is sold on to the capital markets through a Special Purpose Vehicle (SPV) which refinances itself by issuing Asset Backed Securities (ABS) with different risk profiles, sold to investors with different risk appetite.

ABS transactions are typically structured as follows:
– A stand-alone SPV is established.
– The SPV gets funding by issuing several tranches of fixed-income securities (senior and mezzanine classes) and a residual equity layer (junior class).
– The SPV uses the proceeds of the notes and the equity to finance a portfolio of assets, which is then available as collateral to the investors in the tranches issued by the SPV.
– The service (principal and interest) of the issued securities relies on the cash flows received from the collateral that follow a specific waterfall reflecting the seniority of the various tranches issued by the SPV.

Collections from the assets are typically assigned first to the service of the senior debt. Only once the senior investors have been fully repaid will the mezzanine and then the junior note holders be repaid. This allocation of collections also applies to the allocation of losses among the different tranches (although inversely, starting with the most junior tranche).

Through its loan securitisation activity, EIF facilitates the transfer of SME credit risk from banks and leasing companies to the capital markets by guaranteeing certain tranches of credit risk. This creates capital relief for the banks and allows them to extend further loans to SMEs, which is of particular benefit to the large financial institutions, and importantly, the small to medium size financial institutions which are the backbone of SME lending. SMEs themselves are then able to access finance more easily, and often on better terms, such as longer lending terms or lower collateral requirements.

Typical ABS transaction structure



Alternatively, in a 'synthetic' transaction, there is no transfer of assets from the originator to the SPV but the originator buys protection, through a Credit Default Swap for instance, from investors on a tranched reference portfolio. The ROOF CEE 2006-I transaction on the following page is an example of a synthetic securitisation in which EIF has participated as guarantor.

ROOF CEE 2006-I

Snapshot

Signed in March 2006 under Kreditanstalt für Wiederaufbau's (KfW) PROMISE securitisation platform, the ROOF 2006-I CEE transaction represents the first securitisation of loans granted to Polish and Czech SMEs. In fact, it was the first time that such a multi-country and multi-originator transaction had been done in any of the new Member States and EIF was instrumental in bringing it about. This synthetic securitisation transaction was concluded between EIF, KfW and the Czech and Polish affiliates of Raiffeisen International Bank-Holding AG (the originators are subsidiaries of the RZB Group). EIF acted as credit default swap counterparty – in effect selling protection on the loan portfolio to the originators – for the mezzanine, senior and super senior tranches. Exposure to the most senior tranche is shared with KfW.

Project profile

The combined transaction has a volume of EUR 450m, of which EIF guarantees EUR 305m through both mezzanine (EUR 33m) and senior tranches.

As the SME markets in which the originators operate are still comparatively small, this transaction is much smaller than typical synthetic securitisation deals. EIF and KfW have been involved in the transaction from the beginning and throughout the structuring process. EIF's role was vital in ensuring that, despite the relatively small size and the complexity of the structure, this first time issuer transaction could be concluded successfully. In this case, EIF made a very significant commitment, both in terms of absolute volume and as a percentage of the total transaction.

Taken as a whole, this transaction serves to strengthen the SME lending capacity of the originators, both of whom are strong players in the SME market segment in the Czech Republic and Poland respectively.

EIF added value

- Innovative deal structure – the first of its kind in the new Member States.
- EIF involvement ensured that the transaction could close successfully.
- Intensified cooperation with EIF shareholders RZB Group and KfW.
- Support for SMEs, and economic development more generally, in EU convergence regions.

Microfinance

Microfinance is the provision of financial services to micro-enterprises and economically active but less advantaged populations. It opens opportunities of virtuous circles of financial security, savings and growth, leading to poverty alleviation. Microfinance is consistent with the Lisbon strategy for growth and social cohesion; fostering initiative and developing small enterprises, it has a considerable impact on development.

The microfinance sector has developed very quickly in Central and Eastern Europe since 1992, expanding at an annual rate of 67%. In Western Europe, the development of microfinance is relatively recent, with the exception of the United Kingdom, France and Germany.

EIF is active in raising the profile of microfinance in Europe, its role to contribute to reducing some of the difficulties faced by micro-entrepreneurs in gaining access to finance and financial inclusion. It has developed expertise in microfinance by providing portfolio guarantees to financial intermediaries under the MAP Micro-loan window in seven different countries. The Micro-loan guarantee window encourages banks and financial institutions to offer small loans to micro-enterprises (less than 10 employees). EIF's MAP micro-loan counterparts are: Adie (France), KfW (Germany), First Step (Ireland), The Prince's Trust and The Enterprise Fund (the United Kingdom), Cultura Sparebank (Norway), Fonds de Participation (Belgium), ICO and La Caixa (Spain).

Under the micro-loan window of MAP, at end December 2006, some 30,552 SMEs had benefited from over 32,773 loans. With EUR 223.2m outstanding microfinance guarantee volume, EIF is the largest European microfinance guarantor.

In 2005 and 2006, EIF supported microfinance through securitisation in two milestone transactions involved countries in the Western Balkans and South-East Europe. EIF structured and co-arranged the securitisation of loans to microfinance institutions and participated as a guarantor in the first securitisation of micro-loans in Europe. It is estimated that these transactions will result in the direct financing of some 25,000 micro-loans, for up to EUR 120m.

The JEREMIE initiative has an emphasis on microfinance. European Member States and Regions are enabled to use part of their structural funds to obtain a set of financial instruments that are specifically designed to support micro and small enterprises as a means of job creation and employment. The aim is to support start-ups and micro-enterprises through equity, venture capital and guarantees.

In July 2006, EIF collaborated in the launch of 'LuxFLAG', the quality label for investment funds that invest in microfinance assets in Luxembourg on the basis of agreed and published criteria.

In order to contribute to EU cohesion policy, in cooperation with the European Commission, EIF is currently studying ways of supporting particularly non-banking micro-finance institutions by means of technical assistance and equity to help them becoming sustainable and enhance their lending capacity.

As the only European Community body with a specialised focus on SME and micro-enterprise financing, EIF has an essential role to play in making micro-finance a fully-fledged segment of the European financial sector, alongside more traditional ways of banking.

In 2006, EIF staff member, Per-Erik Eriksson, co-authored an article entitled 'Micro-finance Loan Obligations – Structured Finance for Micro-finance Investments' for the Innovation in Securitisation Yearbook 2006, published by Jan Job de Vries Robbe, Paul Ali. The article can be found at:

http://www.symbiotics.ch/medialibrary/medialibrary/Micro-finance_Loan_Obligations__Structured_Finance_for_Micro-finance_Investments.pdf

Alessandro Tappi, Head of Guarantees and Securitisation, and Olivier Amblard, EIF staff member, authored the research paper 'Supporting SME Financing using Securitsation Techniques – ATME Final Report.

Hybrid products

Hybrid products are EIF-specific and principally link equity and guarantees for SMEs. They bring high value added in both areas and contribute to developing new markets and to pursuing Community policies.

Hybrid products depend on demand, the market, and the quality of deals and can include:

- guarantee transactions that jointly involve EIF venture capital and guarantees activities, such as Collateralised Fund Obligations;

- guarantee transactions backed by assets that present hybrid features between equity and debt, including venture debt, and deeply subordinated profit participation rights;

- 'alternative assets', i.e. structured finance transactions backed by highly illiquid, non-traditional assets.

Venture loans are typically defined as a debt instrument (loan, lease, etc.) provided to early-stage, pre-cash flow companies backed by venture capital funds. Each loan is usually extended following a recent venture capital fund raising round, enabling the early-stage company to meet its obligations in terms of loans repayments over at least 9-12 months.

Venture debt is still a relatively underdeveloped instrument in Europe, as is the securitisation of such financing. EIF's interventions therefore have high added value, promoting an attractive financial instrument in the high-tech SME market.

EIF's first hybrid operation was signed in 2004 with European Venture Partners. Two more operations were approved in 2006, due to be signed in early 2007.

A new approach to regional funding: JEREMIE

JEREMIE

The Joint European Resources for Micro to Medium Enterprises, known as JEREMIE, began in 2005 as an initiative launched by the European Commission (Directorate-General for Regional Policy) 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, such as equity or venture capital investments and guarantees implemented via a professionally-managed holding fund. The EC has designed JEREMIE to optimise ERDF funding by leveraging additional resources from local financial intermediaries and facilitating its implementation through a more flexible regulatory framework, maximising the market impact of the resources, as opposed to the limited long-term impact that grant mechanisms create.

JEREMIE focuses on addressing observed market failures within the SME Financing sector of a region or economy. The utilisation of Structural Funds in this sector must target investment initiatives that promote a partnership with private capital aimed at reducing and eliminating market failure issues where they exist. The EC asked EIF to use its expertise and experience to undertake an evaluation of EU markets to uncover evidence of market failure.

In 2006, EIF carried out 24 SME finance evaluations, or 'gap analyses', in 18 Member States. Nine of these were conducted at regional level and further evaluations continue. EIF will provide a detailed analysis of the types of finance supply and potential demand by SMEs. The reports also include a portfolio of proposals for financial engineering instruments which may then be used by the managing authorities in Member States or regions to prepare their Operational Programmes. EIF has established a dedicated team to carry out the gap analyses.

A new business activity emerges

The analysis process has led to close working relationships between EIF and managing authorities in the Member States and regions, and the interest level in JEREMIE has accelerated throughout 2006. EIF's evaluations have led to a growing number of Member States stating their intention to implement a Holding Fund that will utilise Structural Funds and to apply the portfolio of financial engineering instruments proposed by EIF.

Furthermore, EIF has been asked by a number of Member States to become the independent manager of their JEREMIE Holding Fund. Thus, a new business activity has begun to emerge that is expected to continue to evolve and expand in 2007. In certain cases, the variety of financing options offered by EIB to further enhance the capital base of Holding Funds is actively being explored on behalf of the Member States.

EIF's ability to manage a series of complex financial engineering instruments targeting observed market failures within a portfolio designed to achieve self-sustainability is increasingly recognised by Member States as an area in which EIF can add significant value to the development of the SME Finance sector in multiple EU economies.

By appointing EIF in this way, managing authorities benefit from the know-how of an EU body that operates in the fields of guarantees, micro-credit, securitisation, as well as technology transfer and venture capital. Furthermore, EIF has close links with EIB and the EC, employs monitoring tools tailored to financial engineering and has experience with Community control procedures. Additionally, EIF has the experience of managing a pool of JEREMIE operations throughout the EU. Not least, EIF's committed to the concept of knowledge transfer to local professionals and institutions will maximise the indirect benefits to the Member State in the development of local expertise.

The benefits to Member States

Member States gain a series of important benefits from the implementation of JEREMIE with EIF's assistance. The portfolio of JEREMIE instruments provided in each programme enables a full range of tools to be employed for the benefit of SMEs, varying from equity and quasi-equity to venture capital, loans or guarantees. Each programme's portfolio of instruments and the financial commitments made are flexible to enable change during the programming period, at the Member State's discretion.

Each programme is individually tailored to the specific needs of each Member State or Region following on from the combined efforts of EIF and the Member State to evaluate the market failures in SME financing. The proposed instruments will be implemented to efficiently engage the private sector and seek to maximise the leverage effect and thereby effect a positive impact on the market.

Further benefits can be summarised as follows:

- The creation of a dedicated investment fund programme in support of national policies on entrepreneurship. The Fund may offer a range of instruments and enable leverage at the level of the holding fund and at the level of the financial instruments utilised.

- Early disbursement of the funds to a 'Holding Fund' within the Member State. JEREMIE is designed to optimise the use of ERDF funding and to simplify the management of financial engineering by the Managing Authority.

- Contributions from the national or regional operational programmes to the JEREMIE fund will be eligible for repayment by the ERDF/ESF, which will facilitate the financial programme management.

- A highly adaptable 'toolbox' of financial instruments that can be managed flexibly during the financial period 2007-2013. In consultation and cooperation with the Managing Authorities of operational programmes, the Member State will be able to re-allocate the resources to one or other financial instrument and product, depending on the effective demand.

- The revolving nature of the portfolio of instruments and the partnership approach with the private market will maximise the long-term impact of the Fund and invested JEREMIE resources that are repaid become available for reinvestment. This is applicable, for example, when returns are received on venture capital investments, or micro-loans are reimbursed to micro-finance institutions. Resources are reinvested into the JEREMIE instruments and are used again in favour of SMEs.

- Whilst enabling regional, sector and stage flexibility, the concept of a central holding fund enables a coordinated implementation of multiple initiatives with a harmonised decision making and review process, together with the international experience of the EIF.

- JEREMIE will principally enhance the supply of SME finance in the regions, by bringing product expertise and decision on investment schemes at a local level. It will also contribute to improve the regional financial conditions targeting areas of need. The presence and availability of EIF's international experience will be available to all Member States.

Operational implementation during 2007

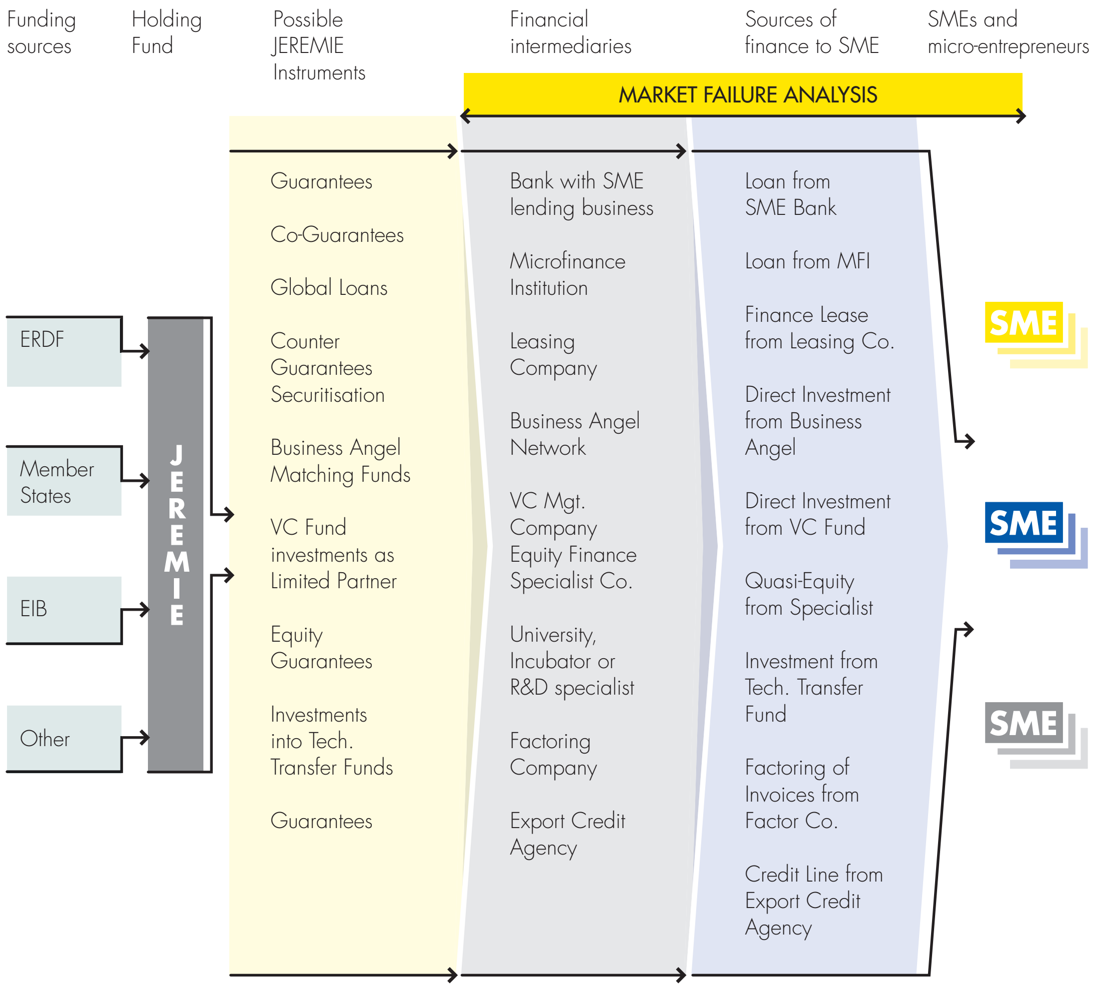
During 2007, Managing Authorities will begin the process of implementing JEREMIE at national or regional level by appointing a JEREMIE Holding Fund manager which will manage these funds on their behalf. The Holding Fund manager will assess the financial intermediaries (banks, venture capital funds, guarantee institutions, micro finance providers) which are the most appropriately equipped to channel these funds to SMEs. The revolving nature of JEREMIE and the risk diversification provided by a portfolio with a wide range of financial instruments should enable the Member States and regions to implement a self-sustainable vehicle for funding SMEs whose life should exceed the 2015 deadline of the structural funds operation.

EIF's roadmap for JEREMIE operations will be outlined more clearly in the second half of 2007, after adoption of the operational programmes by the EC. At this point, JEREMIE will become an active product line for EIF and an important revenue stream.

Benefits to the EIB Group

The initiative has several important benefits to the EIB Group. In contributing to the implementation of the Lisbon initiative, EIF can play a catalytic role, mobilising its technical skills and combining it with the funding possibilities of EIB. Using the Group's skills in structuring operations through a holding fund should have a demonstration effect and benefit the efficient operation of the markets in the country and regions. The Group's local presence will improve the feedback from the markets to the centre, allowing for the adaptation of resources to target priority sectors in those countries. These roles are likely to add substantial value to the Group operations and focus efforts particularly in the micro-enterprise and SME sector on areas where the EU is promoting action.

SME Source of finance and support instruments



Governance

Overview of EIF Risk Management

The basis for an effective risk management process is the identification and analysis of existing and potential risks inherent in any product. EIF therefore constantly adapts its risk management systems to keep pace with best market practices.

Financial and operational systems are in place to control and report on the main risks inherent to EIF's business. Financial risks are monitored by an independent risk management and monitoring division (RMM) reporting directly to the Chief Executive. This segregation of duties and the 'four-eyes' principle ensures an unbiased review of EIF's business activities. In addition, RMM operates in close contact with the Risk Management Directorate of EIB. RMM encompasses a Risk Management team and an Administration and Monitoring team each for venture capital and for portfolio guarantees.

Risk is monitored regularly on both individual transactions and on a portfolio level, and new and old transactions are assessed. RMM reviews the risk management methodologies, processes, and instruments in use in EIF's Investments department; issues independent opinions on all transaction proposals; independently reviews credit ratings (portfolio guarantees) and expected performance (venture capital) assigned by Investments; and checks limits.

Generally, EIF aims to control its financial risks by creating a well-diversified portfolio within the constraints imposed by shareholders or mandates. RMM is also responsible for monitoring guarantee activities under the European Commission's mandates. Furthermore, over the last three years, RMM has been working on addressing Basel II implications for EIF's guarantee activities.

Due to new legal requirements under IFRS, precise details on EIF's Risk Management procedures must be endorsed by the external auditors. Thus, details on EIF risk assessment for venture capital, portfolio guarantees and treasury activities can be found in section 4 of the notes to the annual accounts (page 63). This covers credit, liquidity and market risks.

In 2006, EIF staff members Pierre-Yves Mathonet and Gauthier Monjanel published 'Valuation Guidelines for Private Equity and Venture Capital Funds: A Survey' in the Journal of Alternative Investments, Fall 2006.

Thomas Meyer, Head of Risk Management and Monitoring, published the paper 'Towards Practical Valuation Approaches for Venture Capital Funds' in the OECD Technical Workshop on Private Equity Definitions and Measurements, Issues Paper – SME Financing Gap, Volume 2, Brasilia Conference Proceedings. Published by OECD, Paris.

Compliance

EIF Compliance was set up in 2005 to identify, assess, monitor and report on compliance risk, a key element of EIF's governance structure. Whilst reporting to the Secretary General, it operates with full independence from EIF management, other EIF services or EIF stakeholders and under specific circumstances, the Compliance Function may take the initiative to address the EIF Board of Directors.

EIF's compliance function was consolidated in 2006, and compliance procedures have become embedded in the institutional and operational fields of EIF's activity. The Compliance Function does not have decision-making power; it is pro-active in monitoring and controlling compliance risk as well as advising EIF Management on potential compliance risk and its avoidance, intervening within its remit through the issue of policies and guidance as well as individual opinions and recommendations. For example, it is established practice that the Compliance Function provides an opinion on each of the investment proposals submitted to the EIF's Board of Directors. The second annual report on compliance for 2006 was presented to the EIF's Board of Directors in early 2007.

Through training events organised during 2006, EIF staff gained awareness on compliance relevant issues, such as protection against money laundering and terrorist financing.

The Compliance role has been strengthened in relation to its external relations, via exchange of information and views with the EIB's Office of the Group Chief Compliance Officer, in particular as concerns EIF internal regulation and policies adapted from EIB Group policies. EIF Compliance has also established a regular dialogue with the European Commission with a view to identifying relevant Community Policies for EIF's business. Governance and Corporate Social Responsibility is an important aspect of the Compliance remit which has developed in 2006.

Audit and controls

EIF's principal audit and control mechanisms include both internal and external auditors working under the supervision of the Audit Board, which maintains the independence and integrity of the audit function. EIF's internal and external auditors liaise with the internal and external auditors of EIB, and those of the European Commission, with regard to the fiduciary mandates. During 2006, the Evaluation function began a series of evaluation reports on EIF management of mandates. The first of these was presented to the Board in early 2007 and subsequently posted on the EIF website.

EIF is also audited by the European Court of Auditors for programmes mandated to EIF by the European Commission. In relation to the European Commission's shareholder participation in EIF, the Court of Auditors operates within a specific tripartite agreement that permits audit of the participation's value.

The audit methodology used at EIF is the External Control Framework mechanism that covers all key business processes. EIF equally operates a comprehensive Internal Control Framework with its Internal Auditor.

In 2005, EIF's Rules of Procedure were modified to enhance the Audit Board's role, notably in terms of producing an annual activity report, and in meeting the Board of Directors on an annual basis. A Code of Conduct, which defines the rules and principles which apply to all the Audit Board's members, was approved in June 2005. Finally, in 2006, the Audit Board conducted a second review of its role and methods of operating and has produced an Audit Board Charter. Each of these documents is published on EIF's website.

The EIF has been informed of a possible issue regarding the additionality requirement for a specific financial activity carried out on behalf of a third party. More work is deemed necessary to assess the matter and to quantify any possible financial impact.

Inter-institutional affairs

As the EU financing body for SMEs, EIF has developed its range of financial instruments through the management of mandates on behalf of the European Union. Ongoing dialogue with the European Institutions paved the way for greater cooperation in the field of innovation and cohesion policies in 2006.

Cooperation with the Commission was particularly intensive during 2006, notably during the preparation of the 2007-2013 financial programming cycle, resulting in a number of new joint initiatives: the Competitiveness and Innovation Framework Programme (CIP), which is more ambitious than its MAP predecessor, and the JEREMIE initiative for financial engineering using European Regional Development Funds to support cohesion policy. In this context, EIF has been working particularly closely with DG Enterprise & Industry, DG Regional Policy and DG Economic & Financial Affairs.

The European Council of Ministers of March 2006 underlined the necessity to invest more in knowledge and innovation, and noted the contribution of EIF's venture capital and guarantee instruments to leverage and to mobilise private sector resources. The Council called on Member States to fully utilise the potential of structural funds, notably via the JEREMIE initiative.

During 2006, EIF pursued a dialogue with the European Parliament. EIF's Chief Executive presented the Fund's strategy in support of SMEs at the Committee on Budgets during discussions on the financial planning for 2007-2013. Furthermore, EIF regularly attended discussions in parliamentary committee meetings, notably with ITRE, the Committee on Industry, Research & Energy. Moreover, several committee reports referred to EIF, recommending an extension of EIF means and activities.

Cooperation with shareholders

EIF welcomes opportunities for business cooperation with its shareholders, from the financial institutions to the European Commission and EIB (see page 27 for details on EIB Group joint operations). For the financial institutions, such opportunities for enhanced cooperation form a key element of the value added of being an EIF shareholder.

The extension of MAP and its replacement with a greatly expanded successor, CIP (see page 27), with over EUR 1.1bn dedicated to financial instruments under EIF management, represent a significant vote of confidence in EIF's role. The JEREMIE initiative (see page 32) and Preparatory Action, a European Commission programme aiming at facilitating SME access to finance in the new EU Member States, also reflect the strengths of the institutions joining forces, together with EIB. Moreover, EIF has considerably developed its securitisation and MAP guarantee activities with its financial shareholders and examples of joint collaboration are numerous.

In 2006, EIF co-sponsored a regional development venture capital initiative, GED Southern Iberia, with the Innovation and Development Agency of Andalucía (IDEA) – one of EIF's newest shareholders. This initiative seeks to promote growth and job creation in an under-developed region of Spain.

In terms of guarantee operations, EIF was a key counterparty in two transactions originated by RZB in two new member states and provided a guarantee in a third securitisation transaction originated by San Paolo Imi. EIF worked closely with KfW as guarantor in the ROOF and ProCredit Bulgaria transactions and with Barclays on the sizeable Gracechurch transaction.

IFRS Financial Statements 2006

Independent Auditor's Report

To the Audit Board
of the EUROPEAN INVESTMENT FUND
43, avenue J. F. Kennedy
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying financial statements of the EUROPEAN INVESTMENT FUND, which comprise the balance sheet as at December 31, 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, these financial statements give a true and fair view of the financial position of the EUROPEAN INVESTMENT FUND as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Luxembourg, 2 April 2007

Marianne Weydert

Statement by the Audit Board

The Audit Board, set up pursuant to article 22 of the Statutes of the European Investment Fund (EIF),

- having designated PricewaterhouseCoopers s.à.r.l. Réviseur d'Entreprises as external auditor of the EIF,

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

- having studied the financial statements and such documents which it deemed necessary to examine in the discharge of its duties,

- having examined and discussed the report dated 2 April 2007 drawn up by PricewaterhouseCoopers s.à.r.l. Réviseur d'Entreprises,

- noting that this report gives an unqualified opinion on the financial statements of EIF for the financial period ending 31 December 2006,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms

- that the operations of the Funds have been carried out in compliance with the formalities and procedures laid down in the Statutes, the Rules of Procedure and the guidelines and directives adopted by the Board of Directors;

- that the financial statements, comprising the balance sheet, income statements, cash flow statement, statement of changes in equity, and notes to the accounts of the European In¬vestment Fund give a true and fair view of the financial position of the Fund in respect of its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 2 April 2007

THE AUDIT BOARD

Christian Rakòs | Sylvain Simonetti | Raimundo Poveda Anadón

Balance sheet

as at 31 December 2006
(expressed in EUR)

ASSETS	Notes	2006	2005
Cash and cash equivalents	5.1	52 866 663	73 221 781
Investments: available-for-sale			
Debt securities and other fixed income securities	5.2	517 033 602	504 361 053
Shares and other variable income securities	5.3	133 668 178	104 807 251
		650 701 780	**609 168 304**
Guarantees operations			
Financial guarantees receivable	5.4	38 281 429	31 342 092
Derivatives	5.4	145 529	140 362
		38 426 958	**31 482 454**
Intangible assets	5.5	831 630	1 217 367
Property, plant and equipment	5.6	8 611 983	8 890 640
Other assets	5.7	19 922 245	15 182 958
TOTAL ASSETS		**771 361 259**	**739 163 504**
LIABILITIES			
Financial liabilities	6.1		
Financial guarantees		56 907 239	51 673 280
Derivatives		1 289 229	5 313 992
		58 196 468	**56 987 272**
Retirement benefit obligations	6.2	10 178 908	8 104 434
Other liabilities	6.3	10 466 196	6 273 746
TOTAL LIABILITIES		**78 841 572**	**71 365 452**
EQUITY			
Share capital	6.4		
Subscribed		2 000 000 000	2 000 000 000
Uncalled		(1 600 000 000)	(1 600 000 000)
		400 000 000	**400 000 000**
Fair value reserve	6.6	19 635 766	26 345 596
Share Premium		12 770 142	12 770 142
Statutory reserve	6.5	84 899 624	67 755 278
Retained earnings	6.5	126 638 689	124 179 463
Profit for the financial year	6.5	48 575 466	36 747 573
TOTAL EQUITY		**692 519 687**	**667 798 052**
EQUITY and LIABILITIES		**771 361 259**	**739 163 504**

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

Income Statement
for the year ended 31 December 2006
(expressed in EUR)

	Notes	2006	2005
Net interest and similar income	9.1	23 645 288	22 816 676
Income from securities			
Income from investments in shares and other variable income securities		6 902 149	1 893 192
Net income from guarantees operations	9.2	16 288 735	12 174 548
Commission income	9.3	26 277 510	17 923 659
Net profit / (loss) on financial operations	9.4	(524 335)	479 201
Other operating income		9 062	25 329
General administrative expenses	9.5		
Staff costs:			
- wages and salaries		(14 614 519)	(10 828 562)
- social security costs		(1 123 415)	(408 167)
		(15 737 934)	**(11 236 729)**
Other administrative expenses		(5 862 253)	(4 758 224)
		(21 600 187)	**(15 994 953)**
Depreciation of property, plant and equipment and intangible assets		(1 277 236)	(1 150 118)
Impairment losses on available-for-sale investments		(1 145 520)	(1 419 961)
Profit for the financial year		**48 575 466**	**36 747 573**

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

Cash Flow Statement
for the year ended 31 December 2006
(expressed in EUR)

	2006	2005
A - Cash Flow from Operating Activites		
Profit for the financial year (*)	48 575 466	36 747 573
Increase / (decrease) in accrued interest on debt securities	(409 283)	(670 072)
Interest received from debt securities	(11 590 400)	(11 095 994)
Increase in shares & other variable income securities	(18 381 494)	(17 825 837)
Impairment on shares & other variable income securities	1 121 222	1 180 036
Depreciation for intangible assets, property, plant and equipment	1 277 236	1 150 118
Increase / (decrease) in Other assets	(4 739 287)	(3 691 057)
Increase / (decrease) in retirement for benefit obligations	2 074 474	1 082 138
Increase / (decrease) effective interest on debt securities portfolio	(269 688)	2 488 243
Increase / (decrease) in Other liabilities	4 192 453	(2 228 570)
Increase / (decrease) in amortisation of financial guarantees	(1 705 378)	(2 157 772)
Increase / (decrease) in fair value of Derivatives	(4 029 930)	1 380 069
Net Cash from Operating Activities	**16 115 391**	**6 358 875**
B - Cash Flow from Investing activities		
Purchase of intangible assets	(292 856)	(414 973)
Purchase of property, plant and equipment	(319 987)	(290 981)
Interest received from debt securities	11 590 400	11 095 994
Net decreases / (increases) in debt securities & other fixed income securities	(30 304 066)	(19 052 033)
Net Cash from Investing Activities	**(19 326 509)**	**(8 661 993)**
C - Cash Flow from Financing Activities		
Dividends paid	(17 144 000)	(10 880 000)
Net Cash from Financing Activities	**(17 144 000)**	**(10 880 000)**
Summary statement of Cash Flows		
Cash & cash equivalents at beginning of financial year	73 221 781	86 404 899
Net Cash from		
Operating activities	16 115 391	6 358 875
Investing activities	(19 326 509)	(8 661 993)
Financing activities	(17 144 000)	(10 880 000)
Cash & cash equivalents at the end of financial year	**52 866 663**	**73 221 781**

(*) Profit for the financial year includes dividends received of EUR 6 902 149 (2005: EUR 1 893 192).

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

Statement of Changes in Equity

for the year ended 31 December 2006
(expressed in EUR)

	Subscribed Capital	Callable Capital	Share Capital	Share Premium	Revaluation Reserve	Statutory Reserve	Retained Earnings	Profit for the Year before Appropriation	Total Equity
Balance 01.01.05 under previous GAAP	2 000 000 000	(1 600 000 000)	400 000 000	12 770 142	0	62 314 590	84 298 631	27 203 439	586 586 802
First time adoption IFRS	0	0	0	0	23 619 986	0	28 998 081	0	52 618 067
Balance 01.01.05 under IFRS	2 000 000 000	(1 600 000 000)	400 000 000	12 770 142	23 619 986	62 314 590	113 296 712	27 203 439	639 204 869
Appropriation of prior year's profit	0	0	0	0	0	5 440 688	10 882 751	(27 203 439)	(10 880 000)
Fair value reserve	0	0	0	0	2 725 610	0	0	0	2 725 610
Profit for the Year	0	0	0	0	0	0	0	36 747 573	36 747 573
Balance as at 31.12.05	2 000 000 000	(1 600 000 000)	400 000 000	12 770 142	26 345 596	67 755 278	124 179 463	36 747 573	667 798 052
Appropriation of prior year's profit	0	0	0	0	0	17 144 346	2 459 226	(36 747 573)	(17 144 000)
Fair value reserve	0	0	0	0	(6 709 830)	0	0	0	(6 709 831)
Profit for the Year	0	0	0	0	0	0	0	48 575 466	48 575 466
Balance as at 31.12.06	2 000 000 000	(1 600 000 000)	400 000 000	12 770 142	19 635 766	84 899 624	126 638 689	48 575 466	692 519 687

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

Notes to the accounts for the year ended 31 December 2006
(expressed in EUR)

1. General

The EUROPEAN INVESTMENT FUND (hereafter the "Fund" or "EIF") was incorporated on June 14 1994, in Luxembourg, as an international financial institution. The address of its registered office is 43, avenue J.F. Kennedy Luxembourg.

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

- the provision of guarantees to financial institutions that cover credits to small and medium sized entities /SME);
- the acquisition, holding, managing and disposal of equity participations;
- the administration of special resources entrusted by third parties, and
- related activities.

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

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

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

The Fund's annual accounts have been authorised for issue by the Board of Directors on 2 April 2007.

2. Significant accounting policies and basis of preparation

2.1 Basis of preparation

The Fund's annual accounts were until 31 December 2005 prepared in accordance with the general principles of the Council Directives of the European Communities 86/635/EEC of December 8, 1986 as amended by the Council Directive 2001/65/EC of September 27, 2001 relating to the annual accounts and consolidated accounts of banks and other financial institutions referenced as the "previous GAAP". The 2006 annual accounts have been prepared in accordance with International Financial Reporting Strandards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (IFRS). Reconciliations and descriptions of the effect of the transition from previous GAAP to IFRS on the Fund's equity and its income and cash flows are provided in Note 3.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss including all derivative contracts which are valued at fair-value.

- The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in more detail below. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

2.2 First-Time Adoption of IFRS

IFRS 1, First-time Adoption of International Financial Reporting Standards, requires the retrospective application of IFRS when an entity is first adopting IFRS. However, to ease the implementation of IFRS, the standard provides entities besides the four mandatory exceptions with twelve optional exemptions. European Investment Fund has decided to use the following exemptions:

- Fair value as deemed cost exemption: This exemption allows entities to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use the fair value as its deemed cost at that date. EIF has decided to take advantage of this exemption and therefore to use the revaluation done on the building in 2005 as deemed cost and subsequently measure it using the cost model.

- Employee Benefits: Under IAS 19, Employee Benefits, entities may elect to use a 'corridor' approach that leaves some actuarial gains and losses within defined limits unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognised portion and an unrecognised portion. However, entities may elect to recognise all cumulative actuarial gains and losses at the date of transition to IFRS. The EIF has elected to apply the Employee Benefits exemption, recognising all cumulative actuarial gains and losses at the date of transition to IFRS. Subsequent gains and losses are amortised over the expected average remaining working life of EIF employees, a faster and permissible variation of the 'corridor' approach.

- Designation of Previously Recognised Financial Instruments: IAS 39, Financial Instruments: Recognition and Measurement, permits a financial instrument to be designated on initial recognition as a financial asset or financial liability at fair value through profit or loss or as a financial asset available for sale. First time adopters have the option to make such a designation at the date of transition to IFRS. EIF takes advantage of this exemption and designates previously recognised financial assets as available for sale at the date of transition.

2.3 Adoption Dates

The Fund has chosen not to early adopt IFRS 7, Financial Instruments: Disclosures, and Amendment to IAS 1: Capital disclosures that was issued but not yet effective for accounting periods beginning on 1 January 2006.

The application of the new standards and interpretations issued but not yet effective will not have a material impact on the entity's financial statements in the period of initial application.

2.4 Foreign currency translation

The Euro (EUR) is the functional and presentation currency.

Non-monetary items, which include "Intangible assets" and "Tangible assets" denominated in a foreign currency are reported using the exchange rate at the date of the transaction (historical cost). Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognized in the income statement or within the equity reserves.

Monetary items, which include all other assets and liabilities expressed in a currency other than EUR are reported using the closing foreign exchange rate ruling on the date of the closure of the financial statements, as issued by the European Central Bank. The exchange differences are recognised in the income statement in the period in which they arise.

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

2.5 Investments – available-for-sale

2.5.1 Classification and Measurement

Classification

The Fund classifies the investments in debt securities and shares in the category available–for–sale financial assets ("AFS"). The classification of the investments is determined at initial recognition.

Available–for–sale financial assets are non-derivative financial instruments that are either designated in this category at initial recognition or not classified in any other categories.

Initial recognition and derecognition

Purchases and sales of available-for-sale financial assets are initially recognised on trade-date. They are initially recognised at fair value plus transaction costs. Fair value consideration is explained in the section below.

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or where the EIF has transferred substantially all risks and rewards of ownership.

Subsequent measurement

Available-for-sale financial assets are subsequently measured at fair value. Changes in fair value of financial assets classified as AFS are directly recognised in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in income statement.

Interest on available-for-sale debt securities and other fixed income securities is calculated using the effective interest method is recognised in the income statements. Dividends on equity investments are recognised in the income statement when the Fund's right to receive payment is established.

Differences from currency translation from non-monetary items, such as equity instruments, are recognised in the fair value reserve in equity.

Impairment of financial assets

EIF assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from reserves and recognised in the income statement. Impairment losses on equity instruments previously recognised in the income statement are not reversed through the income statement. In contrast, if in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

2.5.2 Investments in shares and other variable income

Investments in venture capital funds are included in "Shares and other variable income securities". They are acquired for the longer term in the normal course of the Fund's activities.

Fair value considerations:

Under the valuation technique, the fair value of venture capital funds is achieved by applying the aggregated Net Asset Value (NAV) method. This valuation method implicitly assumes that if the NAV's of underlying funds can be considered as equivalent to the fair value as determined under IAS 39, then the aggregation of the NAVs of all funds will itself be equivalent to the fair value as determined under IAS 39. If IAS 39 rules have not been followed, other guidelines might be acceptable (for example new EVCA guidelines) which will need more detailed monitoring and review.

In accordance with this method, the funds are classified into three categories:

- Category I – funds that have adopted the fair value requirements of IAS 39 or new EVCA valuation guidelines for which a specific review is performed to ensure that the NAV is a reliable estimation of fair value.

- Category II – funds that have adopted other valuation guidelines (i.e. AFIC, BVCA & old EVCA valuation guidelines) or standards that can be considered as in line with IAS 39 a specific review is performed to ensure that the NAV is a reliable estimation of fair value.

- Category III – funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines in line with IAS 39.

For Categories I & II, unrealised gains resulting from the fair value measurement are recognised in reserves and unrealised losses are assessed for impairment so as to determine whether they are recognised as impairment losses in the income statement or as changes in the fair value reserve.

Investments belonging to category III are valued at cost less impairment.

The fair value attributable NAV is determined through applying either the Fund's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report or, to the extent available, the precise share value at the same date, submitted by the respective Fund Manager. In order to bridge the interval between the last available NAV and the year-end reporting period, a monitoring procedure is performed and if necessary the reported NAV is adjusted.

2.5.3 Investments in debt securities and other fixed income securities

Debt securities and other fixed-income securities are categorised as follows:

– floating rate notes with maturities exceeding one year and fixed rate note other than commercial papers are included in the "Investment Portfolio";

– floating rate notes and commercial paper with maturities of less than one year are included in the "Short term portfolio".

Securities held by the Fund are all listed on a recognised market. Consequently, the fair value of financial instruments is based on bid prices at the balance sheet date.

Premiums paid over the maturity value, discounts received in comparison to the maturity value of securities and interests on securities are calculated using the effective interest method and are recognised in the income statement.

2.6 Classification and measurement of guarantee operations

Initial recognition and classification

EIF has undertaken a classification analysis of each guarantee contract to determine if the definition of a financial guarantee in accordance with IAS 39.9 is fulfilled. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. If one of the definition criteria is not met, the contract is considered as a derivative.

In accordance with the classification, the guarantees contracts are classified either as financial guarantees or as derivatives.

Financial guarantees measurement:

Financial guarantees are initially recognised at fair value plus transaction costs that are directly attributable to the issuance of the financial guarantees. At initial recognition, the fair value corresponds to the Net Present Value (NPV) of expected premium inflows. EIF has developed a model to estimate the NPV. This calculation is performed at the starting date of each transaction and is recognised in the asset side as "Financial Guarantees receivable" and in the liabilities side as "Financial liabilities".

Subsequent to initial recognition, the EIF's liabilities under such guarantees are measured at the higher of :

– the amount determined in accordance with IAS 37 Provisions, Contingent liabilities and Contingent Assets; and

– the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

EIF amortisation of the amount initially recognised is in line with the risk profile of the transactions, namely a slow linear amortisation over the first two third of the Weighted Average Life (WAL) of the transaction, followed by a quicker linear amortisation down to zero at expected maturity date.

The best estimate of expenditure is determined in accordance with IAS 37 (provisions, contingent liabilities and contingent assets). Guarantee provisions correspond to the cost of settling the obligation, the expected loss, which is estimated based on all relevant factors and information existing at the balance sheet date.

Any increase or decrease in the liability relating to financial guarantees is taken to the income statement under "Net income from guarantees operations".

Derivatives measurement:

Guarantee transactions, which do not comply with the definition of a financial guarantee contract, are regarded as derivatives in terms of IAS 39. A derivative is a financial instrument or other contract where its value changes in response to the change in a specified underlying, it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled at a future date. At initial recognition and subsequent measurement, derivatives are measured at fair value. The best approach for fair value will in this case be the market price. However, operations in which EIF act as guarantors, are typically illiquid. Hence EIF has derived a measurement based on an alternative valuation technique using as much market information as possible. The fair value of derivatives equals to the net of the NPV of expected premium inflow and the cost of settling the exposure.

At initial measurement, the fair value equals zero. Subsequent to initial measurement, derivatives are re-measured to fair value at each balance sheet date. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Gains and losses arising from changes in the fair value of derivatives are recognised in the income statement immediately.

2.7 Property, plant and equipment and Intangible assets

2.7.1 Intangible Assets

Intangible assets comprise of internally generated software and purchased computer software, they are stated at cost net of accumulated amortisation and of impairment losses.

Direct costs associated with the development of software are capitalised provided that those costs are separately identifiable, that the software provides a future benefit to the Fund and the cost can be reliably measured. Maintenance costs are recognised as expenses during the period in which they occur. However costs to develop additional functionalities are recognised as separate intangible assets. Intangible assets are reviewed for indicators of impairment at the balance sheet date.

Intangible assets are amortised using the straight-line method over the following estimated useful lives:

Internally developed software: 3 years

Software: 2 to 5 years

2.7.2 Property, Plant and Equipment

Property, plant and equipment include buildings and other machines and equipment; they are stated at cost minus accumulated amortisation and impairment losses. Property, plant and equipment are reviewed for indications of impairment at the balance sheet date.

Amortisation is calculated on a straight-line basis over the following estimated useful lives:

Buildings: 30 years

Fixtures and Fittings: 3 to 10 years

Office Equipment: 3 to 5 years

Computer Equipment and Vehicles: 3 years

2.8 Employee benefits

2.8.1 Post-employment benefits

Pension fund

The EIF operates an unfunded plan as defined by IFRS of the defined benefit type, providing retirement benefits based on final salary. The cost of providing this benefit is calculated using the projected unit credit actuarial valuation method.

Actuarial gains and losses have been recognised using a faster method than the corridor approach, that is gains and losses are amortised over the average remaining working life of the population through the profit and loss account.

The Fund's defined benefit scheme was initiated in March 2003 to replace the previous defined contribution scheme. The scheme is funded by contributions from staff and the EIF. These funds are transferred to the EIB for management with the Bank's own assets and appear on the Fund's balance sheet as an asset under the heading Accounts receivable.

The charge for the year, actuarial gains and losses, and the total defined benefit obligation are calculated annually by qualified external actuaries.

Health insurance scheme

The Fund has subscribed to a health insurance scheme with an insurance company for the benefit of staff at retirement age, financed by contributions from the Fund and its employees. The entitlement to this benefit is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of this benefit are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. The health insurance liabilities are determined based on actuarial calculations as per the same dates as the pension fund.

2.8.2 Short term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for outstanding annual leave as a result of services rendered by employees up to the balance sheet date.

2.8.3 Other long-term employee benefits

An accrual for other long-term employee benefit costs relating to the period is included in the Income statement under Staff Costs, resulting in a provision for the estimated liability at the balance sheet date.

2.9 Interest income and expenses

Interest income and interest expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.10 Income from Guarantees operations

Income from guarantees operations mainly includes:

- Guarantees commissions received on derivatives contracts and net income arising from changes in the fair value of derivatives;

- Interest income on the amortisation of the expected premium inflows and any decrease in the liability relating to financial guarantees contracts (due to amortisation of the initially recognised amount).

2.11 Fee and commission income

This section is mainly made-up of fees and commissions on mandates and advisory activities.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Portfolio and management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided.

2.12 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

2.13 Leases

The leases entered into by EIF as a lessee are operating leases under which all the risks and benefits of ownership are effectively retained by the lessor. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.14 Accounting Estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. The EIF makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors. Actual results may differ from those estimates and judgmental decisions.

Judgements and estimates are principally made in the following areas:

- Impairment of available–for–sale equity investments (see note 2.5.1);
- Determination of fair values of equity investments (see note 2.5.2);
- Determination of the values of financial guarantees and the fair value of derivatives (see note 2.6);
- Actuarial assumptions related to the measurement of pension liabilities (see note 6.2).

3 Impact of the transition to IFRS

3.1 Basis of transition

Until December 31, 2005, the Fund's annual accounts were based on the previous GAAP as described in note 2.1. In preparing the 2006 financial statements, management has amended certain accounting, valuation and disclosure methods applied in the previous GAAP to comply with the IFRS. The Fund's transition date to IFRS is the 1st of January 2005 and the financial statements for the year ended December 31, 2006 are the first annual financial statements prepared in accordance with IFRS as described in note 2.2. In order to facilitate the comparison, the Fund has restated the 2005 figures in accordance with IFRS. This note provides further information about the impact of the transition to IFRS.

3.2 Equity reconciliation

The following reconciliation provides a quantification of the effect of the transition to IFRS. The table below provides a summary of the impact on equity of the transition at 1 January 2005 and the reconciliation of equity at 31 December 2005:

Reconciliation of equity

(expressed in EUR)

		31.12.2005			01.01.2005		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS	Note						
Cash and cash equivalents	a	73 162 133	59 648	73 221 781	86 350 979	53 920	86 404 899
Investments: available-for-sale							
Debt securities and other fixed income securities	b	477 804 919	26 556 134	504 361 053	458 819 917	30 059 380	488 879 297
Shares and other variable income securities	c	89 766 315	15 040 935	104 807 251	70 355 318	13 328 414	83 683 732
		567 571 234	**41 597 069**	**609 168 304**	**529 175 235**	**43 387 794**	**572 563 029**
Guarantees operations							
Financial guarantees receivable	d	0	31 342 092	31 342 092	0	29 607 993	29 607 993
Derivatives	d	0	140 362	140 362	0	212 015	212 015
		0	**31 482 454**	**31 482 454**	**0**	**29 820 008**	**29 820 008**
Intangible assets		1 217 367	0	1 217 367	1 393 078	0	1 393 078
Property, plant and equipmente		4 520 456	4 370 184	8 890 640	4 575 816	4 583 277	9 159 093
Other assets	f	28 444 438	(13 261 479)	15 182 958	23 445 908	(11 954 008)	11 491 900
TOTAL ASSETS		**674 915 628**	**64 247 876**	**739 163 504**	**644 941 016**	**65 890 991**	**710 832 007**
LIABILITIES							
Provisions relating to guarantees	d	29 953 934	(29 953 934)	0	30 656 978	(30 656 978)	0
Financial liabilities	d						
Financial guarantees		0	51 673 280	51 673 280	0	52 096 952	52 096 952
Derivatives		0	5 313 992	5 313 992	0	4 005 576	4 005 576
		0	56 987 272	56 987 272	0	56 102 528	56 102 528
Retirement benefit obligations	g	6 551 001	1 553 433	8 104 434	4 644 296	2 378 000	7 022 296
Other liabilities	h	19 843 027	(13 569 281)	6 273 746	23 052 940	(14 550 626)	8 502 314
TOTAL LIABILITIES		**56 347 962**	**15 017 490**	**71 365 452**	**58 354 214**	**13 272 924**	**71 627 138**
EQUITY							
Share capital							
Subscribed		2 000 000 000	0	2 000 000 000	2 000 000 000	0	2 000 000 000
Uncalled		(1 600 000 000)	0	(1 600 000 000)	(1 600 000 000)	0	(1 600 000 000)
		400 000 000	**0**	**400 000 000**	**400 000 000**	**0**	**400 000 000**
Fair value reserve	i	0	26 345 596	26 345 596	0	23 619 986	23 619 986
Share Premium		12 770 142	0	12 770 142	12 770 142	0	12 770 142
Statutory reserve		67 755 278	0	67 755 278	62 314 590	0	62 314 590
Retained earnings	j	95 181 382	28 998 081	124 179 463	84 298 631	28 998 081	113 296 712
Profit for the financial year		42 860 864	(6 113 291)	36 747 573	27 203 439	0	27 203 439
TOTAL EQUITY		**618 567 666**	**49 230 386**	**667 798 052**	**586 586 802**	**52 618 067**	**639 204 869**
TOTAL EQUITY and LIABILITIES		**674 915 628**	**64 247 876**	**739 163 504**	**644 941 016**	**65 890 991**	**710 832 007**

Explanation of the effect of the transition to IFRS

a) Cash and cash equivalents

The increase in the cash and cash equivalents is attributable to the reclassification of accrued interest on term deposits from prepayment and accrued income to cash and cash equivalents.

b) Debt securities and other fixed income securities

Under IFRS the EIF records debt securities as "available-for-sale", which are held at fair value with changes in fair value recognised directly in equity. This differs from the method used under previous GAAP in which debt securities were carried at amortised cost or lower of cost or market value (locom). The impact is the following:

	31.12.2005 EUR	01.01.2005 EUR
Reclassification adjustment to amortised cost on short term porftolio*	(15 886)	(73 911)
Reclassification adjustment to amortised cost on invesmtent portolio*	(6 692 087)	(3 993 913)
Adjustment of long term floating rate notes from locom to amortised cost	70 054	51 030
Reclassification of accrued interest from prepayment and accrued income	11 093 764	10 423 690
Fair value reserve - Equity	21 867 880	23 619 986
Adjustment to effective interest method	232 409	32 498
Total impact-increase in debt securities	**26 556 134**	**30 059 380**

* The reclassification of amortised cost on short term and investment portfolio comes from the accruals and deferred income.

c) Shares and other variable income

Under IFRS the EIF's investments in Venture Capital Funds (VCFs) are classified as "available-for-sale", which are held at fair value with changes in fair value recognised directly in equity. Under previous GAAP these investments were carried at the lower of acquisition cost or current NAV, thus excluding any attributable unrealised gain. Unrealised losses on investment in existence for less than two year were ignored.

At opening balance 2005, the carrying amounts were used as best estimation for determining the fair value.

The impact of the new valuation method is EUR 15 040 934 at December 31, 2005 being the reversal of previous GAAP 2005 value adjustment EUR 269 899 and the booking of the IFRS value adjustment EUR (15 310 833).

d) Guarantees operations

Under IFRS the EIF's Guarantees operations are classified as Financial guarantees or as derivatives and treated accordingly as described in the note 2.6. The IFRS treatment differs from the previous GAAP accounting treatment. As a consequence, the provision, the accrued commission on guarantees and the deferred income on guarantees under previous GAAP have been released against retained earnings to account for the new financial guarantees and the derivatives values.

e) Property, plant and equipment

The EIF has used the fair value as deemed cost exemption on its building. The valuation of the building performed in 2005 assessed the fair value of the building at EUR 8 150 000 for a carrying amount under previous GAAP of EUR 3 566 723. This impacts the retained earnings at opening balance EUR 4 583 277. Impact at December 2005 is EUR 4 370 184 including the increase in the annual depreciation charge.

f) Other assets

Movements in other assets mainly correspond to reclassification of amounts from previous GAAP to comply with the new IFRS disclosure:

	31.12.2005 EUR	01.01.2005 EUR
Reclassification of accrued interest on term deposits	(59 648)	(53 920)
Reclassification of accrued interest on debt securities	(11 093 764)	(10 423 690)
Reversal accruals commission on guarantees	(2 108 067)	(1 476 398)
Total impact-decrease in the other assets	**(13 261 479)**	**(11 954 008)**

g) Retirement benefit obligations

	31.12.2005 EUR	01.01.2005 EUR
Pension scheme	303 433	1 128 000
Health insurance scheme	1 250 000	1 250 000
	1 553 433	**2 378 000**

EIF has used the option provided under IFRS to add or charge pension-related actuarial gains and losses that have not yet been recognised in the income statement to equity in full at the date of transition. This impact results in an increase of the obligation recognised against equity for EUR 1 128 000. Impact at 31 December 2005 results in an increase of the obligation by EUR 303 433.

At opening balance 2005, an amount of EUR 1 250 000 was used as the best estimation of the liability related to the after service heath insurance scheme.

h) Other Liabilities

Movements in other liabilities mainly correspond to reclassification of amounts from previous GAAP to comply with the IFRS accounting policies:

	31.12.2005	01.01.2005
Reclassification adjustment to amortised cost on short term porftolio	(15 886)	(72 571)
Reclassification adjustment to amortised cost on invesmtent portolio	(6 692 087)	(3 993 913)
Reversal deferred income on guarantees	(8 108 754)	(11 436 028)
Recognition of other employee benefits	1 247 446	951 886
Total impact-decrease in the other liabilities	**(13 569 281)**	**(14 550 626)**

i) Fair value reserve

This includes the reserve on the debt securities and other fixed income securities and the shares and other variable income securities valued at fair value under IFRS with changes in the fair value recognised in the equity reserve:

	31.12.2005 EUR	01.01.2005 EUR
Fair value reserve on debt securities and other fixed income securities	21 867 880	23 619 986
Fair value reserve on shares and other variable income securities	4 477 716	0
	26 345 596	**23 619 986**

j) Retained earnings

Retained earnings were impacted by first time adoption adjustments at 01 January 2005. The total net impact is an increase in retained earnings of EUR 28 998 081 at opening balance.

	01.01.2005 EUR
Revaluation as deemed cost on building	4 583 277
Debt securities and other fixed income securities	82 188
Shares and other variable income securities	13 328 414
Guarantees operations	14 334 090
Retirement benefit obligations	(2 378 000)
Other liabilities	(951 888)
	28 998 081

3.3 Reconciliation of the profit for the year under previous GAAP and IFRS

The following table shows the difference between the profit for the year reported under previous GAAP and the income statement under IFRS:

		2005 EUR
Profit for the year under previous GAAP	note	**42 860 864**
Net interest and similar income	a	218 777
Guarantee operations	b	(3 884 287)
Impairment on available-for-sale investments	c	(2 763 697)
Staff costs - employee benefits	d	(295 558)
Staff costs - post-employment benefits	e	824 567
Depreciation on property, plant and equipment	f	(213 093)
Profit for year under IFRS		**36 747 573**

(a) Net interest and similar income

Under IFRS debt securities are measured at fair value. Impact under IFRS comes from the use of the effective interest method compared to the linear method used under the previous GAAP.

(b) Guarantees operations impact

Under IFRS, Guarantee operations are classified and measured in a different way then under previous GAAP. This result in the below operations:

	2005 EUR
Reversal of previous GAAP commission income tofinancial guarantees receivable:	(17 583 510)
Reversal correction previous GAAP to Financial liabilities:	(2 140 063)
Release of provision to equity	3 664 738
Net guarantees fees on derivatives	3 990 416
Gain /(loss) on fair value changes on derivatives	(1 380 069)
Interest income on amortisation of NPV	772 027
Net increase in the financial guarantees contracts	8 792 174
	(3 884 287)

(c) Impairment on available-for-sale investments

Under previous GAAP VCFs investment were adjusted on a line-by-line basis, the changes in the value adjustment and foreign exchange going through the P&L. Under IFRS VCFs investment are classified as "available-for-sale" and changes in the fair value go straight to the revaluation reserve. Only impairment losses and the foreign exchange variation on impaired VCFs are recognized in the income statement.

	2005 EUR
Impairment on available-for-sale investments	
Reversal of value adjustment under previous GAAP	(269 899)
Impairment losses	(1 419 961)
Reversal of foreign exchange gain under previous GAAP	(1 315 262)
Foreign exchange gain on impaired VCFs	239 925
Other reclassification	1 500
	(2 763 697)

(d) Staff costs – employee benefits

Annual costs relating to previously unrecognized liabilities on short-term and other long-term employment benefits.

(e) Staff costs – post-employment benefits

On conversion to IFRS the increased retirement benefit obligation impacts at the transition date in retained earnings and the surplus costs are therefore reversed in the income statement.

(f) Depreciation on property, plant and equipment

The EIF has used the fair value as deemed cost exemption on its main building. The increased asset value results in an increased depreciation charge included in the income statement.

3.4 Main differences in the cash flow statement

Differences between the cash flow statements under IFRS and previous GAAP, arise mainly due to:

- Differences in the classification of assets, liabilities and transactions as affecting cash flows from operating activities, investing activities or financing activities;
- Changes in measurement of shares and other fixed income securities, debt securities portfolio and guarantees operations

4 Financial Risk Management

This section presents information about the Fund's exposure to and its management and control of risks associated with its investment activities:

- Portfolio guarantees;
- Venture capital;
- Treasury.

Financial and operational systems are in place to control and report on the main risks inherent to its operations. Financial risks are monitored by an independent risk management and monitoring division (RMM) reporting directly to the Chief Executive. This segregation of duties and the four-eyes principle ensure an unbiased review of EIF's business activities.

Generally, EIF aims to control its financial risks by creating a well-diversified portfolio within the constraints imposed by shareholders or mandates. Exposures and risk-taking is monitored against predetermined tolerances as determined by the Board of directors, senior management or as set under mandates. The basis for an effective risk management process is the identification and analysis of existing and potential risks inherent in any product. EIF aligns its risk management systems to changing economic conditions and evolving regulatory standards. It adapts them on an ongoing basis as "best market practices" develop. RMM covers EIF's VC and guarantee activities, monitors risk regularly on individual transactions as well as on a portfolio level, and assesses new and existing transactions. For this purpose, RMM:

- reviews the risk management methodologies, processes, and instruments in use at Investments;
- issues independent opinions on all transaction proposals;
- independently reviews internal ratings (portfolio guarantees)/grades (VC) assigned by Investments; and
- checks limits.

As risk assessments are based on models, RMM – in the course of the independent opinion process and in line with the Model Review Procedure – conducts a model review for each new rating as well as sample checks of updated ratings. The purpose of this Model Review is to reduce the model risk establishing guidelines for use of all quantitative tools models for valuation and risk assessment within EIF. Inter alia it defines that each basic model has to be independently reviewed within EIF and that assumptions made to adjust basic models for individual transactions have to be documented and reviewed by RMM.

4.1 Credit risk position

All businesses of the Fund use appropriate instruments, policies, and processes to manage the credit risk.

EIF's portfolio guarantees are mainly exposed to credit risk arising when a customer or counterparty is no longer able to meet its obligations under contract. To manage the concentration of credit risk, policy guidelines for the portfolio guarantee business provide the reference in the origination of new guarantee operations as well for the ongoing monitoring of the existing guarantee portfolio. It ensures that EIF continues to develop a diversified guarantee portfolio in terms of product range, geographic coverage, counterparty exposure, obligor exposure, industry concentration, etc.

Venture Capital guidelines define the main criteria to limit EIF's counterparty exposure.

EIF does not hedge its VC positions. Venture capital investments are of a long-term nature and have high uncertainty regarding the timing of cash flows.

Credit risk also affects, albeit to a lesser degree, fixed-income securities in the treasury portfolio. Therefore, the Fund has policies in place to ensure that all treasury transactions are executed with high-credit-qualify counterparties. Moreover, the Fund has policies that limit concentrations on any counterparts and security issues, so that weighted exposure for each counterparty, does not exceed the authorised limit.

The following tables outline the credit quality by investment grade of the Fund's debt securities as at 31 December 2005 and 2006, based on external ratings. Figures are presented without accrued interests.

2005	AFS - Debt securities and other fixed income securities	
Rating	Amount in EUR	In percentage
AAA	306 327 522	62.10%
AA1	52 900 765	10.72%
AA2	54 932 760	11.14%
AA3	11 916 000	2.42%
AA+	5 680 000	1.15%
A2	38 528 660	7.81%
A3	10 506 750	2.13%
P1**	12 474 833	2.53%
Total	493 267 290	100%

2006	AFS - Debt securities and other fixed income securities	
Rating	Amount in EUR	In percentage
AAA	348 853 074	69.01%
AA1	17 609 306	3.48%
AA2	54 620 328	10.80%
AA3	15 303 760	3.03%
AA+	5 488 722	1.09%
A2	38 915 833	7.70%
A3	10 026 260	1.98%
NR*	4 743 997	0.94%
P1**	9 969 276	1.97%
Total	505 530 556	100%

(*) Non-rated.

(**) Short-term rating, equivalent of (Aaa-A2).

4.2 Liquidity risk position:

The liquidity risk is closely related to the Fund's solvency and to the confidence that creditors have in the Fund to meet its commitments. The treasury is managed in such a way as to protect the value of the paid-in capital, ensure an adequate level of liquidity to meet possible guarantee calls, private equity commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to minimisation of risk.

At the moment, asset-liability matching is of reduced importance for venture capital investments. For managing own resources no over-commitments are permitted, and EIF does not issue debt to fund such investments.

The table below shows the Fund's assets and liabilities classified into relevant maturity groupings based on the remaining period to the contractual maturity date. It is presented using the most prudent expectation of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date. Assets and liabilities without stated maturity are reported in the column 'Maturity undefined' and are considered as a relatively stable core source of funding.

2006 Maturity	Less than 1 year	1 to 5 years	More than 5 years	Maturity undefined	Total
Cash & cash equivalents	52 866 663	0	0	0	52 866 663
AFS - Debt securities and other fixed income securities	98 224 430	196 824 802	221 984 370	0	517 033 602
AFS - Shares and other variable income securities	1 521 924	73 273 251	58 873 003	0	133 668 178
Guarantee operations receivable					
Financial guarantees	725 230	20 903 330	16 652 869	0	38 281 429
Derivatives	0	58 355	87 174	0	145 529
Other assets	7 749 909	4 080 764	17 535 185	0	29 365 858
Total Assets	**161 088156**	**295 140 502**	**315 132 601**		**771 361 259**
Financial liabilities					
Financial guarantees	1 727 078	37 139 439	18 040 722	0	56 907 239
Derivatives	28 375	742 001	518 853	0	1 289 229
Equity	0	0	0	692 519 687	692 519 687
Other liabilities	8 532 812	12 112 292	0	20 645 104	
Total Liabilities	**10 288 265**	**37 881 440**	**30 671 867**	**692 519 687**	**771 361 259**
Net liquidity position at 31.12.2006	150 799 891	257 259 062	284 460 734	(692 519 687)	0
Cumulative liquidity position at 31.12.2006	150 799 891	408 058 953	692 519 687		

2006 Maturity	Less than 1 year	1 to 5 years	More than 5 years	Maturity undefined	Total
Total Assets	**152 338 265**	**294 863 687**	**288 153 208**	**3 808 344**	**739 163 504**
Total Liabilities	**5 874 317**	**33 295 520**	**32 195 615**	**667 798 052**	**739 163 504**
Net liquidity position at 31.12.2005	146 463 948	261 568 167	255 957 593	(663 989 708)	0
Cumulative liquidity position at 31.12.2005	146 463 948	408 032 115	663 989 708		

The Fund bears the following risk on guarantees operations:

		2006 EUR	2005 EUR
Guarantees issued			
	Drawn	2 943 419 253	253 381 793
	Undrawn	107 896 455	84 500 1772
		3 051 315 708	2 337 881 970

The amount disclosed in respect of issued guarantees represents the total commitment which refers to both the drawn and un-drawn principal amounts of the underlying loans and, if relevant, to the present value of the flow of future interest payments covered by the guarantees.

Guarantees issued by the EIF are analysed with reference to their maturity as follows:

	Drawn EUR	Undrawn EUR	Total 2006 EUR	Total 2005 EUR
Up to five years	456 879 525	12 955 731	469 835 256	177 345 185
From five to ten years	1 070 133 566	79 940 724	1 150 074 290	562 800 129
From ten to fifteen years	727 670 397	15 000 000	742 670 397	946 271 002
Over fifteen years	688 735 765	0	688 735 765	651 465 654
	2 943 419 253	107 896 455	3 051 315 708	2 337 881 970

Of the above total amount, EUR 3 304 323 (2005: EUR 10 582 915) has been issued in favour of the EIB.

The drawn down portion of the guarantees issued includes an amount of EUR 1 106 129 representing the present value of future interest for guarantees contracts in default (2005: EUR 1 286 849).

4.3 Market risk

Market risk: Interest rate position:

More than half of the Fund's income and operating cash flows are independent of changes in market interest rates. The Fund's interest rate risk arises mainly from cash & cash equivalents positions as well as investments in debt securities. Approximately 50% of these assets held have an average duration of up to 5 years, thereby safeguarding the Group against the substantial fluctuations in its long term revenues.

Moreover, operations of a speculative nature shall not be authorised. Investment decisions are based on the interest rates available in the market at the time of investment. Interest rate expectations shall not be taken into account.

The following table illustrates the Fund's exposure to interest rate risk (figures are presented at fair value):

2005	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to year 1	1 to 5 years	More than 5 years		
Cash & cash equivalents	73 221 781	0	0	0	0	73 221 781
AFS - Debt securities and other fixed income securities	12 474 833	58 833 590	170 011 247	214 165 212	48 876 171	504 361 053
Total	**85 696 614**	**58 833 590**	**170 011 247**	**214 165 212**	**48 876 171**	**577 582 834**
Percentage	**14.84%**	**10.19%**	**29.43%**	**37.08%**	**8.46%**	**100%**

2006	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to year 1	1 to 5 years	More than 5 years		
Cash & cash equivalents	52 866 663	0	0	0	0	52 866 663
AFS - Debt securities and other fixed income securities	36 514 743	37 176 930	172 822 899	219 928 170	50 590 860	517 033 602
Total	**89 381 406**	**37 176 930**	**172 822 899**	**219 928 170**	**50 590 860**	**569 900 265**
Percentage	**15.68%**	**6.52%**	**30.33%**	**38.59%**	**8.88%**	**100%**

The average effective interest rate on term deposit in EUR is 2.89% for the year 2006 (2005: 2.11%). The average effective interest rate on the Available-for-sale securities portfolio in EUR is 4.55% for 2006 (2005: 4.73%).

Market risk: Foreign currency position

The following section provides information on the risk that fair values and future cash flows of financial assets fluctuate due to changes in foreign exchange rates.

The Fund's objective is to reduce exchange risk by limiting its investment in out-currency. The Fund's capital is denominated in EUR and the majority of its assets and liabilities are in that currency. No risk is taken regarding our debt securities' portfolio, as all investments in debt securities and other fixed income securities are denominated in EUR.

On the Venture Capital side, risks stemming from foreign exchange rate are of reduced significance. For the Fund's modus operandi it is believed that a currency zone limit setting system be the most appropriate approach.

Included in the table are the financial assets at carrying value, classified by currency, demonstrating that risk taken regarding foreign currency exchange rates is insignificant.

All amounts are denominated in EUR

2005	EUR	USD	GBP	SEK	DKK	Total
Cash & cash equivalents	61 984 589	1 741 203	8 908 685	557 311	29 993	73 221 781
AFS - Debt securities and other fixed income securities	504 361 053	0	0	0	0	504 361 053
AFS - Shares and other variable income securities	65 724 756	4 176 480	31 517 713	1 835 825	1 552 477	104 807 251
Total	632 070 398	5 917 683	40 426 398	2 393 136	1 582 470	682 390 085
Percentage	92.63%		7.37%			100%

All amounts are denominated in EUR

2006	EUR	USD	GBP	SEK	DKK	Total
Cash & cash equivalents	46 462 655	2 881 511	3 155 448	212 723	154 326	52 866 663
AFS - Debt securities and other fixed income securities	517 033 602	0	0	0	0	517 033 602
AFS - Shares and other variable income securities	87 248 494	5 140 994	36 176 214	2 734 572	2 367 905	133 668 178
Total	650 744 751	8 022 505	39 331 662	2 947 295	2 522 231	703 568 443
Percentage	92.49%		7.51%			100%

As far as the portfolio guarantee activity is concerned, EIF monitors its non-Euro exposure and takes a view as to the relevant actions required in order to maintain the foreign exchange risk under control. For Trust operations the exchange risk is typically borne by the EIF counterparties. In some cases, specific budgetary allocations can be made in order to mitigate the risk taken by the intermediary. Under no circumstances EIF takes contingent liabilities under its trust guarantee activities.

4.4 Statutory ceiling on the overall commitments for operations

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

The present level of subscribed capital establishes a ceiling of EUR 6 000 000 000 in relation to total guarantees outstanding committed by the Fund currently totalling EUR 3 051 315 708 (2005: EUR 2 337 881 970).

The TEN guarantee operations managed by the Fund on behalf of EIB are not included in the above amount of guarantees outstanding in view of the risk thereon having been taken over by the EIB EUR 567 211 551 (2005: EUR 719 188 476).

The ceiling decided by the General meeting pursuant to Article 12 and Article 26 of the Statutes and presently applied in respect of the Fund's own venture capital operations is 50% of own funds. Taking into account the 2006 results, the ceiling stands at EUR 336 544 844 (reduced by the proposed 2006 dividend payment) whilst the commitments in respect of the venture capital operations at current rate amount to EUR 352 506 358 (2005: EUR 267 765 296).

5 Detailed disclosures relating to asset headings

5.1 Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets, highly liquid securities. They include cash at bank and in hand, interest earning deposits with original maturities of 90 days or less and bank overdrafts. Bank overdrafts are shown within financial liabilities under current liabilities on the balance sheet.

The remaining life of cash and cash equivalents is as follows

	2006 EUR	2005 EUR
Repayable on demand	25 796 170	24 662 133
Up to three months	27 070 493	48 559 648
	52 866 663	**73 221 781**

The effective interest rate on short-term bank deposits is 2.89% (2005: 2.11%); these deposits have an average maturity of 29 days.

5.2 Debt securities and other fixed-income securities

The Fund's portfolio includes money market funds and other money market instruments; long-term debt instruments e.g. bonds, notes and other obligations.

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

	2006 EUR	2005 EUR
Short-term Portfolio	14 456 143	12 474 833
Investment Portfolio	502 577 459	491 886 220
of which accrued interests	*11 503 046*	*11 093 763*
	517 033 602	**504 361 053**

Debt securities and other fixed-income securities held by the Fund are all listed on an active market. Figures above are presented at fair value.

The Fund participates as lender in a Securities Lending and Borrowing Programme with three counterparties, the market value of securities lent at year-end amounts to EUR 85 091 001 (2005: EUR 39 466 869). Derecognition criteria in accordance with IAS 39 are not fulfilled.

Movement in debt securities and other fixed income securities:

	2006 EUR	2005 EUR
Fair value at 1 January	504 361 053	488 879 297
Additions	91 155 772	111 634 936
Disposals	(60 851 706)	(92 582 903)
Effective interest rate	678 970	(1 818 171)
Change in Fair value reserve	(18 310 487)	(1 752 106)
Impairment	0	0
Fair value at 31 December	**517 033 602**	**504 361 053**

The total amount of fair value changes that has been recognised in equity during the year 2006 is EUR 3 557 393 (2005: EUR 21 867 880).

No impairment losses on debt securities and other fixed income securities categorised as AFS have been booked in 2006 or 2005.

5.3 Shares and other variable income securities

Shares and other variable income securities include investments in venture capital funds and are analysed as follows:

	2006 EUR	2005 EUR
Fair value at 1 January	104 807 251	83 683 732
Additions	39 146 739	30 287 443
Disposals	(20 765 243)	(12 461 606)
	123 188 747	**101 509 569**
Cumulative Value adjustments and impairment movements		
Changes in Value Adjustment	2 707 258	(5 392 432)
Changes in Fair value reserve	6 895 759	4 127 219
Changes in Impairment	274 441	3 972 471
	9 877 458	**2 707 258**
Cumulative Foreign exchange movements		
Changes in foreign exchange	590 424	(90 050)
Changes in Fair value reserve	227 182	350 497
Changes in Impairment	(215 633)	329 977
	601 973	**590 424**
Fair value at 31 December	**133 668 178**	**104 807 251**

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

The cumulated fair value changes on these investments, which are recorded in the fair value reserve, in accordance with the valuation method described in note 2.5.2, amount to EUR 11 022 978 (2005: EUR 4 127 219).

The cumulated unrealised foreign exchange gain arising from the revaluation of venture capital funds at year-end closing rates amounts to EUR 577 678 (2005: EUR 350 497).

Investments belonging to the Category III are measured at cost less impairment, as no reliable fair value is available. These amount to EUR 247 500 (2005: EUR 262 500).

5.4 Guarantees operations

The details relating to guarantees operations are set out below:

	2006 EUR	2005 EUR
Derivatives	145 529	140 362
Financial guarantees	38 281 429	31 342 092
	38 426 958	**31 482 454**

5.5 Intangible assets

An intangible asset is an identifiable non-monetary asset and is recognised at cost if and only if it will generate future economic benefits and if the cost of the asset can be measured reliably.

Changes in intangible assets can be detailed as follows:

	Internally Generated Software EUR	Purchased Software EUR	Total EUR
At 1 January 2005			
Cost	1 654 607	335 705	1 990 312
Accumulated depreciation	(265 263)	(331 972)	(597 235)
Net book amount	**1 389 344**	**3 733**	**1 393 077**
Opening net book amount	1 389 344	3 733	1 393 077
Additions	414,973	0	414 973
Disposals	0	0	
Depreciation charge	(588 322)	(2 361)	(590 683)
Closing net book amount 2005	**1 215 995**	**1 372**	**1 217 367**
At 1 January 2006			
Cost	2 069 580	335 705	2 405 285
Accumulated depreciation	(853 585)	(334 333)	(1 187 918)
Net book amount	**1 215 995**	**1 372**	**1 217 367**
Opening net book amount	1 215 995	1 372	1 217 367
Additions	251,486	41,369	292 855
Disposals	0	0	
Depreciation charge	(666 572)	(12 020)	(678 592)
Closing net book amount 2006	**800 909**	**30 721**	**831 630**
At 31 December 2006			
Cost	2 321 066	377 074	2 698 140
Accumulated depreciation	(1 520 157)	(346 353)	(1 866 510)
Net book amount	**800 909**	**30 721**	**831 630**

There were no indications of impairment of intangible assets in either 2006 or 2005.

5.6 Property, plant and equipment

An intangible asset is an identifiable non-monetary asset and is recognised at cost if and only if it will generate future economic benefits and if the cost of the asset can be measured reliably.

Movements in property, plant and equipment:

	Land & Buildings EUR	Fittings EUR	Office Equipment EUR	Computer Equipment EUR	Vehicles EUR	Other Fixed Assets EUR	Total EUR
At 1 January 2005							
Cost	8 590 527	357 469	685 798	298 510	84 073	8 764	10 025 141
Accumulated depreciation	(16 545)	(183 608)	(367 968)	(213 855)	(84 073)	0	(866 048)
Net book amount	8 573 982	173 862	317 830	84 655	0	8 764	9 159 093
Opening net book amount	8 573 982	173 862	317 830	84 655	0	8 7649	159 093
Additions	0	0	82 719	208 262	0	0	290 981
Disposals	0	0	0	0	0	0	0
Depreciation charge	(374 150)	(31 473)	(72 155)	(81 655)	0	0	(559 434)
Closing net book amount 2005	8 199 831	142 388	328 394	211 263	0	8 764	8 890 640
At 1 January 2006							
Cost	8 590 527	357 469	768 516	506 773	84 073	8 764	10 316 122
Accumulated depreciation	(390 696)	(215 081)	(440 124)	(295 509)	(84 073)	0	(1 425 483)
Net book amount	8 199 831	142 388	328 392	211 263	0	8 764	8 890 640
Opening net book amount	8 199 831	142 388	328 392	211 263	0	8 764	8 890 640
Additions	0	0	169 882	150 106	0	0	319 988
Disposals	0	0	0	0	0	0	0
Depreciation charge	(374 150)	(24 951)	(87 009)	(112 534)	0	0	(598 645)
Closing net book amount 2006	7 825 681	117 437	411 266	248 835	0	8 764	8 611 983
At 31 December 2006							
Cost	8 590 527	357 469	938 398	656 879	84 073	8 764	10 636 111
Accumulated depreciation	(764 846)	(240 032)	(527 133)	(408 043)	(84 073)	0	(2 024 127)
Net book amount	7 825 681	117 437	411 266	248 835	0	8 764	8 611 983

There were no indications of impairment of property, plant and equipment in either 2006 or 2005.

5.7 Other Assets

Other assets are made up of the following:

	2006 EUR	2005 EUR
Accounts receivable relating to pensions managed by the EIB	9 709 504	6 844 946
Advanced payments	26 830	16 500
Accrued commission on management fees & other income	6 095 465	4 792 426
Other debtors	3 529 086	4 090 446
Fair value at 31 December	**19 922 245**	**15 182 958**

Accounts receivable relating to pensions managed by the EIB: Following the introduction of a defined benefit pension scheme in 2003 (see note 2.8), contributions from staff and the Fund are set aside to cover future obligations. The assets of the scheme are transferred to the EIB for management and investment on behalf of the Fund. See also note 6.2.

6 Detailed disclosures relating to liability and equity headings

6.1 Financial liabilities

The movements relating to financial liabilities are set out below:

Financial Guarantees	2006 EUR	2005 EUR
Balance at the beginning of the financial year	51 673 280	52 096 952
Additional	16 138 074	8 883 502
Transfer relating to SME guarantees	686 021	1 436 469
Utilisation of the financial guarantees	(1 769 290)	(1 951 469)
Adjustment to the higher of amortisation and provisioning	(9 820 846)	(8 792 174)
Balance at the end of the financial year	**56 907 239**	**51 673 280**

The balance of EUR 56 907 239 (2005: EUR 51 673 280) includes a provision for an amount of EUR 5 915 700 (2005: EUR 8 258 959)

Derivatives	2006 EUR	2005 EUR
Balance at the beginning of the financial year	5 313 992	4 005 576
Fair value changes	(4 024 763)	1 308 416
Balance at the end of the financial year	**1 289 229**	**5 313 992**

6.2 Retirement benefit obligation

The retirement benefit obligation consists of the pension scheme and the health insurance scheme as follows:

	2006 EUR	2005 EUR
Pension scheme	8 928 908	6 854 434
Health insurance scheme	1 250 000	1 250 000
	10 178 908	**8 104 434**

Commitments in respect of retirement benefits as at December 31, 2005 have been valued in January 2006 by an independent actuary using the projected unit credit method. The calculations are based on the following main assumptions:

Principal Assumptions	2006	2005
Discount rate for obligations	4.76%	4.31%
Rate of future compensation increases	3.50%	3.50%
Rate of pension increases	1.50%	1.50%
Actuarial tables	Swiss BVG 2000	Swiss BVG 2000

The commitment as evaluated in the independent actuary report dated February 2007 amounts to EUR 8 929 000. As of December 2006, the Fund has allocated EUR 9 208 280 to the provisions relating to pensions to ensure full coverage of the commitments.

The movements in the "retirement benefit obligations" are as follows (figures as stated in below are rounded to the nearest thousand):

Benefit Liabities as at 31.12.2006	**2006 EUR**	**2005 EUR**
Present value of funded obligation	0	0
Present value of unfunded obligation	9 928 000	8 635 000
Unrecognised net actuarial gains/losses	(999 000)	(1 780 000)
Net liabilty	**8 929 000**	**6 855 000**

Net Periodic Benefit Cost for Financial year	**2006 EUR**	**2005 EUR**
Current net service cost	867 000	444 000
Interest cost	376 000	282 000
Amortisation of unrecognised gains/losses	133 000	0
Net Benefit Expense	**1 376 000**	**726 000**

Changes in Defined Benefit Obligation During Year	**2006 EUR**	**2005 EUR**
Defined benefit obligation, Beginning of year	8 635 000	5 772 000
Net service cost	867 000	444 000
Interest cost	376 000	282 000
Employee contributions	513 000	375 000
Benefits Paid	185 000	(18 000)
Experience (Gain)/Loss	430 000	447 000
(Gain)/Loss due to assumption changes	(1 078 000)	1 333 000
Defined benefit obligation, End of year	**9 928 000**	**8 635 000**

6.3 Other Liabilities

Other liabilities are analysed as follows

	2006 EUR	2005 EUR
Trade creditors (*)	4 936 054	930 955
Other taxation and social security costs	33 504	1 913
Other payables (**)	5 496 638	5 340 878
	10 466 196	6 273 746

(*) Trade Creditors mainly includes amounts payable to the EIB Intercompany Account, which refer to services such as seconded staff, IT support, internal audit and other sundry items.
(**) Other provisions include amounts relating to accrued fees for professional services such as Audit fees and fees to the Ratings Agencies. It also includes treasury management fees and accruals for EIF staff compensation.

6.4 Share Capital

The authorised capital amounts to EUR 2 billion, divided into 2 000 shares with a nominal value of EUR 1 000 000 each. The shares confer rights of ownership of the assets of the Fund as described in Article 8 of its Statutes. Shareholders are entitled to any distribution of net profits, which is limited by the requirements of the statutory reserve.

The authorised and subscribed share capital of EUR 2 000 000 000 representing 2 000 shares is called and paid in for an amount of EUR 400 000 000 representing 20% of the authorised and subscribed share capital.

Further payments of the subscribed but not paid in capital need the approval by the General meeting of shareholders.

The authorised share capital is detailed as follows:

	2006 EUR	2005 EUR
Subscribed and paid in (20%)	400 000 000	400 000 000
Subscribed but not yet called (80%)	1600 000 000	1600 000 000
Balance at the end of the year	2 000 000 000	2 000 000 000

The capital is subscribed as follows :

	2006 Number of shares	2005 Number of shares
European Investment Bank	1 224	1 238
European Commission	600	600
Financial Institutions	176	162
	2 000	2 000

6.5 Statutory reserve and profit brought forward

Under the terms of Article 27 of its Statutes, the Fund is required to appropriate to a statutory reserve at least 20% of its annual net profit until the aggregate reserve amounts to 10% of subscribed capital. Such reserve is not available for distribution.

A minimum amount of EUR 9 715 093 is required to be appropriated in 2007 with respect to the financial year ended December 31, 2006. Movements in reserves and profit brought forward are detailed as follows:

	Statutory reserve EUR	Retained earnings EUR	Profit for the financial year EUR
Balance at the beginning of the financial year	67 755 278	124 179 463	36 747 573
Dividend paid			(17 144 000)
Other allocation of last financial year profit	17 144 346	2 459 226	(19 603 573)
Profit for the financial year			48 575 466
Balance at the end of financial year	**84 899 624**	**126 638 689**	**48 575 466**

The General Meeting of Shareholders of May 2nd 2006 approved the distribution of a dividend amounting to EUR 17 144 000 relating to the year 2005 (2004: EUR 10 880 000), corresponding to EUR 8 572 per share.

6.6 Fair value reserve:

The fair value reserve includes the followings:

	2006 EUR	2005 EUR
Fair value reserve on debt securities and other fixed income securities	3 557 393	21 867 880
Fair value reserve on shares and other variable income securities	16 078 373	4 477 716
	19 635 766	**26 345 596**

7 Commitments:

Commitments represent investments in venture capital funds committed and not yet disbursed amounting to EUR 150 836 248 at current rate (2005: EUR 103 027 172).

8 Disclosures relating to off-balance sheet items

8.1 TEN Guarantees

TEN infrastructure guarantee operations, complementary to EIB's activities, have been transferred to the latter. The relevant contract was signed with the EIB on December 7, 2000. The EIB assumes the advantages of the transferred portfolio, but also bears the ultimate risk of the transactions, the Fund remaining merely a guarantor of record.

	Drawn EUR	Undrawn EUR	Total 2006 EUR	Total 2005 EUR
Up to five years	146 468 721	0	146 468 721	169 390 462
From five to ten years	166 551 353	16 750 000	183 301 353	254 695 063
From ten to fifteen years	161 170 743	0	161 170 743	218 832 218
Over fifteen years	76 270 734	0	76 270 734	76 270 733
	550 461 551	16 750 000	567 211 551	719 188 476

The drawn down portion of the guarantees issued includes an amount of EUR 19 935 442 (2005: EUR 18 599 037) representing the present value of future interest covered by guarantees.

8.2 Assets held for third parties

Assets held for third parties, as set out below, represent trust accounts opened and maintained in the name of the Fund but for the benefit of the Commission, the EIB and the German Federal Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie "BMWi"). Sums held in these accounts remain the property of the Commission, the EIB and the BMWi so long as they are not disbursed for the purposes set out in relation to each programme.

Under the SME Guarantee Facility (SMEG 1998 and SMEG 2001 also called Multi-Annual Programme for enterprises (MAP)), the Fund is empowered to issue guarantees in its own name but on behalf and at the risk of the Commission.

Under the ETF Start-Up Facility (ESU 1998 and ESU 2001 also called Multi-Annual Programme for enterprises (MAP)), the Fund is empowered to acquire, manage and dispose of ETF start-up investments, in its own name but on behalf and at the risk of the Commission.

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

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

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

Under the ERP-EIF Dachfond agreement, initiated in 2004, the Fund manages venture capital activity on behalf, and at the risk of the BWMi.

The Fund is managing a European Commission facility, the Preparatory Action Facility (PA 2004 and PA 2005), on behalf of the EIB Group. The facility is particularly targeting micro lending and will be used for grants to finance technical assistance to SMEs, which must be coupled with an EIF guarantee or an EIB global loan.

		2005 EUR	2006 EUR
Preparatory Action Facility 2004		2 035 024	1 984 100
SMEG 1998 (SME Guarantee 1998)		80 045 053	84 900 592
ESU 1998 (ETF Start-up 1998)	(*)	32 566 875	46 989 476S
Seed Capital Action		185 176	233 967
SMEG 2001 (MAP Guarantee)		115 905 351	98 052 846
ESU 2001 (MAP Equity)	(*)	93 386 930	62 886 585
Trust accounts with the Commission	(**)	324 124 409	295 047 566
Trust accounts with the EIB		44 528 353	35 281 010
Trust account with the BWMi		123 742	116 537
		368 776 504	**330 445 113**

(*) The figures above do not include the net cash flow in venture capital, of EUR 47 867 842 for ESU 1998 (2005: EUR 60 020 885) and EUR 26 073 020 for ESU 2001 (2005: EUR 9 812 404) made on behalf of the Commission that are included in 8.3.

(**) The trust accounts with the Commission include cash at bank, money market balances, investments in securities at nominal value and the relevant security accruals. They do not represent a final valuation of the relevant programmes.

8.3 Fiduciary operations

Pursuant to Article 28 of its Statutes, the Fund may accept the tasks of administering special resources entrusted to it by third parties. In execution of this article, the Fund manages and disposes of investments in venture capital funds, in its own name but on behalf and at the risk of

- the EIB, in accordance with European Technology Facility, European Technology Facility 2 and Transfer, Implementation and Management of Risk Capital Investments (Risk Capital Mandate) agreements,

- the Commission, in accordance with ETF Start-Up Facility and Seed Capital Action agreements, and

- the German Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie "BMWi"), in accordance with ERP-EIF Dachfond agreement.

The Fund is also empowered to issue guarantees in its own name but on behalf and at the risk of the Commission according to the Fiduciary and Management Agreement concluded with the Commission (SME Guarantee Facility). However, the EC programmes are only liable for a contracted percentage of the full signature amounts shown below, up to the limit of the agreed budgetary allocation.

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

	2006 EUR	2005 EUR
Guarantees committed on behalf of the Commission		
Under the SMEG 1998 (*)		
Drawn	2 332 846 185	2 408 056 772
Undrawn	93 010 423	29 657 161
Under the SMEG 2001 (*)		
Drawn	3 661 541 835	2 260 559 212
Undrawn	1 247 116 128	1 630 616 168
Investments made on behalf of the Commission (**):		
Under ESU 1998:		
Drawn	62 098 578	62 561 332
Undrawn	14 569 689	22 542 188
Under ESU 2001:		
Drawn	28 249 549	11 547 921
Undrawn	128 076 705	56 095 200
Under Seed Capital Action:		
Drawn	150 000	100 000
Undrawn	50 000	200 000
Investments made on behalf of the EIB (**):		
Under EIB Risk Capital Mandate		
Drawn	1 248 520 533	1 134 366 738
Undrawn	1 204 359 297	940 387 112
Under European Technology Facility		
Drawn	130 025 976	117 131 315
Undrawn	46 173 159	61 977 464
Investments made on behalf of the External mandators (**):		
Under ERP-EIF Dachfond		
Drawn	30 375 557	13 579 987
Undrawn	73 855 292	52 930 567
	10 301 018 906	8 802 309 137

(*) Those amounts are valued based on the valuation method described in note 2.5.
(**) Those amounts are valued at current rate. The drawn amounts correspond to the net disbursed. The value adjustment calculation is performed based on the valuation method described in note 2.5.

– a value adjustment has been estimated at EUR 195 621 038 (2005: EUR 287 151 138) leading to a net adjusted value of EUR 1 182 925 472 (2005: EUR 964 346 915), on the investments managed on behalf of the EIB.

– a value adjustment has been estimated at EUR 16 407 266 (2005: EUR 4 275 953 estimated amount) leading to a net adjusted value of EUR 73 940 862 (2005: EUR 69 833 290 estimated amount), on the investments made on behalf of the Commission.

9 Detailed information on the profit and loss account

9.1 Net interest and similar income

Net interest and similar income comprises:

	2006 EUR	2005 EUR
Interest on debt securities	21 344 796	20 599 750
Interest on term deposits	900 209	945 793
Interest on bank current accounts	946 287	924 139
Other interest	453 996	346 994
	23 645 288	22 816 676

As mentioned in the note 2.9, the discounts and premiums are calculated with the effective interest rate method. The above figures are presented netted. Discounts amount to EUR 1 149 607 (2005: EUR 1 229 633) and premiums amount to EUR 1 945 169 (2005: EUR 1 948 378).

No impairment provisions on investment securities have been booked in 2006.

9.2 Net income from guarantees operations

Net income from guarantees operations comprises:

	2006 EUR	2005 EUR
Net guarantees fees on derivatives	1 183 644	3 990 416
Gain/(loss) on fair value changes on derivatives	4 029 930	(1 380 069)
Interest income on amortisation of NPV	1 254 315	772 027
Net increase in the financial guarantees contracts	9 820 846	8 792 174
	16 288 735	12 174 548

9.3 Commission income

Commission income is detailed as follows:

	2006 EUR	2005 EUR
Commissions on mandates relating to venture capital operations	15 580 893	11 879 431
Commissions on mandates relating to guarantees	7 733 288	5 612 594
Income from Advisory activity	2 953 329	336 423
Other commissions	10 000	95 211
	26 277 510	17 923 659

9.4 Net profit / (loss) on financial operations

Net profit / (loss) on financial operations amounting to EUR (524 335) (2005: gain EUR 479 201) mainly corresponds to losses arising from transactions or cash positions in foreign currencies for a loss of EUR (548 631) (2005: gain EUR 239 276), of which EUR 24 296 is an a foreign exchange gain on venture capital impaired funds (2005: gain EUR 239 925).

9.5 Employee benefit expenses

	2006 EUR	2005 EUR
Wages and salaries	14 614 519	10 828 562
Social security costs	1 123 415	408 167
	15 737 934	11 236 729

Wages and salaries include expenses of EUR 3 671 243 (2005: EUR 3 326 530) incurred in relation to staff seconded from the EIB.

9.6 Operating Leases

Additional office space is leased in the same building as the EIF's owned premises. Expenses relating to these operational leases amount to EUR 645 159 (2005: EUR 428 604) for the year and are included in "Other operating expenses".

10 Personnel

The number of persons, including 14 EIB secondees (2005: 14 EIB secondees), employed at the year-end was as follows:

	2006	2005
Chief Executive	1	1
Employees	120	95
Total	**121**	**96**
Average of the year	**111**	**89**

11 Related parties transactions

The European Investment Bank is the majority owner of the Fund with 61% of the shares. The remaining percentage is held by the European Commission (30%) and the Financial Institutions (9%).

11.1 European Investment Bank

Related party transactions with the European Investment Bank are mainly related to the management by the Fund of the venture capital activity as described in the note 8.3. In addition, the European Investment Bank manages the EIF treasury, the IT, the pension fund and other services on behalf of the Fund. The amounts included in the financial statements and relating to the European Investment Bank are disclosed as follows:

	2006 EUR	2005 EUR
ASSETS		
Prepayments and accrued income	1 589 529	1 563 582
Other assets	9 709 504	6 844 946
LIABILITIES		
Creditors	2 646 501	227 939
Other provisions	1 571 3	60 1 861 730
Accruals & deferred income	190 000	200 000
Capital paid in	244 800 000	247 600 000
OFF BALANCE SHEET		
Guarantees Drawn	503 386 265	609 872 484
Guarantees undrawn	16 250 000	16 250 000
Assets held for third parties	44 528 353	35 281 010
Investments drawn in venture capital	1 378 546 509	1 251 498 053
Investments undrawn in venture capital	1 250 532 456	1 002 364 576
INCOME		
Management fees	8 456 922	8 103 283
EXPENSES		
Wages & Salaries	2 802 613	2 457 900
IT expenses	850 635	812 342
Services	1 884 472	234 637

11.2 Commission of the European Communities

Related party transactions with the Commission are mainly related to the management by the Fund of the venture capital and guarantees activities as described in the note 8.3. In addition, the Commission manages the EC programmes treasury on behalf of the Fund. The amounts included in the financial statements and relating to the Commission of the European Communities are disclosed as follows:

	2006 EUR	2005 EUR
ASSETS		
Accounts Receivable	3 828 075	3 228 845
LIABILITIES		
Accounts Payable	258 813	466 106
Capital paid in	120 000 000	120 000 000
OFF BALANCE SHEET		
Guarantees Drawn	5 994 388 020	4 668 615 985
Guarantees undrawn	1 340 126 551	1 660 273 329
Assets held for third parties	324 124 409	295 047 566
Investments drawn in venture capital	90 498 127	74 209 253
Investments undrawn in venture capital	142 696 395	78 828 508
INCOME		
Management fees	12 296 812	7 950 238
EXPENSES		
Treasury management fees	88 213	58 608

11.3 Key management compensation

Key management compensation for the year is EUR 1 264 687 (2005: EUR 1 207 029). This includes salaries, long term and post employment benefits.

12 Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 29 October 2004 establishing a Constitution for Europe, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct taxes.

GAAP Results 2006

Balance sheet under Previous GAAP at 31 December 2006

ASSETS	2006 EUR Unaudited	2005 EUR Audited
Cash at bank and in hand		
Current accounts	25 796 169	24 662 133
Term Deposits	27 000 000	48 500 000
	52 796 169	**73 162 133**
Debt securities and other fixed income securities	508 097 433	477 804 919
Shares and other variable income securities	108 797 901	89 766 315
Intangible fixed assets	831 630	1 217 367
Tangible and other fixed assets	4 454 892	4 520 456
Other assets	13 799 949	10 374 032
Prepayment and accrued income	20 723 414	18 070 406
TOTAL ASSETS	709 501 388	674 915 628
LIABILITIES		
Creditors	5 490 983	1 274 379
Accruals and Deferred income	11 897 503	15 011 299
Provision for liabilities & charges		
Provision relating to guarantees	25 068 943	29 953 934
Provision relating to pensions and similar obligations	9 208 280	6 551 001
Other provisions	2 947 365	3 557 349
	37 224 588	**40 062 284**
Capital		
Subscribed	2 000 000 000	2 000 000 000
Uncalled	(1 600 000 000)	(1 600 000 000)
	400 000 000	**400 000 000**
Share Premium account	12 770 142	12 770 142
Statutory reserve	84 899 624	67 755 278
Profit brought forward	103 753 899	95 181 382
Profit for the financial year	53 464 649	42 860 864
TOTAL LIABILITIES	709 501 388	674 915 628

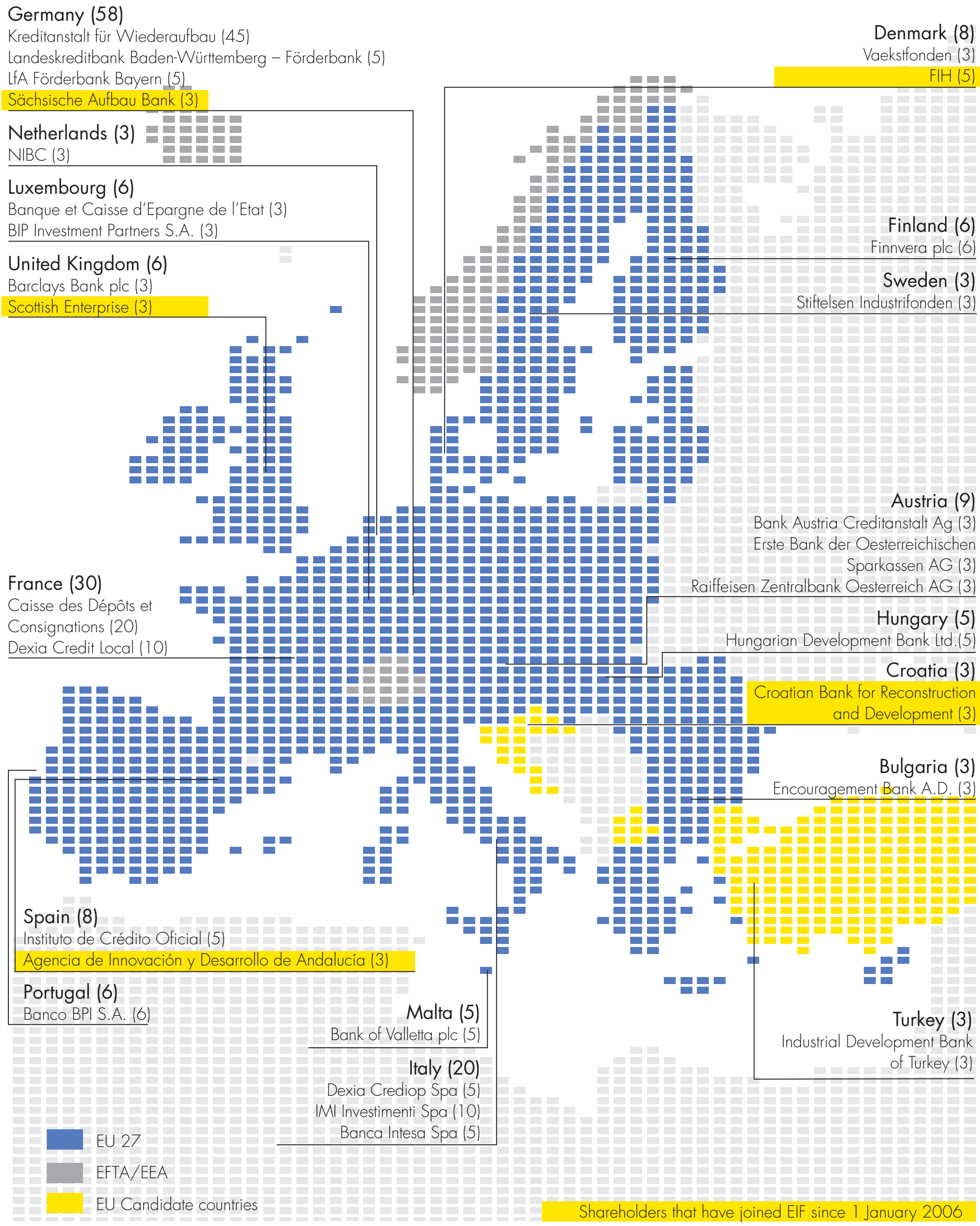
Income Statement under Previous GAAP at 31 December 2006

	2006 EUR Unaudited	2005 EUR audited
Net interest and similar income	23 693 004	22 597 900
Income from securities		
Income from investments in shares and other variable income securities	6 902 149	1 893 192
Commission income	46 917 135	35 507 169
Net profit / (loss) on financial operations	23 836	1 553 038
Other operating income	9 062	2 165 391
General administrative expenses:		
Staff costs:		
– wages and salaries	(14 024 220)	(10 533 004)
– social security costs	(1 706 220)	(1 232 734)
	(15 730 440)	(11 765 738)
Other operating expenses	(5 862 253)	(4 758 224)
	(21 592 693)	(16 523 962)
Value adjustments in respect of tangible and intangible fixed assets	(1 064 143)	(937 025)
Value adjustments in respect of shares and other variable income securities	48 117	269 899
Provisions for commitments	(1 471 818)	(3 664 738)
Profit for the financial year	**53 464 649**	**42 860 864**

Governing bodies and key people

Capital and Shareholders (at 2 April 2007)

EIF has an authorised capital of EUR 2,000m divided into 2,000 shares of EUR 1m each. EIF's capital was entirely subscribed on 2 April by EIB (60.9%), the European Community represented by the European Commission (30%), and a number of European banks and financial institutions (9.1%). Authorised share capital is due to be increased by 50% during 2007 to EUR 3,000m. Discussions are underway with potential shareholders and several new shareholders are expected to be elected during 2007.



Philippe MAYSTADT

Ralph MÜLLER
Heinz ZOUREK

David McGLUE
Marc AUBERGER

Kurt A. HALL
Philippe de FONTAINE VIVE CURTAZ

Francis CARPENTER
Robert WAGENER

Board of Directors

(at 2 April 2007)

Chairman

Philippe MAYSTADT
President, European Investment Bank

Members

Ralph MÜLLER
Ministerialrat, Leiter des Referates Haushalt und Finanzen der EU und der EIB Gruppe, Bundesministerium der Finanzen

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David McGLUE
Director, Directorate for Financial Operations, Programme Management and Liaison with the EIB Group, Directorate-General for Economic and Financial Affairs, European Commission

Marc AUBERGER
Directeur Général, CDC Capital Investissement

Kurt A. HALL
Director General, Ministry of Finance, International Department, Sweden

Philippe de FONTAINE VIVE CURTAZ
Vice-President, European Investment Bank

Alternates

Rémy JACOB
Director General of the Strategy and Corporate Centre, European Investment Bank

Thomas HACKETT
Director General, Directorate for Lending Operations - Europe, European Investment Bank

Jean-Marie MAGNETTE
Head of Unit, Liaison with EIB Group and New Financial Instruments, Directorate-General for Economic and Financial Affairs, European Commission

Detlef LEINBERGER
Mitglied des Vorstandes, KfW Bankengruppe, Frankfurt/Main

Gaston REINESCH
Directeur Général, Ministère des Finances, Luxembourg

The Chairman and Members of the Board were deeply saddened by the death of Mauro Cicchinè in December 2006. Mr. Cicchinè served as President of Dexia Crediop in Rome and as a member of the EIF Board.

The Board wish to express their gratitude to Jean-Pierre ARNOLDI, Graham MEADOWS, María PÉREZ RIBES, Peter SEDGWICK, Jacek TOMOROWICZ who served on the Board during 2006.

Management and key people

Matthias UMMENHOFER, Christine PANIER, Jouni HAKALA, David WALKER, Eva GOULAS, Per-Erik ERIKSSON, Robert WAGENER
Paul van HOUTTE, Helmut KRAEMER-EIS, Delphine MUNRO, Laurent BRAUN, Jean-Philippe BURCKLEN, Ulrich GRABENWARTER

Chief Executive Francis CARPENTER

Director, Investments John A. HOLLOWAY

Venture Capital and Private Equity	Guarantees and Securitisation	JEREMIE
Heads		
Jean-Philippe BURCKLEN	Alessandro TAPPI	Marc SCHUBLIN
Jacques DARCY		
Ulrich GRABENWARTER		
Deputy Heads		
Jouni HAKALA	Christa KARIS	Hubert COTTOGNI
Matthias UMMENHOFER		
Key contacts		
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Paul VAN HOUTTE	Gunnar MAI	Graham COPE
Christine PANIER		Fabrizio CORRADINI
David WALKER		

Pierre-Yves MATHONET, Hubert COTTOGNI, Christa KARIS, Thomas MEYER, Maria LEANDER, John PARK

Alessandro TAPPI, Frédérique SCHEPENS, John A. HOLLOWAY, Marceline HENDRICK, Jacques DARCY, Francis CARPENTER, Jobst NEUSS

(Missing: Alexander ANDÒ, Marc SCHUBLIN)

Secretary General Robert WAGENER

Risk Management and Monitoring	Corporate Affairs
Heads	
Thomas MEYER	Maria LEANDER – Legal Jobst NEUSS – Compliance Frédérique SCHEPENS – Corporate Affairs and Finance
Key contacts	
Helmut KRAEMER-EIS Pierre-Yves MATHONET	Eva GOULAS – Human Resources Marceline HENDRICK – Accounts Delphine MUNRO – Marketing Communications John PARK – ICT

Audit Board

Chairman

Christian RÁKOS
Head of Public Finance CEE, Bank Creditanstalt, Vienna, Austria

Members

Sylvain SIMONETTI
Head of Unit, Internal Audit, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg

Raimundo POVEDA ANADÓN
Former Director General, Banking Policy Directorate, Bank of Spain, Madrid

The Audit Board prepares an Activity Report to the General Shareholders Annual Meeting for the preceding financial year. The report essentially reviews both internal and external audit work of the year, as well as co-operation with the European Court of Auditors, and it assesses the Fund's actions in response to the last Audit Board's recommendations. The full Activity Report is available via EIF's website: www.eif.org

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Guarantees and Securitisation – An overview of EIF's added value

EIF works to support small and medium sized enterprises by actively encouraging innovative financial products in support of SME finance.

The European Council of Finance Ministers meeting of September 2006 emphasised the importance of this objective, calling for the development of finance in areas such as securitisation, tailor-made deals and mezzanine finance.

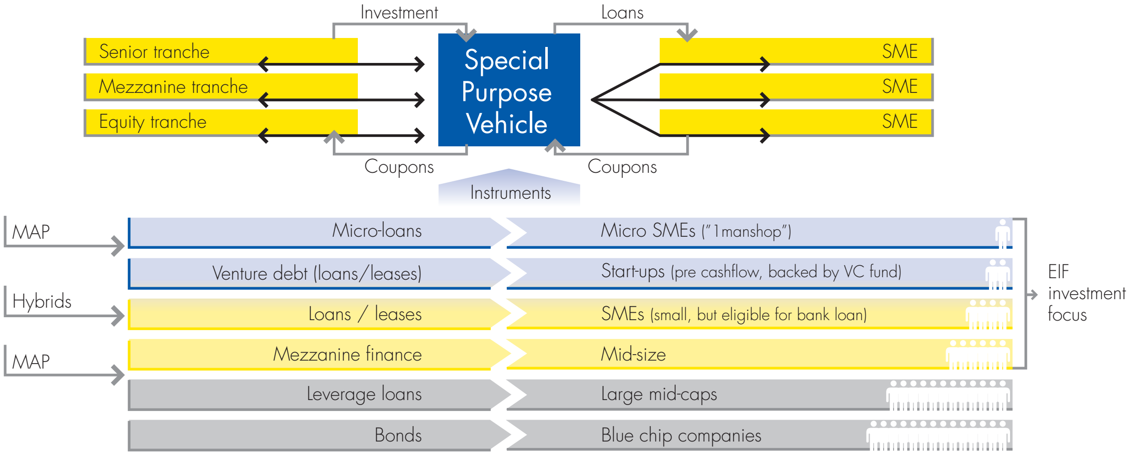
EIF uses both its own resources and resources managed on behalf of third parties to enhance the ability of SMEs to access debt finance. By facilitating the transfer of risk, making otherwise illiquid assets - such as SME loans - more liquid for financial intermediaries, it allows them to provide debt financing to SMEs on more attractive terms.

Through its guarantee and securitisation instruments, EIF has an important influence in terms of reaching SMEs, having indirectly supported over 180,000 SMEs during 2006 bringing the estimated total to over 660,000 since guarantee activities commenced.

By supporting the development of European entrepreneurship, EIF brings value by fostering research and innovation as well as contributing to social cohesion and encouraging job creation.

The following chart shows the means by which EIF intervenes in the fields of securitisation and small loan guarantees.

The following chart shows EIF's areas of intervention in the fields of securitisation and small loan guarantees.



EIF aims to develop its added value with new instruments such as the European Commission's Competitiveness and Innovation Framework Programme (CIP) and the Joint European Resources for Micro and Medium Enterprises (JEREMIE) mandate for regional funding, extending the range and scope of its value added to SMEs of all sizes.

By their nature, the activities in which EIF is requested to engage by its shareholders and mandators carry substantial risk. EIF is a calculated risk organisation, having established the means to asses its risks properly and to receive commensurate rewards and having developed a high level of market expertise in the specialised areas of venture capital and guarantee activity.

Contacts

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EIF also has people in Athens, Brussels, Madrid, Paris and Rome

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