COMMISSION

COMMISSION REPORT

Financial Report of the ECSC in liquidation at 31 December 2003

(2004/C 122/02)

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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 50 years and expired on 23 July 2002.

On expiry of the Treaty, ownership of ECSC funds reverted to the Member States (Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden and the United Kingdom). The final objective laid down by the Member States was the transfer of ECSC funds to the European Community (EC) and the creation of a joint research fund in sectors associated with the coal and steel industries. 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. Pending the entry into force of the Treaty of Nice on 1 February 2003, the Member States temporarily gave the European Commission a mandate to manage the assets concerned.

Commission

During the period from 24 July 2002 to 31 January 2003, the European Commission exercised the powers and responsibilities conferred on it by Decision 2002/234/ECSC of the Representatives of the Governments of the Member States, meeting within the Council, of 27 February 2002.

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 2003, the members of the Commission were:

Romano PRODI	President
Neil KINNOCK	Vice-President
Loyola DE PALACIO	Vice-President
Mario MONTI	Member
Franz FISCHLER	Member
Erkki LIIKANEN	Member
Frits BOLKESTEIN	Member
Philippe BUSQUIN	Member
Pedro SOLBES MIRA	Member
Poul NIELSON	Member
Günter VERHEUGEN	Member
Chris PATTEN	Member
Pascal LAMY	Member
David BYRNE	Member
Michel BARNIER	Member
Viviane REDING	Member
Michaele SCHREYER	Member
Margot WALLSTRÖM	Member
Antonio VITORINO	Member
Anna DIAMANTOPOULOU	Member

The management of the ECSC in liquidation and of the Coal and Steel Research Fund are the responsibility of Mr Pedro SOLBES MIRA.

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 2003, of Mr Klaus REGLING, Director-General of DG ECFIN, and Mr David MCGLUE, Director of Directorate L.

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The euro

Article 121 of the Treaty establishing the European Community laid down 1 January 1999 as the starting date for the third phase of economic and monetary union. On 3 May 1998 a Council meeting of the Heads of State or Government confirmed that Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland met the conditions required for adopting the single currency, the euro, from 1 January 1999. Greece joined this group of countries on 1 January 2001. On 31 December 1998 [1] (19 June 2000 for the Greek drachma [2]), the Council fixed irrevocably the conversion rates between the euro and the currencies of the Member States which were to adopt it:

1 euro =	40,3399	Belgian francs
	1,95583	German marks
	340,750	Greek drachmas
	166,386	Spanish pesetas
	6,55957	French francs
	0,787564	Irish pounds
	1 936,27	Italian lire
	40,3399	Luxembourg francs
	2,20371	Dutch guilders
	13,7603	Austrian schillings
	200,482	Portuguese escudos
	5,94573	Finnish markka

The euro exchange rates for the currencies of the other EU countries and some non-member countries are given in Note B.2.2.

ACTIVITY REPORT

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

The ECSC Treaty expired on 23 July 2002, and on 24 July 2002 the ownership of ECSC funds reverted to the Member States.

The final objective laid down by the Member States was the transfer of ECSC funds to the European Community and the creation of a joint research fund in sectors associated with the coal and steel industries. This objective was already present in the resolution of the European Council meeting in Amsterdam on 16 June 1997 and in the resolutions adopted by the Council and the Representatives of the Governments of the Member States on 20 July 1998 and 21 June 1999.

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 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.

Since the Treaty of Nice was not ratified before the expiry of the ECSC Treaty, the Member States temporarily entrusted the European Commission [3] with the task of managing the assets of the ECSC in liquidation by applying the same principles as provided for in the Protocol to the Treaty of Nice.

[1] Council Regulation (EC) No 2866/98 (OJ L 359, 31.12.1998).
[2] Council Regulation (EC) No 1478/2000 (OJ L 167, 7.7.2000).
[3] Decision 2002/234/ECSC of the Representatives of the Governments of the Member States, meeting within the Council, on the financial consequences of the expiry of the ECSC Treaty (OJ L 79, 22.3.2002, p. 42).

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

On 1 February 2003 [1] 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.

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.

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 December 2003, the debt of the ECSC in liquidation changed as follows:

(EUR million)

Currency	Number of borrowings at 31 December 2002	Debt outstanding at 31 December 2002	Reimburse-ments from 1 January to 31 December 2003	Exchange-rate adjustments	Debt outstanding at 31 December 2003	Number of borrowings at 31 December 2003
EUR	**18**	**295,5**	**241,0**	**—**	**54,5**	**11**
GBP	6	322,0	—	– 24,8	297,2	6
USD	1	95,4	—	– 16,2	79,2	1
Total	**25**	**712,9**	**241,0**	**– 41,0**	**430,9**	**18**

The amortisation of the borrowings outstanding at 31 December 2003 breaks down as follows:

(EUR million)

	EUR	GBP	USD	Total
2004	2,3			2,3
2005	2,2			2,2
2006	2,0			2,0
2007	2,0			2,0
2008	0,3		79,2	79,5
2009		85,1		85,1
2010				0,0
2011				0,0
2012	45,7			45,7
2013				0,0

[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).

(EUR million)

	EUR	GBP	USD	Total
2014				0,0
2015				0,0
2016				0,0
2017		95,4		95,4
2018				
2019		116,7		116,7
	54,5	297,2	79,2	430,9

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 2003	
				in borrowing currency	equivalent in EUR
Contracts redenominated in EUR					
1990	9,16	15	2 700 000 DEM		276 098
1990	9,0	15	24 400 000 DEM		122 710
1992	2,2705	15	11 900 000 DEM		2 249 684
1992	1,625	15	9 000 000 000 ITL		1 859 245
1992	2,854	20	300 000 000 FRF		45 734 705
1992	2,18263	15	11 000 000 DEM		2 433 749
1992	8,34	15	2 300 000 DEM		470 389
1993	7,08	15	1 750 000 DEM		447 380
1993	6,39	15	1 355 000 DEM		346 400
1993	6,64	15	1 185 000 DEM		302 941
1993	6,75	15	1 000 000 DEM		255 646
			Total per currency		**54 498 947**
Contracts in GBP					
1990	11,875	19	60 000 000 GBP	60 000 000	85 130 533
1992	9,875	25	50 000 000 GBP	17 220 000	24 432 463
1992	9,875	25	30 000 000 GBP	30 000 000	42 565 267
1993	9,875	24	20 000 000 GBP	20 000 000	28 376 844
1994	6,875	25	50 000 000 GBP	35 261 000	50 029 796
1994	8,9375	25	47 000 000 GBP	47 000 000	66 685 585
			Total per currency	209 481 000	297 220 488
Contracts in USD					
1993	6,375	15	100 000 000 USD	100 000 000	79 176 564
			Total per currency	**100 000 000**	**79 176 564**
			Grand total in EUR		**430 895 999**

(*) Fixed or variable rates, as the case may be

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 2003, **the changes in loans from borrowed funds** (pursuant to Articles 54 and 56 ECSC) were as follows:

(EUR million)

Member State	Number of loans	Amount outstanding at 31 December 2002	Amortisation from1 January to 31 December 2003	Exchange-rate adjustment	Amount outstanding at 31 December 2003	Number of loans
Greece	1	95,36	—	– 16,18	79,18	1
France	4	362,49	– 228,67	—	133,82	2
Italy	56	19,83	– 11,96	—	7,87	17
United Kingdom	1	72,25	—	– 5,56	66,69	1
Total Community	**62**	**549,93**	**– 240,63**	**– 21,74**	**287,56**	**21**

The loans from borrowed funds outstanding at 31 December 2003 were backed by guarantees as follows:

(EUR million)

Member State	Guarantee by public body	Bank guarantee	Industrial grouping	No guarantee	**Total**
Greece	79,18	—	—	—	79,18
France	—	—	133,82	—	133,82
Italy	—	7,87	—	—	7,87
United Kingdom	—	—	—	66,69	66,69
Total Community	**79,18**	**7,87**	**133,82**	**66,69**	**287,56**

Over the period ending 31 December 2003, **the changes in loans from own funds** (pursuant to Articles 54 and 54.2 ECSC) were as follows:

(EUR million)

Member State	Number of loans	Amount outstanding at 31 December 2002	Amortisation from 1 January to 31 December 2003	Exchange-rate adjustment	Amount outstanding at 31 December 2003	Number of loans
Belgium	24	5,49	– 0,62	—	4,87	24
Denmark	4	0,01	0,00	0,00	0,01	1
Germany	41	52,45	– 6,83	—	45,62	38
Greece	9	0,46	– 0,04	—	0,42	9
Spain	21	10,20	– 1,05	—	9,15	21
France	41	13,11	– 4,11	—	9,00	37
Ireland	10	0,32	– 0,03	—	0,29	9
Italy	21	6,67	– 0,81	—	5,86	21
Luxembourg	7	0,97	– 0,11	—	0,86	7
Netherlands	7	0,92	– 0,08	—	0,84	7
Austria	2	3,93	– 0,18	—	3,75	2
Portugal	6	0,63	– 0,07	—	0,56	6
Finland	2	0,75	– 0,03	—	0,72	2
United Kingdom	28	7,87	– 1,13	– 0,61	6,13	24
Total Community	**223**	**103,78**	**– 15,09**	**– 0,61**	**88,08**	**208**

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 2003 were backed by guarantees as follows:

(EUR million)

Member State	Guarantee by public body	Bank guarantee [1]	Industrial grouping		No guarantee	Total
			Public	Private		
Belgium	—	4,87	—	—	—	4,87
Denmark	—	0,01	—	—	—	0,01
Germany	—	45,62	—	—	—	45,62
Greece	—	0,42	—	—	—	0,42
Spain	—	9,15	—	—	—	9,15
France	—	8,11	0,42	—	0,47	9,00
Ireland	0,29	—	—	—	—	0,29
Italy	—	5,86	—	—	—	5,86
Luxembourg	—	0,86	—	—	—	0,86
Netherlands	—	—	—	0,84	—	0,84
Austria	—	3,75	—	—	—	3,75
Portugal	—	0,56	—	—	—	0,56
Finland	—	0,72	—	—	—	0,72
United Kingdom	—	6,13	—	—	—	6,13
Total Community	**0,29**	**86,06**	**0,42**	**0,84**	**0,47**	**88,08**

[1] Mainly loans granted to financial institutions for on-lending to final recipients.

Levies

Total claims at 31 December 2002 amounted to EUR 4 858 425.

These were covered in their entirety by value adjustments. Over the period ending on 31 December 2003, payments were received totalling EUR 184 847. Irrecoverable claims totalling EUR 192 945 were cancelled. Total claims at 31 December 2003 thus amounted to EUR 4 480 633, covered in their entirety by value adjustments.

Interest subsidies

Total claims at 31 December 2002 amounted to EUR 2 666 527. Value adjustments were made totalling EUR 2 454 855. During the period ending on 31 December 2003, the ECSC in liquidation received payments of EUR 205 441 and issued new demands for the recovery of EUR 1 064 909. It waived or cancelled claims amounting to EUR 1 218 566. Consequently, at 31 December 2003 total claims amounted to EUR 2 307 429, covered by value adjustments in the sum of EUR 1 965 926.

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 (IN EURO, NET OF INTEREST)

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

	Amount (capital) outstanding at	
	31 December 2002	31 December 2003
Three Italian companies	1 034 270	1 034 270

The three companies are in liquidation. A value adjustment of 100 % has been entered in our books.

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

By a judgment dated 2 October 2003, the Court of Justice dismissed the appeals of two German companies and one Spanish company. The Court annulled in part the judgment passed on a second Spanish company and referred the case back to the Court of First Instance. As a result of these judgments, in 2003 the ECSC in liquidation received payments totalling EUR 7 759 000 (capital) and EUR 5 285 390 (surcharges for late payment).

The changes in total claims in respect of capital were as follows:

	Amount (capital) outstanding at	
	31 December 2002	31 December 2003
One Italian company (in liquidation since 28 February 1993)	9 500 000	9 500 000
German companies	4 409 000	—
Spanish companies	10 450 000	7 100 000

A value adjustment of 100 % has been entered in our books.

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 2002	31 December 2003
Two companies (German/Italian)	8 064 000	8 064 000

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

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 EURO, NET OF INTEREST)

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

By a judgment dated 2 October 2003, the Court of Justice dismissed the appeals of one British company and one German company, but it annulled in their entirety the judgment of the Court of First Instance relating to the Luxembourg company and the relevant Commission decision.

The changes in provisions for liabilities and charges were as follows:

	Amount (capital) in provision at	
	31 December 2002	31 December 2003
British, Luxembourgish and German companies	41 947 108	—

2. *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 2002	31 December 2003
Spanish company	3 136 000	3 136 000

Outstanding commitments under ECSC operating budgets

During the period ending on 31 December 2003, payments were made totalling EUR 98 million and cancellations totalled EUR 22 million. The changes in the commitments relating to the ECSC operating budgets from 1 January to 31 December 2003 were as follows:

	Amounts at 31.12.2002	Payments	Cancellations	Amounts at 31.12.2003
Redeployment	121 238 825	35 127 481	10 351 074	75 760 270
Research	158 711 869	56 145 090	3 459 355	99 107 424
Subsidies (Article 56)	16 044 579	197 428	4 640 707	11 206 444
Social measures: coal (Rechar)	46 562 452	6 499 153	3 671 873	36 391 426
Total	**342 557 725**	**97 969 152**	**22 123 009**	**222 465 564**

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. During the liquidation phase, treasury investments take account of the constraints regarding maturity dates and liquidity.

The total cash holdings of the ECSC in liquidation at 23 July 2002 amounted to EUR 1 592 million. At that date, commitments in respect of the operating budget amounted to EUR 401 million, the Guarantee Fund stood at EUR 529 million and the provisions for financing coal and steel research from 2003 onwards amounted to EUR 240 million. The free reserves after allocation of the surplus amounted at the same date to EUR 268 million.

The changes in total cash holdings, provisions and free reserves since then have been as follows (EUR million):

	23 July 2002	31 December 2002	31 December 2003
Total cash holdings	1 592	1 584	1 557
Commitments, operating budget	401	343	222
Debt provisions, research financing	240	240	293
Guarantee fund	529	497	243
Free reserves (after allocation)	268	350	707

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 3,56 % for the year 2003, compared with a reference rate for the ECSC in liquidation of 3,1 %.

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 applied ([1]). This financing mechanism took effect in 2003. The revenue for 2003 will be used for research in 2005.

Calculation of the allocation for research in 2005:

Financing provisions for 2004	60 000 000
Net revenue in 2003 (rounded)	53 000 000
Difference	7 000 000
Allocation:	
Net revenue in 2003	53 000 000
Half of the difference	3 500 000
Available for research in 2005	56 500 000
Financing:	
Net revenue in 2003	53 000 000
Withdrawal from the provision for smoothing	3 500 000
	56 500 000

([1]) See Annex to Decision 2003/76/EC.

FINANCIAL STATEMENTS OF THE ECSC IN LIQUIDATION

This is the second report on the ECSC in liquidation, covering the period ending on 31 December 2003.

The ECSC's balance sheet, profit-and-loss account and statement of the allocation of the surplus for the year ending 31 December 2003 were submitted to the Commission for approval according to written procedure E/1514/2004 of 29 July 2004 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 2003.

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 the ECFIN-L Directorate 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 the ECFIN-L Directorate 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 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 2003 and of the results of its operations for the period then ended.

Luxembourg, 6 May 2004.

KPMG Audit

Corporate Auditors

P. CORBARD

Balance sheet at 31 December 2003

(Amounts in EUR) — Before allocation of surplus

ASSETS

	31 December 2003		31 December 2002	
Loans and advances to credit institutions				
— repayable on demand	14 191 243		6 625 169	
— with agreed maturity dates or periods of notice (Note C.1.1)	41 353 110		6 905 570	
— loans (Note C.1.2)	77 879 727		100 034 710	
Total		133 424 080		113 565 449
Loans and advances to customers				
— loans (Note C.2.1)	361 318 524		628 718 200	
— levy (Note C.2.2)	—		—	
— fines (Note C.2.3)	—		—	
— interest subsidies repayable (Note C.2.4)	341 503		211 672	
— repayment, research	—		20 764	
Total		361 660 027		628 950 636
Bonds and other fixed-income securities (Note C.3)				
— issued by public bodies	866 240 984		1 026 326 228	
— issued by other borrowers	619 665 223		525 130 526	
Shares and other variable-income securities (Note C.4)	15 748 425		18 768 046	
Total		1 501 654 632		1 570 224 800
Intangible assets (Note C.5)		1 900		2 850
Tangible assets (Note C.6)		9 396		14 094
Other assets (Note C.7)		3 283 931		3 298 920
Accruals and deferred income (Note C.8)		56 457 898		73 044 693
Total assets		**2 056 491 864**		**2 389 101 442**
Off-balance-sheet commitments (Note C.24)		249 437 630		279 829 637

Balance sheet at 31 December 2003

(Amounts in EUR) — Before allocation of surplus

LIABILITIES

	31 December 2003		31 December 2002	
Amounts owed to credit institutions (Note C.9)				
— with agreed maturity dates or periods of notice		8 764 242		21 140 965
Debts evidenced by certificates (Note C.10)		422 131 757		691 795 132
Other liabilities (Note C.11)		3 163 658		1 429 545
Accruals and deferred income (Note C.12)		34 267 370		49 766 058
Outstanding commitments ECSC operating budget (Note C.13)		222 465 564		342 557 725
Provisions for liabilities and charges				
Guarantee Fund (Note C.14.1)	243 000 000		497 000 000	
Other provisions (Note C.14.2)	4 150 039		57 741 255	
Total provisions		247 150 039		554 741 255
Budget for financing coal and steel research (Note C.15)		293 000 000		240 000 000
Reserves and surplus (Note C.16)				
Special reserve	88 100 000		103 800 000	
Former pension fund	30 000 000		34 000 000	
Assets of the Coal and Steel Research Fund	369 570 762		120 200 000	
Profit deferred	—		161 918 722	
Surplus for the period (Note C.17)	337 878 472		67 752 040	
Total reserves and surplus		825 549 234		487 670 762
Total liabilities		**2 056 491 864**		**2 389 101 442**
Off-balance-sheet commitments entered into (Note C.24)		252 569 131		276 607 536

Profit-and-loss account for the period ending 31 December 2003

(Amounts in EUR)

CHARGES

	1 January to 31 December 2003		24 July to 31 December 2002		1 January to 23 July 2002	
Interest payable and similar charges (Note C.18)		57 938 886		32 986 478		53 081 195
Commission paid		211 887		89 173		314 770
Net losses on financial operations						
— exchange difference	—		246 938		—	
— losses on bonds and other fixed-income securities	5 450 344		862 608		4 427 896	
— value adjustments for bonds and other fixed-income securities (Note C.3)	7 821 336		654 707		63 570 916	
— value adjustments for shares and other variable-income securities (Note C.4)	2 942 548		9 150 238		1 405 587	
Total		**16 214 228**		**10 914 491**		**69 404 399**
Administrative overheads (Note C.17.4)		280 274		1 455 616		2 794 520
Value adjustments on tangible and intangible assets (Notes C.5 and C.6)		5 648		5 649		—
Other operating charges (Note C.19)		3 470 180		188 424		715 908
Value adjustments for loans and advances and provisions for liabilities and commitments						
— value adjustment for loans and advances	510 508		4 936 775		916 445	
— allocation to other provisions for liabilities and charges (Note C.14.2)	336 906		728 531		3 215 253	
Total		**847 414**		**5 665 306**		**4 131 698**
Extraordinary charges		—		74 154		39 771
Legal commitments for the period		—		—		127 988 619
Allocation to the budget for financing coal and steel research (Notes C.15 and C.17.3)		56 500 000		—		—
Total charges		**135 468 517**		**51 379 291**		**258 470 880**
Surplus for the period (Note C.17)		337 878 472		67 752 040		158 668 388
Total		**473 346 989**		**119 131 331**		**417 139 268**

Profit-and-loss account for the period ending 31 December 2003

(Amounts in EUR)

INCOME

	1 January to 31 December 2003		24 July to 31 December 2002		1 January to 23 July 2002	
Interest receivable and similar income (Note C.20)		119 191 862		62 114 830		91 425 315
Commission received		298 205		—		141 300
Net profit on financial operations						
— exchange difference	4 276 296		—		381 759	
— profit on bonds and other fixed-income securities	4 118 984		2 604 116		5 253 120	
— profit on shares and other variable-income securities	—		—		3 491 224	
— withdrawal of value adjustments for bonds and other fixed-income securities (Note C.3)	3 301 779		7 842 639		7 580 807	
Total		**11 697 059**		**10 446 755**		**16 706 910**
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 C.21)	18 727 214		1 907 062		22 011 553	
— withdrawal of provision for major exposures	—		—		6 000 000	
— withdrawal from other provisions for liabilities and charges (Notes C.14.2 and C.22)	42 255 636		—		51 371 610	
Total		**60 982 850**		**1 907 062**		**79 383 163**
Other operating income (Note C.23)		23 677 013		12 662 684		8 022 885
Withdrawal from provision for smoothing (Notes C.15 and C.17.3)		3 500 000		—		—
Income relating to the ECSC operating budget		—		—		20 665 175
Withdrawal from the provision for budgetary contingencies		—		—		31 000 000
Withdrawal from the provision for financing the operating budget		—		—		118 794 520
Withdrawal from the Guarantee Fund (Note C.14.1)		254 000 000		32 000 000		51 000 000
Total income		**473 346 989**		**119 131 331**		**417 139 268**

Allocation of the surplus for the period ending 31 December 2003

(Amounts in EUR)

	1 January to 31 December 2003	24 July to 31 December 2002	1 January to 23 July 2002
Surplus brought forward at start of period	—	3 618 722	3 250 334
Surplus for the period to be allocated	337 878 472	67 752 040	158 668 388
Total	**337 878 472**	**71 370 762**	**161 918 722**
Allocation to the assets of the Coal and Steel Research Fund (Note C.16)	337 878 472 (1)	71 370 762	158 300 000
Surplus brought forward at start of period	—	—	3 618 722

(1) Proposal to the Commission.

Notes to the financial statements at 31 December 2003

(Amounts in EUR)

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 2001 ([1]) 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.

Pending the entry into force of the Treaty of Nice (1 February 2003), the Member States entrusted to the European Commission the task of managing the assets of the ECSC in liquidation by applying the same principles ([2]) as provided for in the Protocol to the Treaty of Nice.

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. These assets, termed the 'ECSC in liquidation', will be known after the end of the liquidation process 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. 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 Steel.

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 determining the size of the provision for contingencies are set out in the Appendix to Annex 1 to the abovementioned Decision. The identified revenue is divided between research relating to coal and that relating to steel in proportions of 27,2 % and 72,8 % respectively.

B. ACCOUNTING PRINCIPLES AND METHODS

1. **Presentation of the financial statements**

The financial statements are drawn up in accordance with generally recognised accounting principles.

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.

([1]) OJ C 80, 10.3.2001.
([2]) Decision 2002/234/ECSC of the Representatives of the Governments of the Member States, meeting within the Council, of 27 February 2002 on the financial consequences of the expiry of the ECSC Treaty and on the research fund for coal and steel.

The accounting methods used also take account of the absence of continuity after 23 July 2002, when the ECSC Treaty expired.

They are presented in accordance with Council Directives 78/660/EEC and 86/635/EEC ([1]) on the annual accounts and consolidated accounts of banks and other financial institutions wherever these are applicable and subject to the abovementioned necessary adjustments. Directive 2001/65/EC ([2]) amending the abovementioned Directives concerning the valuation rules and in particular fair value is not yet applicable to the financial statements of the ECSC in liquidation. On 17 December 2002 the Commission decided to apply from 2005 onwards the international accounting standards for the public sector.

Where appropriate, the necessary presentational adjustments have been made to the figures for the corresponding items in previous periods so as to ensure comparability.

2. **Conversion of items expressed in foreign currency**

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

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

The value of non-financial assets/liabilities is converted into euro 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 euro 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 euro:

	31 December 2003	31 December 2002	23 July 2002
Danish krone	7,4450	7,4288	7,43310
Pound sterling	0,70480	0,65050	0,63290
Swiss franc	1,5579	1,4524	1,45490
United States dollar	1,2630	1,0487	0,99100

2.2. *At 31 December 2003 the various currencies listed above, together with the euro, made up the balance sheet of the ECSC in liquidation as follows (EUR):*

Currency	Assets	Liabilities
Euro	1 686 623 947	1 646 623 945
Danish krone	810 149	—
Pound sterling	278 672 331	319 531 199
Swiss franc	5	—
United States dollar	90 385 432	90 336 720
Total	**2 056 491 864**	**2 056 491 864**

([1]) OJ L 222, 14.8.1978, and OJ L 372, 31.12.1986.
([2]) OJ L 283, 27.10.2001.

3. **Treasury investment and valuation of bonds and other securities**

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.

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.

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 ([1]). Computer software is written off over a period of four years, as is hardware.

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 2003 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 Union ([2]). 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).

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:

(EUR)

	31 December 2003	31 December 2002
up to three months	41 353 110	6 905 570
Total	**41 353 110**	**6 905 570**

([1]) OJ L 336, 30.12.2000, p. 75.
([2]) Decision 2003/76/EC.

1.2. *Loans*

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

(EUR)

	31 December 2003	31 December 2002
up to three months	534 466	4 000 015
three months to one year	6 374 614	13 553 271
one to five years	24 493 333	27 905 538
over five years	46 477 314	54 575 886
Total	**77 879 727**	**100 034 710**

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:

(EUR)

	31 December 2003	31 December 2002
1. **Loans disbursed from borrowed funds**		
— amounts outstanding	341 346 876	604 761 954
— value adjustments	– 20 710 979	– 24 539 291
Subtotal	**320 635 897**	**580 222 663**
2. **Loans from the special reserve for financing subsidised housing**	11 530 061	15 400 184
Interim total	**332 165 958**	**595 622 847**
3. **Loans disbursed from the former Pension Fund to officials of the European Communities for housing construction**	28 909 384	32 809 702
4. **Other debtors**	243 182	285 651
Grand total	**361 318 524**	**628 718 200**

The breakdown of these loans (net of value adjustments) by time remaining to maturity was as follows:

	31 December 2003	31 December 2002
— Up to three months	1 370 204	1 374 317
— Three months to one year	1 776 869	230 721 357
— One to five years	87 763 012	11 563 579
— Over five years	261 966 852	376 502 885
	352 876 937	620 162 138

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

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:

(EUR)

	31 December 2003	31 December 2002
Gross amount	4 480 633	4 858 425
Value adjustments	– 4 480 633	– 4 858 425
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:

(EUR)

	31 December 2003	31 December 2002
Fines due under the 'quota system'		
— Capital	1 034 270	1 034 270
— Surcharges for late payment	340 962	340 962
Fines due pursuant to Decision 94/215/ECSC ([1])		
— Capital	16 600 000	24 359 000
— Surcharges for late payment	3 842 457	11 615 343
Fines due pursuant to Decision 98/247/ECSC ([2])		
— Capital	8 064 000	8 064 000
— Surcharges for late payment	2 623 285	2 159 605
Total	32 504 974	47 573 180
Value adjustments	– 32 504 974	– 47 573 180
Net amount	—	—

([1]) Seven companies lodged appeals against the judgments of the Court of First Instance. By a judgment dated 2 October 2003, the Court of Justice dismissed the appeals of the two German companies and one Spanish company. The Court annulled in part the judgment passed on one other company and referred the case back to the Court of First Instance.
([2]) Three companies have lodged appeals against the judgment of the Court of First Instance. Pending the decision of the European Court of Justice, a total (without interest) of EUR 8 064 000 remained outstanding at 31 December 2003.

2.4. *Interest subsidies to be recovered*

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

(EUR)

	31 December 2003	31 December 2002
Subsidies to be repaid	2 307 429	2 666 527
Value adjustments	– 1 965 926	– 2 454 855
Net amount	**341 503**	**211 672**

3. **Bonds and other fixed-income securities**

3.1. *Composition*

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

(EUR)

	Net change in value adjustments	31 December 2003	31 December 2002
Issued by public bodies:			
Gross value		927 466 782	1 089 374 949
Value adjustments	– 1 822 923	– 61 225 798	– 63 048 721
Net value		866 240 984	1 026 326 228
Issued by other borrowers:			
Gross value		622 441 469	526 241 560
Value adjustments	1 665 212	– 2 776 246	– 1 111 034
Net value		619 665 223	525 130 526
Total bonds and other fixed-income securities:			
Gross value		1 549 908 251	1 615 616 509
Value adjustments	– 157 711	– 64 002 044	– 64 159 755
Net value		1 485 906 207	1 551 456 754

The net change of EUR – 157 711 in value adjustments between 1 January and 31 December 2003 breaks down as follows:

— exchange difference	4 677 268
— allocation to value adjustments:	821 336
— withdrawal from value adjustments:	3 301 779
	– 157 711

3.2. *Maturities in 2004*

Securities in the portfolio reaching final maturity in the course of 2004 represent the following amounts (EUR):

— Issued by public bodies:	222 348 066
— Issued by other borrowers:	10 945 000
Total	**233 293 066**

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 2003, financial fixed assets totalled EUR 157 541 891 in nominal terms, which was less than the average acquisition price. The value adjustments at 31 December 2003 amounted to EUR 56 032 457 (EUR 60 709 724 at 31 December 2002).

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 counterparty ([1]).

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 3,56 % for the year 2003. This compares with a reference rate for the ECSC in liquidation of 3,1 %.

3.5. *Structure of the portfolio by maturity date and rating* ([2])

(a) ***Time to maturity less than one year***

(EUR million)	Rating	31 December 2003
AAA	110,4	302,5
AA1	20,0	—
AA2	69,4	60,6
AA3	—	33,0
A1	34,5	15,0
15,0	234,3	411,1

(b) ***Time to maturity between one and three years***

Rating	31 December 2003	31 December 2002
AAA	213,8	250,0
AA1	34,2	39,2
AA2	55,7	82,0
AA3	34,8	38,8
A1	20,0	—
A2	—	53,7
Subtotal	358,5	463,7

(c) ***Time to maturity between three and five years***

Rating	31 December 2003	31 December 2002
AAA	170,2	163,3
AA1	58,3	32,9
AA2	60,0	45,1
AA3	18,4	38,4
Subtotal	306,9	279,7

(d) ***Time to maturity between 5 and 7 years***

Rating	31 December 2003	31 December 2002
AAA	204,8	99,0
AA1	0,0	15,5
AA2	53,7	35,1
AA3	10,0	15,1
Subtotal	268,5	164,7

([1]) See paragraph 3 of the Annex to Council Decision 2003/77/EC of 1 February 2003 (OJ L 29, 1.2.2003, p. 26).
([2]) Valued at average acquisition price or market value (EUR million), whichever is lower — except for financial fixed assets (time to maturity more than seven years) totalling EUR 141,5 million.

(e) ***Time to maturity more than seven years***

Rating	31 December 2003	31 December 2002
AAA	317,7	232,3
Sub total	317,7	232,3

(f) ***Total per category***

	31 December 2003	31 December 2002
AAA	1 016,9	1 047,1
AA1	112,5	87,6
AA2	238,8	222,8
AA3	63,2	125,3
A1	54,5	15,0
A2	—	53,7
Total	**1 485,9**	**1 551,5**

4. **Shares and other variable-income securities**

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

(EUR)

	Net change in value adjustments	31 December 2003	31 December 2002
Gross value		40 728 758	40 950 784
Value adjustments	2 797 595	– 24 980 333	– 22 182 738
Net value		15 748 425	18 768 046

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 EUR 2 797 595 in value adjustments between 1 January and 31 December 2003 breaks down as follows:

— Exchange difference	– 144 953
— Allocation to value adjustments	2 942 548
	2 797 595

5. **Intangible fixed assets**

Developments with regard to intangible fixed assets were as follows:

(EUR)

	Balance at 31 December 2002	Value adjustments	Balance at 31 December 2003
Intangible fixed assets	2 850	– 950	1 900

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:

(EUR)

	Balance at 31 December 2002	Value adjustments	Balance at 31 December 2003
Tangible fixed assets	14 094	– 4 698	9 396

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

7. **Other assets**

The other assets break down as follows:

(EUR)

	31 December 2003	31 December 2002
Current account, ECSC operating budget (see Note 11)	128	—
Withholding taxes and VAT to be reclaimed	115 637	117 017
Loans to officials	3 239 963	3 251 715
Miscellaneous	83 051	86 415
Subtotal	**3 438 779**	**3 455 147**
Value adjustments	– 154 848	– 156 227
Total	**3 283 931**	**3 298 920**

8. **Prepayments and accrued income**

The repayments and accrued income break down as follows:

(EUR)

	31 December 2003	31 December 2002
Interest on loans and swaps	24 470 852	38 425 745
Interest on deposits and securities portfolio securities	31 987 046	39 949 750
Miscellaneous	—	5 475
Subtotal	**56 457 898**	**78 380 970**
Cumulative value adjustments	—	– 5 336 277
Total	**56 457 898**	**73 044 693**

The value adjustment of EUR 5 336 277 at 31 December 2002 was calculated with regard to the accrued interest for a defaulting debtor. The claim concerned was relinquished in the course of January 2003.

9. **Amounts owed to credit institutions**

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

(EUR)

	31 December 2003	31 December 2002
With agreed maturity dates or periods of notice:		
— Borrowings		
up to three months	1 124 378	4 622 846
three months to one year	1 098 766	7 753 878
one to five years	6 541 098	8 493 768
over five years	—	270 473
Total	**8 764 242**	**21 140 965**

10. **Debts evidenced by certificates**

This item comprises loan securities issued by the ECSC.

At 31 December 2003, no debt evidenced by a certificate had a remaining time to maturity of less than one year (EUR 228 673 526 at 31 December 2002).

11. **Other liabilities**

The other liabilities break down as follows:

(EUR)

	31 December 2003	31 December 2002
Current account, ECSC operating budget (see Note 7)	—	11 356
Early loan repayment	2 529 713	720 649
Other	633 945	697 540
Total	**3 163 658**	**1 429 545**

12. **Accruals and deferred income**

The accruals and deferred income break down as follows:

(EUR)

	31 December 2003	31 December 2002
Interest on borrowings and credit lines	31 284 706	45 574 490
Commissions on loans	2 386	2 982
Miscellaneous	12 854	5 536
Deferred positive exchange differences	2 967 424	4 183 050
Total	**34 267 370**	**49 766 058**

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 2003, the changes in the item for the ECSC operating budget were as follows:

(EUR)

	Amounts at 31 December 2002	Payments	Cancellations	Amounts at 31 December 2003
Commitments				
Redeployment	121 238 825	35 127 481	10 351 074	75 760 270
Research	158 711 869	56 145 090	3 459 355	99 107 424
Interest subsidies Article 56	16 044 579	197 428	4 640 707	11 206 444
Social measures: coal (Rechar)	46 562 452	6 499 153	3 671 873	36 391 426
Total	**342 557 725**	**97 969 152**	**22 123 009**	**222 465 564**

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 EUR 254 million, the Guarantee Fund stood at EUR 243 million at 31 December 2003.

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 2003 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:

(EUR)

31 December 2002	Withdrawal	31 December 2003
497 000 000	254 000 000	243 000 000

14.2. *Other provisions*

The changes in other provisions were as follows:

(EUR)

	31 December 2002	Change over the period from 1 January to 31 December 2003			31 December 2003
		Allocation	Withdrawal	Balance-sheet movements (utilisation)	
Provision for special costs relating to banking activities (1)	300 000	—	—	—	300 000
Provision for appeals against Decision 94/215/ECSC (2)	53 728 649	199 473	– 42 255 636	– 11 672 486	—
Provision for appeals against Decision 98/247/ECSC (3)	3 712 606	81 784	—	—	3 794 390
Other	—	55 649	—	—	55 649
Total	**57 741 255**	**336 906**	**– 42 255 636**	**– 11 672 486**	**4 150 039**

(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 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 pursuant to Decision 94/215/ECSC of 16 February 1994 to cover the possible reimbursement of the amounts received should the Court of First Instance rule in favour of the companies which have appealed against the judgment of the Court of First Instance of 11 March 1999. The Court of Justice handed down its judgment on 2 October 2003.

(3) 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 First Instance 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:

(EUR)

	31 December 2003	31 December 2002
Commitments, 2003 coal research budget	16 132 752	—
Commitments, 2003 steel research budget	43 676 856	—
Future commitments, coal research budget	187 248	—
Future commitments, steel research budget	3 144	—
Provision for research in 2003	—	60 000 000
Provision for research in 2004	60 000 000	60 000 000
Provision for research in 2005	56 500 000	—
Provision for smoothing	116 500 000	120 000 000
Total	**293 000 000**	**240 000 000**

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 2002 ([1]). 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. This smoothing formula has been applied for the first time to the results for the 2003 financial year and will serve to determine the allocation for research in 2005.

The net surplus on the management of assets in 2003 amounts to EUR 53 million (see Note C.17.2), and the allocation for research in 2004 has been set at EUR 60 million. Applying the smoothing formula, the allocation for research in 2005 will amount to EUR 56 500 000. This amount will be broken down between coal research (27,2 % = EUR 15 368 000) and steel research (72,8 % = EUR 41 132 000) in accordance with Article 4 of the abovementioned Decision.

([1]) Decision 2003/76/EC.

16. **Reserves and surpluses**

(EUR)

	Situation at 31 December 2002 before allocation	Allocation at 23 July 2002 (1)	Allocation at 31 December 2002 (2)	Situation at 31 December 2002 after allocation	Movements at 31 December 2003	Situation at 31 December 2003 before allocation	Allocation at 31 December 2003 (3)	Situation at 31 December 2003 after allocation
Special reserve	103 800 000	—	—	103 800 000	– 15 700 000	88 100 000	—	88 100 000
Former Pension Fund	34 000 000	—	—	34 000 000	– 4 000 000	30 000 000	—	30 000 000
Assets of the Coal and Steel Research Fund	120 200 000	158 300 000	71 370 762	349 870 762	19 700 000	369 570 762	337 878 472	707 449 234
Profit deferred	161 918 722	– 158 300 000	– 3 618 722	—				—
Surplus for the period from 24 July to 31 December 2002	67 752 040	—	– 67 752 040	—				—
Surplus for the period from 1 January to 31 December 2003	—	—	—	—	337 878 472	337 878 472	– 337 878 472	—
Total	**487 670 762**	**—**	**—**	**487 670 762**	**337 878 472**	**825 549 234**	**—**	**825 549 234**

(1) Commission Decision of 7 January 2003 (Written procedure E/2698/2002).
(2) Commission Decision of 30 September 2003 (Written procedure E/1661/2003).
(3) 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 2002, the amount outstanding corresponding to the loans granted was EUR 88,1 million (EUR 103,8 million at 31 December 2002). Consequently, it was possible to release EUR 15,7 million, which was 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 2003, the amount outstanding corresponding to the loans granted was EUR 30 million (EUR 34 million at 31 December 2002). Consequently, it was possible to release EUR 4 million, which was 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.

17. **Analysis of the result for the 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, the funding of coal and steel research and administrative costs.

(EUR)

	1 January to 31 December 2003	24 July to 31 December 2002
Winding up financial operations (see Note 17.1)	338 114 826	42 051 133
Net investment income (see Note 17.2)	53 043 920	27 156 523
Funding of coal and steel research (Note 17.3)	– 53 000 000	—
Administrative overheads (see Note 17.4)	– 280 274	– 1 455 616
Total	**337 878 472**	**67 752 040**

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

(EUR)

Result	1 January to 31 December 2003	24 July to 31 December 2002
(a) Lending/borrowing activities		
Net interest	6 970 990	3 627 099
Miscellaneous charges/income	– 41 633	– 66 523
Net change in value adjustments	2 102 720	– 2 355 829
Withdrawal from Guarantee Fund	254 000 000	32 000 000
Subtotal	263 032 077	33 204 747
(b) Winding up commitments under operating budget (cancellations)	22 123 009	11 269 047
(c) Winding-up — other activities		
Levy, fines, interest subsidies	55 457 334	437 104
Research	594 431	119 190
Other	99 431	– 764 061
Subtotal	56 151 196	– 207 767
(d) Exchange-rate differences and changes in market value		
Exchange-rate differences	4 276 296	246 938
Securities market	– 7 462 105	1 962 307
Other	– 5 647	5 649
Subtotal	– 3 191 456	2 214 894
Total	**338 114 826**	**42 051 133**

17.2. *Net investment income*

(EUR)

	1 January to 31 December 2003	24 July to 31 December 2002
Income		
Interest on nostro account	78 571	65 573
Interest on deposit account	1 010 128	581 393
Interest on securities portfolio (excluding dedicated portfolio)	53 491 215	24 857 191
Profit on sales of portfolio	4 118 985	2 604 116
Total income	**58 698 899**	**28 108 273**
Charges		
Debit interest on nostro account	242	2 903
Losses on sales of portfolio	5 450 344	862 608
Bank and portfolio transaction charges	204 393	86 239
Total charges	**5 654 979**	**951 750**
Difference = net income	**53 043 920**	**27 156 523**
Rounded to nearest million	53 000 000	27 000 000
From 2003 onwards, net income is made available to the general budget of the European Union for financing research projects (see Notes A and C.15)		

17.3. *Application of Decision 2003/76/EC*

(EUR)

	Income	Charges
Allocation for 2005		56 500 000
Provision for smoothing	3 500 000	
Total	**3 500 000**	**56 500 000**
Net		**53 000 000**

Pursuant to Article 4 of Decision 2003/76/EC, the net income from investment of EUR 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 2003, on the basis of these calculations, EUR 3 500 000 needed to be withdrawn from the provision for smoothing in order to raise the allocation for research in 2005 to EUR 56 500 000.

17.4. *Administrative overheads*

Pursuant to Decision 2002/234/ECSC (Annex 1, point 6) of the Representatives of the Governments of the Members States meeting within the Council (see Note A), the administrative expenditure of the ECSC in liquidation is to be met by the Commission from a lump-sum payment of EUR 3,3 million per year pro rata temporis transferred to the general budget of the European Union during the period of the Commission's mandate (see Note A).

The lump-sum payment for the period from 1 January to 31 January 2003 amounts pro rata temporis to EUR 280 274 (EUR 1 455 616 for the period from 24 July to 31 December 2002). With the entry into force of the Treaty of Nice on 1 February 2003, all the ECSC's assets were transferred to the European Community, and the obligation to pay a lump sum to the budget of the European Union lapsed on that date.

18. **Interest and similar charges**

(EUR)

	1 January to 31 December 2003	24 July to 31 December 2002	1 January to 23 July 2002
Interest on loans and swaps	57 938 644	32 983 575	52 182 248
Bank interest	242	2 903	30 200
Issuing costs and redemption premiums	—	—	868 747
Total	**57 938 886**	**32 986 478**	**53 081 195**

19. **Other operating charges**

(EUR)

	1 January to 31 December 2003	24 July to 31 December 2002	1 January to 23 July 2002
Borrowing costs	11 523	27 904	78 123
SWIFT/Reuters charges	8 153	76 766	132 483
Loss on loans and advances	3 435 455	82 870	441 587
Other	15 049	884	63 715
Total	**3 470 180**	**188 424**	**715 908**

The loss on loans and advances is offset by a withdrawal from the corresponding value adjustment.

20. **Interest received and other income**

(EUR)

	1 January to 31 December 2003	24 July to 31 December 2002	1 January to 23 July 2002
Interest on loans and swaps	51 752 113	30 364 393	50 010 165
Payment and redemption premiums	517	—	867 660
Bank interest	1 088 700	646 966	2 796 887
Interest on bonds and other fixed-income securities	66 350 532	31 103 471	37 750 603
Total	**119 191 862**	**62 114 830**	**91 425 315**

21. **Withdrawal of value adjustments for loans and advances**

(EUR)

	1 January to 31 December 2003	24 July to 31 December 2002	1 January to 23 July 2002
Loans	2 102 720	1 690 839	21 545 422
Levies	377 792	117 449	466 131
Fines	15 531 886	—	—
Interest rate rebates	488 929	98 774	—
Research (ECSC operating budget)	225 887	—	—
Total	**18 727 214**	**1 907 062**	**22 011 553**

22. **Withdrawal from other provisions for liabilities and charges**

(EUR)

	1 January to 31 December 2003	24 July to 31 December 2002	1 January to 23 July 2002
Withdrawal from provision for interest-rate risk	—	—	51 371 610
Provision for appeals against Decision 94/215/ECSC (see Note C.14.2)	42 255 636	—	—
Total	**42 255 636**	**—**	**51 371 610**

23. **Other operating/liquidation income**

(EUR)

	1 January to 31 December 2003	24 July to 31 December 2002	1 January to 23 July 2002
Other operating/liquidation income			
Other income from lending and treasury activities	68	41 961	7 678 149
Lapsed coupons and bonds	14 520	38 442	1 404
Income from fines	962 362	656 956	—
Income from levies, subsidies, research and redeployment	492 143	656 091	—
Cancellation of legal commitments ECSC operating budget	22 123 009	11 269 048	—
Miscellaneous	84 911	186	343 332
Subtotal I	**23 677 013**	**12 662 684**	**8 022 885**
Income relating to the ECSC operating budget (before 24 July 2002)			
Fines			4 600 000
Cancellation of legal commitments			15 421 811
Repayment of subsidies			370 492
Other matters			272 872
Subtotal II	**—**	**—**	**20 665 175**
Total	**23 677 013**	**12 662 684**	**28 688 060**

Until 23 July 2002 the income from fines, subsidies, the cancellation of legal commitments in the ECSC operating budgets, etc., was booked in the 'Income relating to the ECSC operating budget' account.

Following the expiry of the ECSC Treaty and the end of ECSC operating budgets, this income is booked under 'Other operating/liquidation income'.

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, 12,0770 %	26 March 2008
GBP 60 million, 11,875 %	GBP 60 million, Libor three months -31 b.p.	13 March 2009

Interest-rate and currency swaps

Commitments received	Commitments entered into	Maturity
GBP 60 million, Libor three months - 31 b.p.	EUR 88 095 042 million, Libor three months -31 b.p.	13 March 2009

24.1. *Commitments received*

(EUR)

	31 December 2003	31 December 2002
Commitments arising from swaps		
— Notional capital commitments relating to interest-rate swaps	164 307 097	187 592 896
— Capital commitments relating to interest-rate and currency swaps	85 130 533	92 236 741
Total	**249 437 630**	**279 829 637**

24.2. *Commitments entered into*

(EUR)

	31 December 2003	31 December 2002
(a) Commitments arising from swaps		
— Notional capital commitments relating to interest-rate swaps	164 307 097	187 592 896
— Capital commitments relating to interest-rate and currency swaps	88 085 042	88 085 042
(b) Loans granted to Community officials but not yet disbursed	176 992	649 324
(c) Administrative overheads [1]	—	280 274
Total	**252 569 131**	**276 607 536**

[1] Pursuant to Decision 2002/234/ECSC (Annex 1, point 6) of the Representatives of the Governments of the Members States meeting within the Council (see Note A), the administrative expenditure of the ECSC in liquidation is to be met by the Commission from a lump-sum payment of EUR 3,3 million per year pro rata temporis transferred to the general budget of the European Union during the period of the Commission's mandate (see Note A).
The amount corresponding to administrative overheads for the period from 1 January 2003 to 31 January 2003, i.e. EUR 280 274, is entered as a commitment entered into.
With the entry into force of the Treaty of Nice on 1 February 2003, all the ECSC's assets have been transferred to the European Community, and the obligation to pay a lump sum to the budget of the European Union lapses.

25. **Financial situation for the period ending 31 December 2003**

(EUR million)

	Period from 1 January to 31 December 2003	Period from 24 July to 31 December 2002	Period from 1 January to 23 July 2002
Origin of funds			
Balance of profit-and-loss account	337,9	67,8	158,7
Items not involving movements of funds			
— Amortisation of issuing costs and redemption premiums	—	—	0,9
— Value adjustments in respect of financial assets (withdrawals)	2,6	2,0	13,0
— Value adjustments in respect of loans and advances, net	– 9,1	– 24,6	– 62,3
— Decrease in 'ECSC operating budget'	– 120,1	– 58,4	– 172,2
— Increase (decrease) in 'Budget for financing coal and steel research'	53,0	—	—
— Increase (decrease) in accruals and deferred payments	– 15,5	27,2	– 59,3
— Increase (decrease) in accruals and deferred income and issuing costs/redemption premiums	21,9	– 23,7	42,7
— Increase (decrease) in other liabilities	1,7	– 35,2	32,1
— Increase in other assets	—	2,5	47,8
— Allocation to (withdrawal from) the provisions for liabilities and charges	– 53,6	0,7	– 51,3
— Allocation to (withdrawal from) the provision for major exposures	—	—	– 6,0
— Exchange-rate adjustments in respect of borrowings and loans	– 13,6	– 3,2	2,4
— Allocation to (withdrawal from) the Guarantee Fund/Special Reserve	– 254,0	– 32,0	– 51,0
Total funds	**– 48,8**	**– 76,9**	**– 104,5**
Other resources			
— Loan repayments	266,2	86,6	619,4
— Decreases in bank balances and securities portfolio	23,9	6,6	149,7
Total resources	**241,3**	**16,3**	**664,6**
Use of funds			
— Loan disbursements/increase in loans and advances	0,3	1,2	0,7
— Redemption of borrowings	241,0	15,1	663,9
Total uses	**241,3**	**16,3**	**664,6**