



EUROPEAN COMMISSION

Brussels, 6th July 2005
COM(2005)2033

COMMISSION REPORT

**FINANCIAL REPORT
E C S C in liquidation
at 31 December 2004**

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ECSC in liquidation

The European Coal and Steel Community was established under the Treaty signed in Paris on 18 April 1951. The Treaty entered into force in 1952 for a period of fifty years and expired on 23 July 2002.

The Nice European Council decided to annex to the Treaty of Nice a Protocol on the financial consequences of the expiry of the ECSC Treaty and on the creation and management of the Coal and Steel Research Fund. This Protocol confers the ownership of ECSC funds on the European Community with effect from 24 July 2002.

Commission

With the entry into force of the Treaty of Nice on 1 February 2003, the Commission's powers and responsibilities are governed by Council Decision 2003/76/EC of 1 February 2003.

At 31 December 2004, the members of the Commission were:

José Manuel BARROSO	President
Margot Wallström	Vice-President
Günter Verheugen	Vice-President
Jacques BARROT	Vice-President
Siim KALLAS	Vice-President
Franco FRATTINI	Vice-President
Viviane Reding	Member
Stavros DIMAS	Member
Joaquín ALMUNIA	Member
Danuta HÜBNER	Member
Joe BORG	Member
Dalia GRYBAUSKAITE	Member
Janez POTOČNIK	Member
Ján FIGEL'	Member
Markos KYPRIANOU	Member
Olli REHN	Member
Louis MICHEL	Member
László KOVÁCS	Member
Neelie KROES	Member
Mariann FISCHER BOEL	Member
Benita FERRERO-WALDNER	Member
Charlie McCREEVY	Member
Vladimír ŠPIDLA	Member
Peter MANDELSON	Member
Andris PIEBALGS	Member

The management of the ECSC in liquidation and of the Coal and Steel Research Fund are the responsibility of Mr Joaquín Almunia.

**Directorate-
General for
Economic
and Financial
Affairs**

The ECFIN Directorate-General - Directorate L - conducts the main financial operations of the ECSC in liquidation under the authority, at 31 December 2004, of Mr Klaus Regling, Director-General of DG ECFIN, and Mr David McGlue, Director of Directorate L.

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Activity report and financial statements of the ECSC in liquidation

In implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel, on 1 February 2003 the Council decided (Article 3 of Decision 2003/76/EC) that the liquidation and asset-management operations must be the subject, separately from the other financial operations of the remaining Communities, of a profit-and-loss account, a balance sheet and a financial report.

On 17 December 2002 the Commission adopted a communication on the modernisation of its accounting system.

This communication provides for the application, from the accounting year 2005 onwards, of the international financial reporting standards (IFRS) for the public sector.

Activity report

Expiry of the ECSC Treaty and the management mandate given to the European Commission

The ECSC Treaty expired on 23 July 2002.

The Nice European Council decided to annex to the Treaty of Nice a Protocol on the financial consequences of the expiry of the ECSC Treaty and the creation and management of the Coal and Steel Research Fund. It was decided that all ECSC assets at the time of the expiry of the Treaty would be transferred to the European Community with effect from 24 July 2002. The net worth of these assets and liabilities is to be considered as assets earmarked for research in the sectors associated with the coal and steel industries. The revenue from these assets is to be used exclusively for research in these sectors.

On the entry into force of the Treaty of Nice on 1 February 2003, ownership of the ECSC's funds was transferred to the European Community with retroactive effect to 24 July 2002.

On 1 February 2003¹ the Council laid down the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel; The Commission is responsible for winding up the financial operations of the ECSC that were still in progress at the moment of the expiry of the ECSC Treaty. It is also responsible for managing the assets in such a way as to ensure their long-term profitability. The objective in placing the available assets must be to obtain the highest possible yield that is securely attainable, as defined by Council Decision 2003/76/EC of 1 February 2003.

The objective in placing the available assets must be to obtain the highest possible yield that is securely attainable. The Decision of 1 February 2003 further stipulates that the net revenue from investing the available assets constitutes revenue in the general budget of the European Union and that this revenue is to be used to finance, in the sectors associated with the coal and steel industries, research projects that are not covered by the framework research programme. This revenue forms the Research Fund for Coal and Steel and is managed by the Commission.

¹ Council Decision 2003/76/EC of 1 February 2003 establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel (OJ L 29, 5.2.2003, p.22).

Winding up of ECSC financial operations in progress on expiry of the ECSC Treaty

Management of borrowings of the ECSC in liquidation

During the winding-up period from 24 July to 31.12.04, the debt of the ECSC in liquidation changed as follows:

€ million

Currency	Number of borrowings at 31 December 2003	Debt outstanding at 31.12.03	Reimbursements from 1 January to 31 December 2004	Exchange-rate adjustments	Debt outstanding at 31 December 2004	Number of borrowings at 31.12.04
EUR	11	54.5	2.2	-	52.3	11
GBP	6	297.2	-	-0.1	297.1	6
USD	1	79.2	-	-5.8	73.4	1
TOTAL	18	430,9	2,2	-5,9	422,8	18

The amortisation of the borrowings outstanding at 31 December 2004 breaks down as follows:

€ million

	EUR	GBP	USD	TOTAL
2005	2.3			2.3
2006	2.0			2.0
2007	2.0			2.0
2008	0.3		73.4	73.7
2009		85.1		85.1
2010				-
2011				-
2012	45.7			45.7
2013				-
2014				-
2015				-
2016				-
2017		95.3		95.3
2018				-
2019		116.7		116.7
	52.3	297.1	73.4	422.8

The main characteristics of the borrowings outstanding are as follows:

Year of issue	Interest (%)per year*	Term (years)	Initial amount	Amount outstanding at 31 December 2004	
				in borrowing currency	equivalent in €
Contracts redenominated in €					
1990	9.16	15	2 700 000 DEM		138 049
1990	9.0	15	24 400 000 DEM		61 355
1992	2.27619	15	11 900 000 DEM		1 687 263
1992	1.625	15	9 000 000 000 ITL		1 394 434
1992	2.854	20	300 000 000 FRF		45 734 795
1992	2.20575	15	11 000 000 DEM		1 825 312
1992	8.34	15	2 300 000 DEM		352 792
1993	7.08	15	1 750 000 DEM		357 904
1993	6.39	15	1 355 000 DEM		277 120
1993	6.64	15	1 185 000 DEM		242 352
1993	6.75	15	1 000 000 DEM		204 517
			Currency total		52 275 803
Contracts in GBP					
1990	11.875	19	60 000 000 GBP	60 000 000	85 100 347
1992	9.875	25	50 000 000 GBP	17 220 000	24 423 800
1992	9.875	25	30 000 000 GBP	30 000 000	42 550 174
1993	9.875	24	20 000 000 GBP	20 000 000	28 366 782
1994	6.875	25	50 000 000 GBP	35 261 000	50 012 056
1994	8.9375	25	47 000 000 GBP	47 000 000	66 661 939
			Currency total	209 481 000	297 115 098
Contracts in USD					
1993	6.375	15	100 000 000 USD	100 000 000	73 416 049
			Currency total	100 000 000	73 416 049

Grand total in € 422 806 950

NB: Payments of capital and interest in respect of borrowings in GBP totalling GBP 102 481 000 are secured by the holding of bonds (financial fixed assets) with the same rate and maturity date.

Management of loans from the ECSC in liquidation

Over the period ending 31 December 2004, the changes in **loans from borrowed funds** (under Articles 54 and 56 ECSC) were as follows:

€ million

Member State	Number of loans	Amount outstanding at 31 December 2003	Amortisation from 1 January to 31 December 2004	Exchange-rate adjustment	Amount outstanding at 31 December 2004	Number of loans
Greece	1	79.18		-5.76	73.42	1
France	2	133.82		-	133.82	2
Italy	17	7.87	2.0	-	5.87	17
United Kingdom	1	66.69		-0.03	66.66	1
Total EC	21	287.56	2.0	-5.79	279.77	21

The **loans from borrowed funds** outstanding at 31 December 2004 were backed by guarantees as follows:

€ million

Member State	Guarantee from public body	Bank guarantee	Industrial grouping (publicly funded)	No guarantee	Total
Greece	73.42	-	-	-	73.42
France	-	-	133.82	-	133.82
Italy	-	5.87	-	-	5.87
United Kingdom	-	-	-	66.66	66.66
Total EC	73.42	5.87	133.82	66.66	279.77

Over the period ending 31 December 2004, the changes in **loans from own funds** (under Articles 54 and 54.2 ECSC) were as follows:

€ million

Member State	Number of loans	Amount outstanding at 31 December 2003	Amortisation from 1 January to 31 December 2004	Exchange-rate adjustment	Amount outstanding at 31 December 2004	Number of loans
Belgium	24	4.87	0.92		3.95	20
Denmark	1	0.01	0.00	0.00	0.01	1
Germany	38	45.62	10.12		35.50	37
Greece	9	0.42	0.03		0.39	9
Spain	21	9.15	0.89		8.26	21
France	37	9.00	1.35		7.65	30
Ireland	9	0.29	0.04		0.25	9
Italy	21	5.86	0.79		5.07	21
Luxembourg	7	0.86	0.11		0.75	6
Netherlands	7	0.84	0.12		0.72	7
Austria	2	3.75	0.18		3.57	2
Portugal	6	0.56	0.04		0.52	6
Finland	2	0.72	0.03		0.69	2
United Kingdom	24	6.13	1.00	-0.01	5.12	22
Total EC	208	88.08	15.62	-0.01	72.45	193

NB: These are loans for financing the construction of subsidised housing at an interest rate of 1% p.a.

The loans from own funds outstanding at 31 December 2004 were backed by guarantees as follows:

€ million

Member State	Guarantee from public body	Bank guarantee (1)	Industrial grouping		No guarantee	Total
			Public	Private		
Belgium	-	3.95	-	-	-	3.95
Denmark	-	0.01	-	-	-	0.01
Germany	-	35.50	-	-	-	35.50
Greece	-	0.39	-	-	-	0.39
Spain	-	8.26	-	-	-	8.26
France	-	7.00	0.23	-	0.42	7.65
Ireland	0.25	-	-	-	-	0.25
Italy	-	5.07	-	-	-	5.07
Luxembourg	-	0.75	-	-	-	0.75
Netherlands	-	-	-	0.72	-	0.72
Austria	-	3.57	-	-	-	3.57
Portugal	-	0.52	-	-	-	0.52
Finland	-	0.69	-	-	-	0.69
United Kingdom	-	5.12	-	-	-	5.12
Total EC	0.25	70.83	0.23	0.72	0.42	72.45

(1) Mainly loans granted to financial institutions for on-lending to final recipients.

Levies

Total claims at 31 December 2003 amounted to € 4 480 633. These were covered in their entirety by value adjustments. Over the period ending on 31 December 2004, payments were received totalling € 117 482. Total claims at 31 December 2004 thus amounted to € 4 363 151, covered in their entirety by value adjustments.

Interest subsidies

Total claims at 31 December 2003 amounted to € 2 307 429. Value adjustments were made totalling € 1 965 926. During the period ending on 31 December 2004, the ECSC in liquidation received payments of € 207 477 and issued new demands for the recovery of € 28 998. It waived or cancelled claims amounting to € 607 606. Total claims at 31 December 2004 thus amounted to € 1 521 344, covered in their entirety by value adjustments.

Fines

A. THE FOLLOWING FINES, IMPOSED ON STEEL COMPANIES BY THE COMMISSION IN ACCORDANCE WITH THE RULES SET OUT IN THE ECSC TREATY, ARE STILL OUTSTANDING:

1. Fines imposed between 1982 and 1984 for infringement of the system of prices and quotas

Amount (capital and interest) outstanding at				
	31 December 2003	Payments in 2004	Loan loss 2004	31 December 2004
Italian companies	1 375 233	51 069	101 876	1 222 288

At 31 December 2003 three companies were in liquidation, and a value adjustment of 100% had been entered in the ECSC's books. For one of these companies the winding-up process was completed in 2004, and the receiver made a payment to the ECSC in liquidation of € 51 069. The remaining debt of € 101 876, which was covered by a 100% provision, has been written off as a loss.

2. Fines imposed on 16 February 1994 (Decision 94/215/ECSC) for infringement of the competition rules in the market for steel beams

In a judgment handed down on 2 October 2003, the Court annulled in part the judgement passed on a Spanish company and referred the case back to the Court of First Instance. By a judgment dated 14 September 2004, the Court of First Instance reduced the fine to € 2 540 000. The company has paid the nominal amount of the fine, but the interest of € 1 684 372, calculated on that amount of € 2 540 000, was still outstanding at 31 December 2004.

The changes in claims were as follows:

	Amounts receivable at	
	31 December 2004	31 December 2003
1 Italian company (in liquidation since 28 December 1993)	9 500 000	9 500 000
Spanish companies – capital	-	7 100 000
– interest,	1 684 372	3 842 457

Value adjustments of 100% were entered in the books at 31 December 2003 and 31 December 2004.

3. Fines imposed on 21 January 1998 (Decision 98/247/ECSC) for collusion on the formula for calculating the alloy surcharge

	Amount (capital) outstanding at	
	31 December 2004	31 December 2003
2 companies (German/Italian)	8 064 000	8 064 000

The two companies have appealed against the judgment of the Court of First Instance. A 100% value adjustment has been entered.

B. THE FOLLOWING FINES HAVE BEEN PAID, BUT THE COMPANIES HAVE APPEALED AGAINST THE JUDGMENT OF THE COURT OF FIRST INSTANCE. THE ECSC HAD CONSTITUTED A PROVISION FOR LIABILITIES AND CHARGES (AMOUNT IN EUROS, NET OF INTEREST):

Fines imposed on 21 January 1998 (Decision 98/247/ECSC) for infringement of the competition rules with regard to the alloy surcharge

	Amount (capital) in provision at	
	31 December 2004	31 December 2003
Spanish company	3 136 000	3 136 000

Outstanding commitments under ECSC operating budgets

During the period ending on 31 December 2004, payments were made totalling € 84 million and cancellations totalled € 29 million. The changes in commitments under the ECSC operating budgets from 1 January to 31 December 2004 are set out in Note C.13 (page 41).

Management of assets

The net worth of the ECSC's assets and liabilities at the moment of the expiry of the ECSC Treaty is regarded as assets to be used for research in the sectors associated with the coal and steel industries. These assets are managed by the Commission so as to ensure their long-term profitability, the objective being to obtain the highest possible yield under secure conditions, as defined in Council Decision No 2003/77/EC of 1 February 2003. During the liquidation phase, treasury investments take account of the constraints regarding maturity dates and liquidity.

The changes in total cash holdings, provisions and free reserves in 2004 were as follows (€ million):

	31 December 2004	31 December 2003
Total cash holdings	1 529	1 557
Commitments, operating budget	109	222
Debt provisions, research financing	296	293
Guarantee fund	209	243
Special reserve	72	88
Former pension fund	24	30
Free reserves (after allocation)	802	707

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 5.7755% for the year 2004, compared with a reference rate for the ECSC in liquidation of 5.1739%.

Financing of coal and steel research

The net revenue generated by the assets of the ECSC in liquidation, constituting the Coal and Steel Research Fund, is used exclusively for research carried out in the sectors associated with the coal and steel industries. The net revenue for year n is exclusively made available to the budget of the European Community for research in year n+2. In order to reduce as far as possible the fluctuations that movements in the financial markets could cause in the financing of research, a smoothing arrangement is applied¹. The revenue for 2004 will be used for research in 2006.

Calculation of the allocation for research in 2006:

Financing provisions for 2005	56.50
Net revenue in 2004 (rounded)	53.00
Difference	<hr/> 3.50

Allocation:

Net revenue in 2004	53.00
Half of the difference	1.75
Available for research in 2006	<hr/> 54.75

Financing:

Net revenue in 2004	53.00
Withdrawal from the provision for smoothing	1.75
	<hr/> 54.75

¹ See Annex to Council Decision 2003/76/EC of 1 February 2003 (OJ L 29, 1.2.2003).

Financial statements of the ECSC in liquidation

This is the third report on the ECSC in liquidation, covering the period ending on 31 December 2004.

The ECSC's balance sheet, profit-and-loss account and statement of the allocation of the surplus for the year ending 31 December 2004 were submitted to the Commission for approval under written procedure No E/1064/2005 of 6th July 2005 and are shown in this financial report in the form approved by the Commission.

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

In accordance with the mandate given to us, we have audited the financial statements of the ECSC in liquidation for the period ending on 31 December 2004.

The financial statements are the responsibility of the European Commission. Our responsibility is to express an opinion on these financial statements on the basis of our audit.

We have conducted our audit in accordance with international auditing standards. Those standards require that we plan and perform the audit in such a way as to obtain reasonable assurance that the financial statements are free of material misstatement. An audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles and methods used and any significant estimates made by Directorate ECFIN-L in drawing up the financial statements and evaluating the overall presentation of the statements.

The audit procedures employed included the following:

1. Checking the administrative and accounting procedures and the system of checks applying in Directorate ECFIN-L for the ECSC in liquidation and spot-checking that these procedures have been followed.
2. Checking the supporting documents for the transactions recorded in the accounts.
3. Checking files on borrowings and loans (content, preservation of documents, monitoring of repayments, validity of guarantees).
4. Analysing accounts, checking calculations.
5. Checks in connection with cash holdings (compliance with limits, examination of positions, checks on swap operations).

We consider that our audit provides a reasonable basis for expressing our opinion.

Beyond examining the global confirmations received from DG Budget, our task did not extend to verifying the nature of and the supporting documents for the payments and commitments made under the operating budget of the ECSC in liquidation, as these operations are recorded by DG Budget. We understand that these operations are in any case checked by the European Court of Auditors and published in the Official Journal.

With the exception of the potential impact of the point raised in the previous paragraph, in our view the attached financial statements give, in conformity with generally accepted accounting principles in the European Union and the specific accounting principles described in Note B.1 to the financial statements of the ECSC in liquidation, a true and fair view of the assets and financial situation of the ECSC in liquidation at 31 December 2004 and of the results of its operations for the period then ended.

Luxembourg, 31 May 2005

KPMG Audit S. à r. l.
Corporate Auditors
Ph. Corbard

Balance sheet at 31 December 2004

Assets

(amounts in €) - before allocation of surplus

	31 December 2004	31 December 2003
Loans and advances to credit institutions		
- repayable on demand	14 197 014	14 191 243
- with agreed maturity dates or periods of notice (Note C.1.1)	25 700 000	41 353 110
- loans (Note C.1.2)	63 478 691	77 879 727
Total	103 375 705	133 424 080
Loans and advances to customers		
- loans (Note C.1.2)	315 297 101	361 318 524
- levy (Note C.2.2)	-	-
- fines (Note C.2.3)	-	-
- interest subsidies repayable (Note C.2.4)	-	341 503
- repayment, research	57 647	-
Total	315 354 748	361 660 027
Bonds and other fixed-income securities (Note C.3)		
- issued by public bodies	834 689 587	866 240 984
- issued by other borrowers	654 266 401	619 665 223
Shares and other variable-income securities (Note C4)	7 092 286	15 748 425
Total	1 496 048 274	1 501 654 632
Intangible assets (Note C5)	950	1 900
Tangible assets (Note C6)	4 698	9 396
New Member States' contribution not yet called (Note C16)	169 930 000	-
Other assets (Note C7)	1 752 409	3 283 931
Accruals and deferred income (Note C8)	57 065 522	56 457 898
Total assets	2 143 532 306	2 056 491 864
Off-balance-sheet commitments (Note C24)	243 616 743	249 437 630

Balance sheet at 31 December 2004

Liabilities

(amounts in €) - before allocation of surplus

	31 December 2004	31 December 2003
Amounts owed to credit institutions (Note C9)		
- with agreed maturity dates or periods of notice	6 541 098	8 764 242
Debts evidenced by certificates (Note C10)	416 265 852	422 131 757
Other liabilities (Note C11)	28 716	3 163 658
Accruals and deferred income (Note C12)	33 497 537	34 267 370
<u>Outstanding commitments ECSC operating budget (Note C13)</u>	109 240 813	222 465 564
<u>Provisions for liabilities and charges</u>		
Guarantee Fund (Note C14.1)	209 000 000	243 000 000
Other provisions (note C14.2)	4 221 865	4 150 039
Total provisions	213 221 865	247 150 039
<u>Budget for financing coal and steel research (Note C15)</u>	296 303 720	293 000 000
<u>Reserves and surplus (Note C16)</u>		
Special reserve	72 500 000	88 100 000
Former pension fund	24 000 000	30 000 000
New Member States' contribution not yet called	169 930 000	-
Assets of the Coal and Steel Research Fund	729 049 234	369 570 762
Result (profit or loss) for the accounting period	72 953 471	337 878 472
Total reserves and surplus	1 068 432 705	825 549 234
Total liabilities	2 143 532 306	2 056 491 864
Off-balance-sheet commitments entered into (Note C24)	246 661 535	252 569 131

Profit-and-loss account for the period ending 31 December 2004

Charges

(amounts in €)

	1 January to 31 December 2004	1 January to 31 December 2003
Interest payable and similar charges (Note C18)	51 326 036	57 938 886
Commission paid	240 343	211 887
Net losses on financial operations		
- losses on bonds and other fixed-income securities (Note C17)	1 487 613	5 450 344
- value adjustments for bonds and other fixed-income securities (Note C3)	813 852	7 821 336
- value adjustments for shares and other variable-income securities (Note C4)	8 655 823	2 942 548
Total	10 957 288	16 214 228
Administrative overheads (Note C17.4)	-	280 274
Value adjustments on tangible and intangible assets (Notes C5 and C6)	5 648	5 648
Other operating charges (Note C19)	148 197	3 470 180
Value adjustments for loans and advances and provisions for liabilities and commitments		
- value adjustment for loans and advances	615 974	510 508
- allocation to other provisions for liabilities and charges (Note C14.2)	75 826	336 906
Total	691 800	847 414
Allocation to the budget for financing coal and steel research (Notes C15 and C17.3)	54 750 000	56 500 000
Total charges	118 119 312	135 468 517
Result (profit or loss) for the accounting period (Note C17)	72 953 471	337 878 472
Total	191 072 783	473 346 989

Profit-and-loss account for the period ending 31 December 2004

Income

(amounts in €)

	1 January to 31 December 2004	24 July to 31 December 2003
Interest receivable and similar income (Note C20)	105 815 300	119 191 862
Commission received	481 801	298 205
Net profit on financial operations		
- exchange difference	1 633 629	4 276 296
- profit on bonds and other fixed-income securities	3 402 004	4 118 984
- withdrawal of value adjustments for bonds and other fixed-income securities (Note C3)	7 637 668	3 301 779
Total	12 673 301	11 697 059
Withdrawals of value adjustments for loans and advances and from the provisions for liabilities and commitments:		
- withdrawal of value adjustments for loans and advances (Note C21)	5 538 728	18 727 214
- withdrawal from other provisions for liabilities and charges (Notes C14.2 and C22)	-	42 255 636
Total	5 538 728	60 982 850
Other operating income (Note C23)	30 813 653	23 677 013
Withdrawal from provision for smoothing (Notes C15 and C17.3)	1 750 000	3 500 000
Withdrawal from the Guarantee Fund (Note C14.1)	34 000 000	254 000 000
Total income	191 072 783	473 346 989

**Allocation of the surplus for the period
ending 31 December 2004**

(amounts in €)

	1 January to 31 December 2004	1 January to 31 December 2003
Surplus brought forward at start of period	-	-
Surplus for the period to be allocated	72 953 471	337 878 472
Total	72 953 471	337 878 472
Allocation to the assets of the Coal and Steel Research Fund (Note C16)	72 953 471 ¹	337 878 472
Surplus carried forward at end of period	-	-

¹ Proposal to the Commission

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2004

(amounts in €)

A. THE ECSC IN LIQUIDATION

The European Coal and Steel Community (ECSC), established by the Treaty signed in Paris on 18 April 1951, expired on 23 July 2002. The Nice European Council decided to annex to the Treaty of Nice of 26 February 2001¹ a protocol on the financial consequences of the expiry of the ECSC Treaty and on the creation and management of the Coal and Steel Research Fund. It was decided that, on the expiry of the Treaty, all assets and liabilities of the ECSC would be transferred to the European Community with effect from 24 July 2002.

Subject to any increase or decrease resulting from the liquidation operations, the net worth of all the ECSC's assets and liabilities, as they appear in the ECSC balance sheet at 23 July 2002, is regarded as assets earmarked for research in the sectors associated with the coal and steel industries. After the end of the liquidation process, these assets will be known as the "assets of the Coal and Steel Research Fund".

The Commission is responsible for winding up the financial operations of the ECSC that were still in progress at the moment of the expiry of the ECSC Treaty. The winding-up is conducted in accordance with the rules and procedures applying to these operations, with the Community institutions enjoying the existing powers and prerogatives provided for by the ECSC Treaty and the secondary legislation in force on 23 July 2002. The assets of the ECSC in liquidation, including its loans portfolio and its investments, are used as necessary to meet the ECSC's remaining obligations in terms of outstanding borrowings resulting from previous operating budgets and other contingencies.

Where the ECSC's assets are not needed to meet these obligations, they are invested so as to ensure long-term profitability. The objective in placing the available assets must be to obtain the highest possible yield that is securely attainable, as defined by Council Decision 2003/76/EC of 1 February 2003. The net revenue from these investments, known as the "Coal and Steel Research Fund", constitutes revenue in the general budget of the European Union and will be used exclusively for research in the sectors associated with the coal and steel industries, in accordance with Council Decision 2003/76/EC of 1 February 2003 establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel².

The net revenue available for financing research projects in year n+2 appears in the balance sheet of the ECSC in liquidation for year n, and after the liquidation process has been completed will appear as assets in the balance sheet of the Coal and Steel Research Fund. In order to reduce as far as possible the fluctuations that movements in the financial markets could cause in the financing of research, a smoothing arrangement is applied and a provision for contingencies has been created. The algorithms for smoothing and for

¹ OJ C 80, 10.03.2001.

² OJ L 29, 5.2.2003, p.22

determining the size of the provision for contingencies are set out in Annex 1 to the abovementioned Council Decision. The identified revenue is divided between research relating to coal and that relating to steel in proportions of 27.2% et 72.8% respectively.

B. ACCOUNTING PRINCIPLES AND METHODS

1. Presentation of the financial statements

The financial statements are drawn up in accordance with the accounting methods generally recognised in the European Union and the specific accounting principles described below.

The accounting principles and evaluation methods used for the items in the financial statements take account of the constraints and resolutions applicable to the ECSC in liquidation under the Treaties and other decisions adopted by the institutions of the European Communities.

The accounting methods used also take account of the absence of continuity after 23 July 2002, when the ECSC Treaty expired. Any impact of this is explained with regard to the losses concerned in Section C “Explanatory notes to the headings in the balance sheet and the profit-and-loss account”.

The financial statements are presented in accordance with Council Directives 78/660/EEC and 86/635/EEC³ on the annual accounts and consolidated accounts of banks and other financial institutions wherever these are applicable and subject to the above-mentioned necessary adjustments.

³ OJ L 222, 14.8.1978, and OJ L 372, 31.12.1986.

2. Conversion of items expressed in foreign currency

The currency used for the financial statements of the ECSC in liquidation is the euro ("EUR" or "€").

All foreign-currency transactions carried out by the ECSC in liquidation are converted into euros at the monthly reference rate communicated by the European Central Bank.

The value of non-financial assets/liabilities is converted into euros at the monthly rate applicable on the date on which they were acquired or on which their value was last adjusted.

At the balance-sheet date, financial assets/liabilities are converted into euros at the monthly rate applicable on that date. Negative differences are entered under "charges" in the profit-and-loss account, while positive differences are deferred and entered under "accruals and deferred income" on the liabilities side.

2.1 Conversion rates

The following rates have been used for converting balance-sheet amounts expressed in national currency into euros:

	31 December 2004	31 December 2003
Danish krone	7.4388	7.4450
Pound sterling	0.70505	0.70480
Swiss franc	1.5429	1.5579
United States dollar	1.3621	1.2630

2.2 At 31 December 2004 the various currencies listed above, together with the euro, made up the balance sheet of the ECSC in liquidation as follows (€):

CURRENCY	ASSETS	LIABILITIES
Euro	1 818 331 458	1 742 837 366
Danish krone	3 818	-
Pound sterling	241 318 236	316 930 695
Swiss franc	5	-
United States dollar	83 878 789	83 764 245
Total	2 143 532 306	2 143 532 306

The short position in pounds sterling is essentially due to the use of a borrowing in GBP to finance a loan originally denominated in FRF, the operation being covered by a currency swap (see Note C24).

3. Treasury investment and valuation of bonds and other securities

- a) The internal prudential rules of the ECSC in liquidation stipulate that portfolio investments are to be confined to securities issued by first-ranking entities. However in 1998, under an agreement to restructure the debt of a defaulting debtor, the ECSC exceptionally acquired shares and other variable-income securities from a private-sector company.
- b) Bonds and other fixed-income securities and shares and other variable-income securities are valued at the average purchase price or the market value obtaining at the end of the financial year, whichever is the lower.
- c) This principle is not applied in the case of securities considered as financial fixed assets, which are valued at the average purchase price or the redemption value, whichever is the lower.

4. Intangible and tangible fixed assets

Value adjustments are calculated on the basis of Commission Regulation (EC) No 2909/2000 of 29 December 2000⁴. Computer software and hardware is written off on a straight-line basis over a period of four years,

5. Special features of the ECSC financial statements

a) ECSC operating budget

Part of the funds of the ECSC in liquidation is made available to the ECSC operating budget, which was adopted annually by the Commission after informing the Council and consulting the European Parliament. The last such budget was drawn up for the period from 1 January to 23 July 2002..

From 24 July 2002 onwards, the income and charges relating to the operating budget are shown in the accounts as "other liquidation income/charges".

The changes between 1 January and 31 December 2004 in commitments vis-à-vis third parties entered into under the operating budget are shown under the heading "Outstanding commitments under the ECSC operating budget" (see Note C.13).

b) Budget for financing coal and steel research

The Council has decided that the income from managing the assets of the ECSC in liquidation should be allocated to the general budget of the European Union⁵. This income is earmarked for a research programme relating to the coal and steel industries, as stated in Note A to this report.

The ECSC in liquidation has already constituted provisions in order to prepare the ground for this mechanism for financing coal and steel research. These provisions are entered under the heading "Budget for financing coal and steel research" (see Note C.15).

⁴ OJ L 336, 30.12.2000, p.75.

⁵ Council Decision 2003/76/EC of 1 February 2003 (OJ L 29, 1.2.2003).

C. EXPLANATORY NOTES TO THE HEADINGS IN THE BALANCE SHEET AND THE PROFIT-AND-LOSS ACCOUNT

1. Loans and advances to credit institutions

1.1. With agreed maturity dates or periods of notice

The breakdown of the remaining time to maturity of these operations is as follows:

(€)

	31 December 2004	31 December 2003
Up to three months	25 700 000	41 353 110
Total	25 700 000	41 353 110

1.2. Loans

The breakdown of the remaining time to maturity of these operations is as follows:

(€)

	31 December 2004	31 December 2003
Up to three months	512 069	534 466
Three months to one year	6 102 475	6 374 614
One to five years	19 809 783	24 493 333
Over five years	38 054 364	46 477 314
Total	63 478 691	77 879 727

2. Loans and advances to customers

2.1. Loans

The loans granted to credit institutions are shown under "Loans and advances to credit institutions" (see Note C.1.2).

The other loans break down as follows:

(€)

	31 December 2004	31 December 2003
1. Loans disbursed from borrowed funds		
• amounts outstanding	286 007 361	341 346 876
• value adjustments	-4 575 448	-20 710 979
Sub-total	281 431 913	320 635 897
2. Loans from the special reserve for financing subsidised housing	9 934 986	11 530 061
Interim total	291 366 899	332 165 958
The breakdown of these loans (net of value adjustments) by time remaining to maturity was as follows		
	31 December 2004	31 December 2003
Up to three months	1 370 280	1 370 204
Three months to one year	1 461 732	1 776 869
One to five years	168 024 102	87 763 012
Over five years	125 086 233	261 966 852
	295 942 347	352 876 937
3. Loans disbursed from the former Pension Fund to officials of the European Communities for housing construction	23 796 199	28 909 384
4. Other debtors	134 003	243 182
Grand total	315 297 101	361 318 524

NB. Loans are generally guaranteed by Member States or by banks or businesses.

2.2. Levies

The claims relate to years prior to 1998. They are mainly claims on companies in liquidation.

This item breaks down as follows:

(€)

	31 December 2004	31 December 2003
Gross amount	4 363 151	4 480 633
Value adjustments	-4 363 151	-4 480 633
Net amount	-	-

2.3. Fines

This item contains the Commission's claims on companies fined in accordance with the rules set out in the Treaty.

This item breaks down as follows:

(€)

	31 December 2004	31 December 2003
Fines due under the "quota system"		
- Capital	881 326	1 034 270
- Surcharges for late payment	340 962	340 962
Fines due under Decision 94/215/ECSC		
- Capital	9 500 000	16 600 000
- Surcharges for late payment	1 684 372	3 842 457
Fines due under Decision 98/247/ECSC		
- Capital	8 064 000	8 064 000
- Surcharges for late payment	3 088 236	2 623 285
Total	23 558 896	32 504 974
Value adjustments	-23 558 896	-32 504 974
Net amount	-	-

2.4. Interest subsidies to be recovered

This item comprises claims on companies in receipt of subsidised loans which the Commission has been obliged to ask to reimburse all or part of the interest subsidy already paid.

(€)

	31 December 2004	31 December 2003
Subsidies to be repaid	1 521 344	2 307 429
Value adjustments	-1 521 344	-1 965 926
Net amount	-	341.503

3. Bonds and other fixed-income securities

3.1. Composition

The bonds and other fixed-income securities break down as follows:

(€)

	Net change in value adjustments and discrepancies resulting from conversion	31 December 2004	31 December 2003
Issued by public bodies:			
Gross value		891 140 032	927 466 782
Value adjustments	4 775 353	-56 450 445	-61 225 798
Net value		834 689 587	866 240 984
Issued by other borrowers:			
Gross value		654 974 317	622 441 469
Value adjustments	2 068 330	-707 916	-2 776 246
Net value		654 266 401	619 665 223
Total bonds and other fixed-income securities:			
Gross value		1 546 114 349	1 549 908 251
Value adjustments	6 843 683	-57 158 361	-64 002 044
Net value		1 488 955 988	1 485 906 207

The net change of € -6 843 683 in value adjustments between 1 January and 31 December 2004 breaks down as follows:

- exchange difference	19 867
- allocation to value adjustments	-813 852
- withdrawal from value adjustments	<u>7 637 668</u>
	6 843 683

3.2. *Maturities in 2005*

Securities in the portfolio reaching final maturity in the course of 2005 represent the following amounts (€):

- Issued by public bodies:	122 877 271
- Issued by other borrowers:	77 331 650
Total:	200 208 921

3.3. *Financial fixed assets (See Note B.3)*

Financial fixed assets are defined as securities that will remain in the portfolio until their final maturity. They comprise long-term paper for servicing ECSC borrowings.

At 31 December 2004, financial fixed assets totalled € 145 352 811 in nominal terms, which was less than the average acquisition price. The value adjustments at 31 December 2003 amounted to € 56 012 589 (€ 56 032 457 at 31 December 2003).

3.4. *Return on investment*

Treasury investments take account of the maturity dates and liquidity requirements applicable to ECSC financial operations. They are subject to strict criteria with regard to the financial standing of the counterparty⁶.

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 5.7755% for the year 2004. This compares with a reference rate for the ECSC in liquidation of 5.1739%. The enhanced performance of the ECSC portfolio is due mainly to the following two features:

- certain securities are less liquid than those commonly used for calculating reference rates;
- certain sovereign securities issued by new Member States have a rating below “AA”.

⁶ See paragraph 3 of the Annex to Council Decision 2003/77/EC of 1 February 2003 (OJ L 29, 1.2.2003, p.26).

In view of these special features, an over-performance of around 40 basis points, with a fluctuation of 20 basis points either way, is regarded as normal.

3.5. Structure of the portfolio by maturity date and rating

€ million

a) Time to maturity less than 1 year

Rating	31 December 2004	31 December 2003
AAA	115.0	110.4
AA1	23.2	20.0
AA2	20.5	69.4
AA3	20.9	-
A1	20.0	34.5
Sub-total	199.6	234.3

b) Time to maturity between 1 year and 3 years

Rating	31 December 2004	31 December 2003
AAA	215.3	213.8
AA1	47.8	34.2
AA2	30.0	55.7
AA3	58.6	34.8
A1	10.0	20.0
Sub-total	361.7	358.5

c) Time to maturity between 3 and 5 years

Rating	31 December 2004	31 December 2003
AAA	239.0	170.2
AA1	25.5	58.3
AA2	35.0	60.0
AA3	10.0	18.4
Sub-total	309.5	306.9

d) Time to maturity between 5 and 7 years

Rating	31 December 2004	31 December 2003
AAA	119.2	204.8
AA2	63.4	53.7
AA3	-	10.0
A3	41.0	-
BBB1	21.4	-
Sub-total	245.0	268.5

e) Time to maturity more than 7 years

Rating	31 December 2004	31 December 2003
AAA	288.0	317.7
AA3	10.0	-
A1	21.9	-
A3	41.4	-
BBB1	11.8	-
Sub-total	373.1	317.7

f) Total per category

	31 December 2004	31 December 2003
AAA	976.5	1 016.9
AA1	96.5	112.5
AA2	148.9	238.8
AA3	99.5	63.2
A1	51.9	54.5
A3	82.4	-
BBB1	33.2	-
TOTAL	1 488.9	1 485.9

The change in the ratings structure is due to the purchase of sovereign securities issued by the new Member States.

4. Shares and other variable-income securities

Developments with regard to shares and other variable-income securities were as follows:

(€)

	Net change in value adjustments and discrepancies resulting from conversion	31 December 2004	31 December 2003
Gross value		40 727 796	40 728 758
Value adjustments	-8 655 177	-33 635 510	-24 980 333
Net value		7 092 286	15 748 425

These shares and other variable-income securities were received by the ECSC in liquidation as part of the restructuring plan of a defaulting debtor.

The net change of € 8 655 177 in value adjustments between 1 January and 31 December 2004 breaks down as follows:

exchange-rate difference	646
- allocation to value adjustments	<u>-8 655 823</u>
	-8 655 177

5. Intangible fixed assets

Developments with regard to intangible fixed assets were as follows:

(€)

	Balance at 31 December 2003	Value adjustments	Balance at 31 December 2004
Intangible fixed assets	1 900	-950	950

These assets consist of computer software (see also Note B.4)

6. Tangible fixed assets

Developments with regard to tangible fixed assets were as follows:

(€)

	Balance at 31 December 2003	Value adjustments	Balance at 31 December 2004
Tangible fixed assets	9 396	-4 698	4 698

These assets consist of computer hardware (see also Note B.4)

7. Other assets

The other assets break down as follows:

(€)

	31 December 2004	31 December 2003
• Current account, ECSC operating budget (see Note 11)	11 467	128
• Withholding taxes and VAT to be reclaimed	115 637	115 637
• Loans to officials	1 718 577	3 239 963
• Miscellaneous	61 576	83 051
Sub-total	1 907 257	3 438 779
• Value adjustments	-154 848	-154 848
Total	1 752 409	3 283 931

8. Prepayments and accrued income

The prepayments and accrued income break down as follows:

(€)

	31 December 2004	31 December 2003
• Interest on loans and swaps	22 285 057	24 470 852
• Interest on deposits and securities portfolio	34 780 465	31 987 046
Sub-total	57 065 522	56 457 898

9. Amounts owed to credit institutions

The remaining time to maturity on these operations is as follows:

(€)

	31 December 2004	31 December 2003
With agreed maturity dates or periods of notice:		
• Borrowings		
up to three months	1 124 378	1 124 378
three months to one year	1 098 766	1 098 766
one to five years	4 317 954	6 541 098
Total	6 541 098	8 764 242

10. Debts evidenced by certificates

This item comprises loan securities issued by the ECSC.

At 31 December 2004, no debt evidenced by a certificate had a remaining time to maturity of less than one year.

11. Other liabilities

The other liabilities break down as follows:

(€)

	31 December 2004	31 December 2003
Early loan repayment	-	2 529 713
Other	28 716	633 945
Total	28 716	3 163 658

12. Accruals and deferred income

The accruals and deferred income break down as follows:

(€)

	31 December 2004	31 December 2003
Interest on borrowings and credit lines	30 511 025	31 284 706
Commissions on loans	1 817	2 386
Miscellaneous	-	12 854
Deferred positive exchange differences	2 984 695	2 967 424
Total	33 497 537	34 267 370

The deferred positive exchange differences include amounts relating to currency and interest-rate swap operations (see Note 24).

13. Outstanding commitments under the ECSC operating budget

During the period from 1 January to 31 December 2004, the changes in the item for the ECSC operating budget were as follows:

(€)

	Amounts at 31 December 2003	Payments	Cancellations (Note C23)	Amounts at 31 December 2004
Commitments				
Redeployment	75 760 270	22 240 910	9 781 351	43 738 009
Research	99 107 424	44 243 834	6 215 096	48 648 494
Interest subsidies Article 56	11 206 444	252 193	9 990 367	963 884
Social measures coal (Rechar)	36 391 426	17 542 513	2 958 487	15 890 426
Total	222 465 564	84 279 450	28 945 301	109 240 813

14. Provisions for liabilities and charges

14.1. Guarantee fund

The Guarantee Fund is intended to cover lending and borrowing operations. After a withdrawal of €34 million, the Guarantee Fund stood at €209 million at 31 December 2004.

On 11 September 1996 the Commission confirmed its intention of maintaining reserves to cover 100% of those loans outstanding after 23 July 2002 which are not guaranteed by the government of a Member State. Following repayments over the period from 1 January to 31 December 2004 of loans not guaranteed by a Member State, it was possible to reduce the Guarantee Fund.

The changes in the Guarantee Fund were as follows:

(€)

31 December 2003	Withdrawal	31 December 2004
243 000 000	34 000 000	209 000 000

14.2. Other provisions

The changes in other provisions were as follows:

(€)

	31 December 2003	Change over the period from 1 January to 31 December 2004			31 December 2004
		Allocation	Withdrawal	Balance-sheet movements (utilisation)	
Provision for special costs relating to banking activities (1)	300 000	-	-	-4 000	296 000
Provision for appeals against Decision 98/247/ECSC(2)	3 794 390	75 826	-	-	3 870 216
Other	55 649	-	-	-	55 649
Total	4 150 039	75 826	-	-4 000	4 221 865

- (1) This provision was created to cover any legal costs and other unforeseen expenditure. The risk in question is primarily in the legal field because for its operations the ECSC in liquidation has less recourse to national agents who bear all expenditure relating to loan operations.
- (2) This provision was created from the fines and accrued interest paid since these payments under Decision 98/247/ECSC of 21 January 1998 to cover the possible reimbursement of the amounts received should the Court of Justice rule in favour of the companies which have appealed against the judgment of the Court of First Instance of 13 December 2001.

15. Budget for financing coal and steel research

This item breaks down as follows:

(€)

	31 December 2004	31 December 2003
Commitments, 2003 coal research budget	9 709 752	16 132 752
Commitments, 2003 steel research budget	25 682 856	43 676 856
Commitments, 2004 coal research budget	7 538 989	-
Commitments, 2004 steel research budget	26 059 647	-
Future commitments, coal research budget	1 240 259	187 248
Future commitments, steel research budget	72 217	3 144
Provision for research in 2004	-	60 000 000
Provision for research in 2005	56 500 000	56 500 000
Provision for research in 2006	54 750 000	-
Provision for smoothing	114 750 000	116 500 000
Total	296 303 720	293 000 000

In view of the expiry of the ECSC Treaty on 23 July 2002 and the winding-up of the ECSC, it was decided that all ECSC assets at the time of the expiry of the Treaty would be managed by the European Commission with effect from 24 July 2002⁷. The net worth of these assets and liabilities is to be considered as assets earmarked for research in the sectors associated with the coal and steel industries. The income generated by these assets will be allocated exclusively to research in these sectors.

In practice, the net profit from the management of the assets (invested mainly in a securities portfolio and term deposits) in year n will be transferred to the general budget of the European Community and will be used for research in year n+2. In order to reduce fluctuations in research funding resulting from movements on the financial markets, a smoothing formula will be applied in accordance with the procedures approved by the Member States.

The net surplus on the management of assets in 2004 amounts to € 53 million (see Note C.17.2), and the allocation for research in 2004 has been set at € 56.5 million. Applying the smoothing formula, the allocation for research in 2006 will amount to € 54 750 000 (see section “Financing of coal and steel research”, p.17). This amount will be broken down between coal research (27.2% = € 14 892 000) and steel research (72.8% = € 39 858 000) in accordance with Article 4 of the above-mentioned Council Decision.

⁷ Council Decision 2003/76/EC of 1 February 2003 (OJ L 29, 5.2.2003).

16. Reserves and surpluses

(€)

	Situation at 31 December 2003 before allocation	Allocation at 31 December 2003 ¹¹	Situation at 31.12.03 after allocation	Movements in 2004	Situation at 31.12.04 before allocation	Allocation at 31 December 2004 ¹²	Situation at 31 December 2004 after allocation
Special reserve	88 100 000	-	88 100 000	-15 600 000	72 500 000	-	72 500 000
Former Pension Fund	30 000 000	-	30 000 000	-6 000 000	24 000 000	-	24 000 000
Assets of the Coal and Steel Research Fund	369 570 762	337 878 472	707 449 234	21 600 000	729 049 234	72 953 471	802 002 705
New Member States' contribution not yet called	-	-	-	169 930 000	169 930 000	-	169 930 000
Profit deferred	-	-	-	-	-	-	-
Surplus for the period from 1 January to 31 December 2003	337 878 472	-337 878 472	-	-	-	-	-
Surplus for the period from 1 January to 31 December 2004	-	-	-	72 953 471	72 953 471	-72 953 471	-
Total	825 549 234	-	825 549 234	242 883 471	1 068 432 705	-	1 068 432 705

¹¹ Commission Decision of 29 July 2004 (Written procedure E/1514/2004).

¹² Proposal to the Commission.

The Special Reserve is used to grant loans from the own funds of the ECSC in liquidation to finance subsidised housing. At 31 December 2004, the amount outstanding corresponding to the loans granted was €72.5 million (€88.1 million at 31 December 2003). Consequently, it was possible to release €15.6 million, which were transferred to the free reserves.

The former Pension Fund originally represented the ECSC's total pension obligations prior to 5 March 1968. Since that date, the Member States have assumed responsibility, via the general budget, for the payment of staff pensions. This fund is used to finance housing loans for officials of the European Communities. At 31 December 2004, the amount outstanding corresponding to the loans granted was €24 million (€30 million at 31 December 2003). Consequently, it was possible to release €6 million, which were transferred to the free reserves.

The "Assets of the Coal and Steel Research Fund" reserve, created in the context of the winding-up of the ECSC (see Note C.15), comprises the free reserves.

Article 31 of the Act concerning the conditions of accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic and the adjustments to the Treaties on which the European Union is founded¹³, which entered into force on 1 May 2004, provides for certain new member States to make a contribution to the assets of the Coal and Steel Research Fund. This contribution is to be paid in four instalments on the first working day of each year, starting in 2006, in the following amounts:

2006:	15%
2007:	20%
2008:	30%
2009:	35%

The total amounts to be paid by each Member State are as follows:

Czech Republic	€	39 880 000
Estonia	€	2 500 000
Latvia	€	2 690 000
Hungary	€	9 930 000
Poland	€	92 460 000
Slovenia	€	2 360 000
Slovakia	€	<u>20 110 000</u>
Total:	€	169 930 000

¹³ OJ L 236, 23.09.2003

17. Result (profit or loss) for the accounting period

The overall performance of the ECSC in liquidation is affected by the result of winding up the ECSC's financial operations, the net return on investments and the funding of coal and steel research.

(€)

	1 January to 31 December 2004	1 January to 31 December 2003
Winding up financial operations (see 17.1)	73 003 879	338 114 826
Net investment income (see 17.2)	52 949 592	53 043 920
Funding of coal and steel research (Note 17.3)	-53 000 000	-53 000 000
Administrative overheads	-	-280 274
Total	72 953 471	337 878 472

17.1. Winding up the financial operations of the ECSC in liquidation

(€)

Result	1 January to 31 December 2004	1 January to 31 December 2003
<u>a) Lending/borrowing activities</u>		
Net interest	3 663 345	6 970 990
Miscellaneous charges/income	-14 146	-41 633
Net change in value adjustments	2 681 474	2 102 720
Withdrawal from Guarantee Fund	34 000 000	254 000 000
Sub-total	40 330 673	263 032 077
b) Winding up commitments under operating budget (cancellations)	28 945 301	22 123 009
<u>c) Winding-up - other activities</u>		
Levy, fines, interest subsidies	2 546 611	55 457 334
Research	739 723	594 431
Other	645 597	99 431
Sub-total	3 931 931	56 151 196
<u>d) Exchange-rate differences and changes in market value</u>		
Exchange-rate differences	1 633 629	4 276 296
Securities market	-1 832 007	-7 462 105
Other	-5 648	-5 647
Sub-total	-204 026	-3 191 456
Total	73 003 879	338 114 826

17.2. *Net investment income*

(€)

	1 January to 31 December 2004	1 January to 31 December 2003
INCOME		
Interest on nostro account	59 244	78 571
Interest on deposit account	903 798	1 010 128
Interest on securities portfolio (excluding dedicated portfolio)	50 308 529	53 491 215
Profit on sales of portfolio	3 402 004	4 118 985
Total income	54 673 575	58 698 899
CHARGES		
Debit interest on nostro account	38	242
Loss on sales of portfolio	1 487 613	5 450 344
Bank and portfolio transaction charges	236 332	204 393
Total charges	1 723 983	5 654 979
Difference = net income	52 949 592	53 043 920
Rounded to nearest million	53 000 000	53 000 000
Net income is made available to the general budget of the European Union for financing research projects (see Notes A and C.15 and page 17)		

17.3. *Application of Council Decision 2003/76/EC of 1 February 2003*

(€)

	Income	Charges
Allocation for 2006		54 750 000
Provision for smoothing	1 750 000	
Total	1 750 000	54 750 000
Net		53 000 000

Under Article 4 of Decision 2003/76/EC of 1 February 2003, the net income from investment of € 53 000 000 (see Note C.17.2) constitutes revenue in the general budget of the European Union. Article 5 of that Decision lays down that in order to reduce as far as possible fluctuations in research funding due to movements on the financial markets, the smoothing formulae detailed in the Annex to the Decision are to be applied.

In 2004, on the basis of these calculations € 1 750 000 needed to be withdrawn from the provision for smoothing in order to raise the allocation for research in 2006 to € 54 750 000.

18. Interest and similar charges

(€)

	1 January to 31 December 2004	1 January to 31 December 2003
Interest on loans and swaps	51 325 998	57 938 644
Bank interest	38	242
Total	51 326 036	57 938 886

19. Other operating charges

(€)

	1 January to 31 December 2004	1 January to 31 December 2003
Borrowing costs	10 308	11 523
SWIFT/Reuters charges	-	8 153
Losses on loans and advances	101 875	3 435 455
Other	36 014	15 049
Total	148 197	3 470 180

The losses on loans and advances are offset by withdrawals from the corresponding value adjustments.

20. Interest received and other income

(€)

	1 January to 31 December 2004	1 January to 31 December 2003
Interest on loans and swaps	41 681 405	51 752 113
Payment and redemption premiums	173	517
Bank interest	963 042	1 088 700
Interest on bonds and other fixed-income securities	63 170 680	66 350 532
Total	105 815 300	119 191 862

21. Withdrawal of value adjustments for loans and advances

(€)

	1 January to 31 December 2004	1 January to 31 December 2003
Loans	2 681 474	2 102 720
Levies	117 482	377 792
Fines	2 692 944	15 531 88 6
Interest rate rebates	-	488 929
Research (ECSC operating budget)	46 828	225 887
Total	5 538 728	18 727 214

22. Withdrawal from other provisions for liabilities and charges

(€)

	1 January to 31 December 2004	1 January to 31 December 2003
Provision for appeals against Decision 94/215/ECSC (see Note C14.2)	-	42 255 636
Total	-	42 255 636

23. Other operating/winding-up income

(€)

	1 January to 31 December 2004	1 January to 31 December 2003
Other operating/winding-up income		
Other income from lending and treasury activities	-	68
Lapsed coupons and bonds	22 166	14 520
Income from fines	464 950	962 362
Income from levies, subsidies, research and redeployment	1 364 514	492 143
Cancellation of legal commitments ECSC operating budget (Note C13)	28 945 301	22 123 009
Miscellaneous	16 722	84 911
Sub-total	30 813 653	23 677 013

24. Off-balance-sheet commitments

The capital commitments relating to interest-rate and currency swaps arise from the following operations:

Interest-rate swaps

Commitments received	Commitments entered into	Maturity
USD 100 million, 6.375%	USD 100 million, 12.077% (current rate)	26 March 2008
GBP 60 million, 11.875%	GBP 60 million, Libor 3 months -31 b.p.	13 March 2009

Interest-rate and currency swaps

Commitments received	Commitments entered into	Maturity
GBP 60 million, Libor 3 months -31 b.p.	EUR 88 085 042, Libor 3 months -31 b.p.	13 March 2009

24.1. Commitments received

(€)

	31 December 2004	31 December 2003
Commitments arising from swaps		
• Notional capital commitments relating to interest-rate swaps	158 516 396	164 307 097
• Capital commitments relating to interest-rate and currency swaps	85 100 347	85 130 533
Total	243 616 743	249 437 630

24.2. Commitments entered into

(€)

	31 December 2004	31 December 2003
a) Commitments arising from swaps		
• Notional capital commitments relating to interest-rate swaps	158 516 396	164 307 097
• Capital commitments relating to interest-rate and currency swaps	88 085 042	88 085 042
b) Loans granted to EC officials but not yet disbursed	60 097	176 992
Total	246 661 535	252 569 131

25. **25. Changes in the financial situation for the period ending 31 December 2004**

€ million

	Period from 1 January to 31 December 2004	Period from 1 January to 31 December 2003
Origin of funds		
Balance of profit-and-loss account	72,9	337,9
Items not involving movements of funds		
• Value adjustments in respect of financial assets (withdrawals)	1,8	2,6
• Value adjustments in respect of loans and advances, net	-16,1	-9,1
• Decrease in "ECSC operating budget"	-113,2	-120,1
• Increase (decrease) in "Budget for financing coal and steel research"	3,3	53,0
• Increase (decrease) in accruals and deferred payments	-0,8	-15,5
• Increase (decrease) in accruals and deferred income and issuing costs/redemption premiums	-0,6	-21,9
• Increase (decrease) in other liabilities	-3,1	1,7
• Increase in other assets	-168,0	-
• Allocation to (withdrawal from) provisions for liabilities and charges	0,1	-53,6
• New Member States' contribution not yet called	169,9	-
• Exchange-rate adjustments in respect of borrowings and loans	-0,1	-13,6
• Allocation to (withdrawal from) the Guarantee Fund/ Special Reserve	-34,0	-254,0
Total funds	-87,9	-48,8
Other resources		
• Loan repayments	70,7	266,2
• Decreases in bank balances and securities portfolio	19,5	23,9
Total resources	2,3	241,3
Use of funds		
• Loan disbursements/increase in loans and advances	0,1	0,3
• Redemption of borrowings	2,2	241,0
Total uses	2,3	241,3