REPORT FROM THE COMMISSION

FINANCIAL REPORT
E C S C in liquidation
at 31 December 2005

Contents

ECSC 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 2005, 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
Lásló 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 2005, 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.

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 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, as defined by Council Decision 2003/76/EC of 1 February 2003.

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 OJ L29, 05.02.2003, 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 31.12.2004 to 31.12.2005, the debt of the ECSC in liquidation changed as follows (nominal amounts) :

(EUR million)

Currency	Number of borrowings at 31 December 2004	Debt outstanding at 31 December 2004	Reimbursements from1 January to 31 December 2005	Exchange rate adjustments	Debt outstanding at 31 December 2005	Number of borrowings at 31 December 2005
EUR	11	52.3	2.2	-	50.1	9
GBP	6	297.1	-	8.6	305.7	6
USD	1	73.4	-	11.3	84.7	1
TOTAL	**18**	**422.8**	**2.2**	**19.9**	**440.5**	**16**

The amortisation of the borrowings outstanding at 31 December 2005 breaks down as follows :

(EUR million)

	EUR	GBP	USD	TOTAL
2006	2.1	-	-	**2.1**
2007	2.0	-	-	**2.0**
2008	0.3	-	84.7	**85.0**
2009	-	87.6	-	**87.6**
2010	-	-	-	**-**
2011	-	-	-	**-**
2012	45.7	-	-	**45.7**
2013	-	-	-	**-**
2014	-	-	-	**-**
2015	-	-	-	**-**
2016	-	-	-	**-**
2017	-	98.1	-	**98.1**
2018	-	-	-	**-**
2019	-	120.0	-	**120.0**
Total	**50.1**	**305.7**	**84.7**	**440.5**

The main characteristics of the borrowings outstanding are as follows (nominal amounts) :

Year of issue	Contractual Interest (%) per year	Term (years)	Initial amount	Amount outstanding at 31 December 2005	
				in borrowing currency	equivalent in EUR
	Contracts redenominated in EUR				
1992	2.68188	15	11 900 000 DEM		1 124 842
1992	1.625	15	9 000 000 000 ITL		929 622
1992	1.783	20	300 000 000 FRF		45 734 705
1992	2.17075	15	11 000 000 DEM		1 216 875
1992	8.34	15	2 300 000 DEM		235 194
1993	7.08	15	1 750 000 DEM		268 428
1993	6.39	15	1 355 000 DEM		207 840
1993	6.64	15	1 185 000 DEM		181 764
1993	6.75	15	1 000 000 DEM		153 388
			Currency total		**50 052 658**
	Contracts in GBP				
1990	11.875	19	60 000 000 GBP	60 000 000	87 552 897
1992	9.875	25	50 000 000 GBP	17 220 000	25 127 681
1992	9.875	25	30 000 000 GBP	30 000 000	43 776 448
1993	9.875	24	20 000 000 GBP	20 000 000	29 184 299
1994	6.875	25	50 000 000 GBP	35 261 000	51 453 378
1994	8.9375	25	47 000 000 GBP	47 000 000	68 583 102
			Currency total	**209 481 000**	**305 677 805**
	Contracts in USD				
1993	6.375	15	100 000 000 USD	100 000 000	84 767 314
			Currency total	**100 000 000**	**84 767 314**

Grand total in EUR **440 497 777**
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NB : Payments of capital and interest in respect of borrowings in GBP totalling GBP 102 481 000 are secured by loans from the European Investment Bank with the same interest rate and maturity date.

Management of loans from the ECSC in liquidation

Over the period ending 31 December 2005, the changes in **loans from borrowed funds** (under Articles 54 and 56 ECSC) were as follows (nominal amounts) :

(EUR million)

Member State	**Number of loans**	**Amount outstanding at 31 December 2004**	**Amortisation from 1 January to 31 December 2005**	**Exchange rate adjustment**	**Amount outstanding at 31 December 2005**	**Number of loans**
Greece	1	73.42	-	11.35	84.77	1
France	2	133.82	-	-	133.82	2
Italy	17	5.87	2.01	-	3.86	12
United Kingdom	1	66.66	-	1.92	68.58	1
Total EC	**21**	**279.77**	**2.01**	**13.27**	**291.03**	**16**

Over the period ending 31 December 2005, the changes in **loans from own funds** (under Article 54.2 ECSC) were as follows (nominal amounts) :

(EUR million)

Member State	Number of loans	Amount outstanding at 31 December 2004	Amortisation from 1 January to 31 December 2005	Exchange rate adjustment	Amount outstanding at 31 December 2005	Number of loans
Belgium	20	3.95	0.49	-	3.46	20
Denmark	1	0.01	-	-	0.01	1
Germany	37	35.50	3.75	-	31.75	36
Greece	9	0.39	0.04	-	0.35	9
Spain	21	8.26	0.80	-	7.46	21
France	30	7.65	1.34	-	6.31	22
Ireland	9	0.25	0.03	-	0.22	9
Italy	21	5.07	0.63	-	4.44	21
Luxembourg	6	0.75	0.09	-	0.66	6
Netherlands	7	0.72	0.17	-	0.55	7
Austria	2	3.57	0.18	-	3.39	2
Portugal	6	0.52	0.06	-	0.46	6
Finland	2	0.69	0.04	-	0.65	2
United Kingdom	22	5.12	1.15	0.15	4.12	21
Total EC	**193**	**72.45**	**8.77**	**0.15**	**63.83**	**183**

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

Levies

Total claims at 31 December 2004 amounted to EUR 4 363 151. These were covered in their entirety by value adjustments. Over the period ending on 31 December 2005, payments were received totalling EUR 2 133 and claims totalling EUR 467 163 were written off. An amount of EUR 1 642 was booked as income. Total claims at 31 December 2005 thus amounted to EUR 3 895 497, covered in their entirety by value adjustments.

Interest subsidies

Total claims at 31 December 2004 amounted to EUR 1 521 344, covered in their entirety by value adjustments. During the period ending on 31 December 2005, the ECSC in liquidation received payments of EUR 9 461 and waived or cancelled claims amounting to EUR 721 265. Total claims at 31 December 2005 thus amounted to EUR 790 618, covered in their entirety by value adjustments.

Fines

Total claims at 31 December 2004 amounted to EUR 23 558 896, covered entirely by value adjustments. By a judgement dated 14 July 2005, the European Court of Justice dismissed the appeals of three companies. Over the period ending on 31 December 2005, payments were received totalling EUR 13 113 224, a claim was reduced for EUR 2 227 and a claim of EUR 60 547 was written off. Interests for 2005 were claimed for EUR 278 843.

Total claims at 31 December 2005 thus amounted to EUR 10 661 741, covered in their entirety by value adjustments. Details are described in the notes to the Financial Statements (Note E.2.).

Outstanding commitments under ECSC operating budgets

During the year ended on 31 December 2005, payments were made totalling EUR 31.4 million and cancellations totalled EUR 20.5 million. The changes in commitments under the ECSC operating budgets from 1 January to 31 December 2005 are set out in the notes to the Financial Statements (Note E.10.)

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 N° 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 2005 were as follows (EUR million) :

	31 December 2005	**31 December 2004**
Total cash holdings[2]	1 600	1 529
Commitments, operating budget	57	109
Debt provisions, research financing[3]	248	296
Guarantee Reserve (2005)/Guarantee fund (2004)	207	209
Reserve to cover loans on own funds (former "ECSC special reserve")	64	72
Reserve to cover loans to officials (former "pension fund")	20	24
Free reserves (after allocation of result)	966	802

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 3.261 % for the year 2005, compared with a reference rate for the ECSC in liquidation of 3.156 % (see note to the financial statements E.4).

2 Without interest accruals. Portfolio valued 2004 at lower of cost or market, 2005 at fair value.
3 Smoothing provision (2004), smoothing reserve (2005) included.

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[4]. The revenue for 2005 will be used for research in 2007.

Calculation of the allocation for research in 2007 : (in EUR thousand)

Financing provisions for 2006	54 750
Net revenue in 2005 (rounded)	53 000
Difference	1 750

Allocation :

Net revenue in 2005	53 000
Half of the difference	875
Available for research in 2007	53 875

Financing :

Net revenue in 2005	53 000
Use of smoothing reserve	875
	53 875

[4] 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 fourth report on the ECSC in liquidation, covering the year ending on 31 December 2005.

The ECSC's financial statements for the year ending 31 December 2005 were submitted to the Commission for approval under written procedure No E/2085/2006 of 26^{th} October 2006 and are shown in this financial report in the form approved by the Commission.

Independent auditor's report

Balance sheet at 31 December 2005
(amounts in EUR) - before allocation of surplus

	Note	31 December 2005	31 December 2004 (restated)
Assets			
Cash and deposits with credit institutions	B.3.4., E.1.	42 212 315	39 949 997
Loans and advances to credit institutions	B.3.1., E.2.	242 858 277	244 188 939
Loans and advances to customers	B.3.1., E.2.	329 256 846	333 690 299
Derivative financial instruments	B.3.2., E.3.	27 509 180	30 917 567
Available-for-sale securities	B.3.3., C.4. E.4.	1 410 559 474	1 410 204 203
Intangible assets	B.3.6., E.5.	-	950
Tangible assets	B.3.6., E.6.	-	4 698
New Member States' contribution	E.7.	158 827 865	155 743 558
Other assets	E.8.	3 216 326	1 752 409
Total assets		**2 214 440 283**	**2 216 452 620**
Liabilities			
Borrowings from credit institutions	B.3.5., E.9.	4 358 359	6 603 763
Debts evidenced by certificate	B.3.5., E. 9.	463 244 092	442 222 350
Derivative financial instruments	B.3.2., E.3.	14 497 707	19 204 009
Other liabilities	B.5.1., E.10.	250 970 514	290 880 716
Total liabilities		**733 070 672**	**758 910 838**
Equity			
Retained earnings	E.11.	30 737 875	431 457 155
Reserves	E.12.	1 450 631 736	1 026 084 627
Total equity		**1 481 369 611**	**1 457 541 782**
Total equity and liabilities		**2 214 440 283**	**2 216 452 620**

The notes on pages 20-65 are an integral part of these financial statements.

Income statement for the year ended 31 December 2005

(amounts in EUR)

	Note	31 December 2005	
Income			
Interest and similar income :			
From bank accounts and loans		55 781 208	
From fixed income debt securities and other interest		47 879 727	
Total	B.4.1., F.2.		103 660 935
Fees and commissions income		260 071	
Profit on sale of securities	F.3.	3 890 336	
Other financial income	F.4.	9 792 500	
Total			13 942 907
Other operating income	F.5.		23 313 664
Total income			**140 917 506**
Charges			
Interest and similar charges	B.4.1., F.6.	51 336 251	
Fees and commissions charges	F.7.	218 601	
Financial operations :			
Loss on sales of securities	F.8.	1 042 584	
Net loss on foreign exchange	B.2	923 145	
Other financial charges	F.9.	3 645 455	
Total			5 611 184
Depreciation	E.5.,E.6.	5 648	
Provision for Research financing	F.1.	53 000 000	
Other operating charges	B.5.1., F.10.	7 947	
Total			53 013 595
Total charges			**110 179 631**
Net profit for the year	F.1.		**30 737 875**

The notes on pages 20-65 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2005

(amounts in '000 EUR)

	Assets of the Coal and Steel Research Fund B.5.2.	Member States' Contribution not yet called E.7.	Special Reserves	General Reserves	Fair value Reserve	Retained earnings	Total
Previously reported balance at 31 December 2004 (*)	729 049	169 930	96 500	-	-	72 954	1 068 433
Change in accounting policies (**)	-	-	-	-	30 605	358 504	389 109
Opening balance as at 1 January 2005	**729 049**	**169 930**	**96 500**	**-**	**30 605**	**431 458**	**1 457 542**
Allocation of retained earnings	103 542	-	213 166	114 750	-	(431 458)	-
Net change in available-for-sale portfolio	-	-	-	-	(6 035)	-	(6 035)
Cancellation of special reserve for fines	3 870	-	(3 870)	-	-	-	-
Call for Member States' Contribution	25 489	(25 489)	-	-	-	-	-
Transfer of reserves on 31 December 2005	73 375	-	(14 500)	(59 750)	-	-	(875)
Net profit 2005	-	-	-	-	-	30 738	30 738
At 31 December 2005	**935 325**	**144 441**	**291 296**	**55 000**	**24 570**	**30 738**	**1 481 370**

***** The income statement for 2004, the reserves and retained earnings were based on the accounting rules in place then. Adjustments made to establish the opening balance sheet at 1 January 2005 under the new accounting rules have been included in the fair value and reserves and/or the retained earnings figure. For more details please see Notes D, E.11 & E.12..

** Please see "Note D - Impact of the transition to the new accounting rules" and Note B.1. for more details on these changes.

The notes on pages 20-65 are an integral part of these financial statements.

Cash Flow Statement for the year ended 31 December 2005

(amounts in '000 EUR)

	2005
Operating activities (E.2.)	
New Member States' contribution	1 489
Repayment of loans	10 627
Interest received - loans	50 782
Repayment of borrowings	(2 223)
Interest expenses - borrowings	(45 689)
Proceeds from other assets	15 043
Net advance to the General Budget of the EU	(69 716)
Operating cost	(496)
Net cash flow from operating activities	**(40 183)**

Investing activities (G.3.)	
Interest received - cash and cash equivalents	1 149
Purchase of investments available-for-sale portfolio	(340 778)
Proceeds of investments available-for-sale portfolio	331 848
Interest received - available-for-sale portfolio	50 230
Investing cost and other	(4)
Net cash flow from investing activities	**42 445**

Net increase in cash and cash equivalents	2 262

Cash and cash equivalents at 01.01.2005	**39 950**
Cash and cash equivalents at 31.12.2005	**42 212**

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2005

NOTE A - GENERAL INFORMATION

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[5] 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 Steel[6].

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[5] OJ C80, 10.03.2001.
[6] OJ L 29, 5.2.2003, p.22.

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 reserve for contingencies has been created. The algorithms for smoothing 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 % and 72.8 % respectively.

The ECSC in liquidation is considered as a controlled entity by the European Communities and consequently, forms part of their consolidation scope.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B.1. Basis of presentation

The financial statements are drawn up in accordance with the Council Decisions of 1 February 2003 n° 2003/76/EC and 2003/77/CE and the Commission Decision of 9 August 2005 (C/2005/2992). The valuation and accounting rules applied, approved by the Accounting Officer of the Commission, are in line with the principles described in Part One Title VII of the Council Regulation n° 1605/2002 of 25 June 2002 on the Financial Regulations applicable to the general budget of the European Communities. Article 133 of the Financial Regulations provides that the accounting rules shall be guided by the internationally accepted accounting standards for the public sector but may depart from them where justified by the specific nature of the Communities' activities. The new accrual-based accounting policy is inspired by International Public Sector Standards (IPSAS) or by default, International Financial Reporting Standards (IFRS) as respectively issued by the International Public Sector Accounting Standard Board and the International Accounting Standard Board (IASB).

The accounting principles and evaluation methods used for the items in the financial statements take into account the constraints and resolutions applicable to the ECSC in liquidation under the Treaties and other decisions adopted by the institutions of the European Communities as well as the fact that, except for the asset management and the financial investments, ECSC in liquidation does no longer represent a going concern after 23 July 2002, when the ECSC Treaty expired.

B.2. Currency and basis for conversion

B.2.1. Functional and reporting currency

The financial statements are presented in EUR, which is the ECSC in liquidation's functional and reporting currency.

B.2.2. Transactions and balances

Foreign currency transactions are translated into euros using the exchange rates prevailing at the dates of the transactions.

Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the exchange rates (reference rates communicated by the European Central Bank) applying on 31 December.

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

	31 December 2005	31 December 2004
Danish crone	7.4605	7.4388
Pound sterling	0.6853	0.70505
Swiss franc	1.5551	1.5429
United States dollar	1.1797	1.3621

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items classified as available-for-sale financial assets are included in the fair value reserve in equity.

B.3. Balance Sheet

B.3.1. Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the ECSC in liquidation provides money to a debtor with no intention of trading the receivable. Loans with financial maturities less than 12 months after the balance sheet date are considered as short-term loans.

Loans are recognised when cash is advanced to the borrowers. They are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest rate method.

The fair value of a financial asset on initial recognition is normally the transaction price (i.e. the fair value of the consideration received). However, when a long-term loan that carries no interest or an interest below market conditions is granted, its fair value can be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating.

If there is objective evidence that an impairment loss on loans carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

B.3.2. Derivative financial instruments

Derivatives are classified as held-for-trading financial assets (or liabilities) unless they are designated as hedges.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

Fair values are obtained from quoted market prices in active markets and/or valuation techniques, including discounting cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The ECSC i.l. does not use hedge accounting.

B.3.3. Available-for-sale securities

Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not classified in the following other categories : financial assets through profit or loss, loans and receivables and held-to-maturity investments.

Purchases and sales of available-for-sale financial assets are recognised on trade-date – the date on which the ECSC in liquidation commits to purchase or sell the asset. Available-for-sale financial assets are initially recognised at fair value, which is normally the transaction price (i.e. the fair value of the consideration received) plus transaction costs and are subsequently re-measured at their fair value.

Changes in the fair value of monetary financial assets denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the asset and other changes in the carrying amount of the asset. The translation differences are recognised in the income statement and other changes in carrying amount are recognised in equity. Changes in the fair value of non-monetary financial assets classified as available-for-sale are recognised in equity.

When financial assets classified as available-for-sale are sold or impaired, the cumulative fair value adjustments previously recognised in equity are recognised in the income statement.

Interests on available-for-sale financial assets calculated using the effective interest rate method are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised when the ECSC in liquidation's right to receive payment is established.

Fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the ECSC in liquidation establishes a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

In cases where the fair value of investments in equity instruments that do not have quoted market price in an active market is not reliably measurable, these investments are valued at cost less impairment.

The ECSC in liquidation assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement– is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

B.3.4. Cash and cash equivalents

Cash and cash equivalents are defined as short term. They include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within financial liabilities under current liabilities on the balance sheet.

B.3.5. Borrowings and debts evidenced by certificates

Borrowings and debts evidenced by certificates are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings and debts evidenced by certificates are subsequently stated at amortised cost using the effective yield method ; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings and debts evidenced by certificates using the effective interest rate method. They are considered as long-term liabilities, except for maturities less than 12 months after the balance sheet date.

B.3.6. Intangible and tangible fixed assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (4 years) as provided by the annex to Commission Regulation (EC) N° 2909/2000 of 29 December 2000 on the accounting management of the European Communities' non-financial fixed assets[7].

Computer hardware is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using a straight-line depreciation rate of 25 % in accordance with Regulation N° 2909/2000.

B.4. Income statement

B.4.1. Interest income and expenses

Interest income and expenses are recognised in the income statement using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the ECSC in liquidation estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and margins paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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7 OJ L 336, 30.12.2000, p.75.

B.5. Special features of the ECSC financial statements

B.5.1. 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 operating income/charges".

The changes between 1 January and 31 December 2005 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 E.10.).

B.5.2. Budget for financing coal and steel research

Under Council Decision 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 (2003/76/EC) the income from managing the assets of the ECSC in liquidation should be allocated to the general budget of the European Union[8]. This income is earmarked for a research programme relating to the coal and steel industries, as stated in Note A to this report.

In order to reduce fluctuations in research funding resulting from movements on the financial markets, a smoothing formula is applied. The ECSC in liquidation has constituted reserves in order to provide this mechanism.

NOTE C - FINANCIAL RISK MANAGEMENT

C.1. Risk management policies and hedging activities

Following the expiry of the ECSC Treaty on 23 July 2002, in accordance with Decision 2003/76/EC the assets and liabilities of the ECSC be passed to the European Community, and that the liquidation of the liabilities of the ECSC be managed by the Commission. Thus, no new loans and no corresponding funding are foreseen for the ECSC in liquidation. New ECSC borrowings are restricted to refinancing with the aim to reduce the cost of funds.

The asset and liability management is carried out by the Commission in accordance with internal guidelines. Written procedures manuals covering specific areas such as borrowings, loans and treasury management have been developed and are used by the relevant operating units. Financial and operational risks are identified and evaluated and compliance with internal guidelines and procedures is checked regularly.

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[8] OJ L 29, 1.2.2003, p.22.

As far as treasury operations are concerned, the principles of prudent management with a view to limit operational risk, counterparty risk and market risk are to be applied.

Investments are restricted basically to the following categories **:** term deposits with banks, money market instruments, fixed and floating rate bonds.

The main investment limits per category are as follows **:**

- For term deposits, the lower of either EUR 100 million per bank or 5 % of the bank's own funds provided that the respective short-term rating is at least A-1 (S&P) or equivalent ;
- For bonds issued or guaranteed by Member States or institutions of the European Union, up to EUR 250 million per Member State or institution depending on its rating ;
- For bonds of other sovereign or supranational issuers with a long-term credit rating of not less than AA (S&P) or equivalent up to EUR 100 million per issuer or guarantor ;
- For bonds of other issuers having a minimum rating of AA or AAA (S&P) or equivalent, up to EUR 25 or 50 million respectively, depending on the rating and issuer status.

The ECSC in liquidation uses derivative financial instruments to hedge certain risk exposures. A detailed description of such financial instruments can be found under point E.3..

C.2. Market risk

C.2.1. Foreign exchange risk

The ECSC in liquidation is exposed to foreign exchange risk arising from currency exposures with respect to the US dollar (USD) and the UK pound (GBP).

The table below summarises the ECSC in liquidation's exposure to foreign currency exchange rate risk at 31 December 2005. The ECSC in liquidation's assets and liabilities at their EUR equivalent nominal values, categorised by currency are disclosed in the table.

(EUR million)

	GBP	**USD**
Assets	223.01	84.99
Liabilities	305.68	84.77
Net balance sheet position	**(82.67)**	**0.22**
Effect of cross currency interest rate swaps	*87.56*	-
Net exposure	***4.89***	***0.22***

The GBP assets and liabilities position is mainly composed of EUR equivalent 149.5 million unquoted debt securities issued by the European Investment Bank as substitute of a defaulted debtor (see point E.2.). The effect of cross currency interest rate swap corresponds to the EUR equivalent notional amount of the swap, which is used to reduce the ECSC in liquidation's exposure to currency movements (see point E.3.). Remaining net exposure concerns EUR equivalent 4.12 million housing loans and EUR equivalent 0.77 million current account balances.

The USD position principally consists of EUR equivalent 84.8 million loans granted from borrowed funds. Net exposure results of EUR equivalent 0.22 million current account balances.

According to the written procedures manual, buying EUR is the only foreign exchange operation authorised. All exceptions to this rule must be duly justified.

C.2.2. Price risk

The ECSC in liquidation is exposed to price risk due to investments in debt securities classified on the balance sheet as available for sale.

C.3. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Due to the nature of its activities, the ECSC in liquidation is exposed to the effect of fluctuations in the prevailing levels of market interest rate on both its fair value and cash flow risks.

(a) Loans granted from borrowed funds

The interest rate risks that arise from borrowings are generally offset by equivalent loans in terms and conditions (back-to-back operations). If no perfect matching can be reached, derivative financial instruments are used to reduce the exposure to interest rate movements (see point E.3.).

(b) Debt securities

Debt securities issued at variable rates expose the ECSC in liquidation to cash flow interest rate risk whereas debt securities at fixed rates expose the ECSC in liquidation to fair value interest rate risk. Fixed rate bonds represent approximately 85 % of the investment portfolio at the balance sheet date.

(c) Interest rate sensitivity analysis

The market price of a debt security depends on the time to maturity, its coupon and the actual yield to maturity. For the shock analysis, all debt securities of the portfolio (incl. Floating Rate Notes) are once priced at actual yields, then re-priced at yields shifted upwards by 100 bps. The change in market price is the reported hypothetical loss for the shock analysis. The 100 bps parallel shift is assumed to happen instantaneously, no time horizon is considered.

At 31 December 2005, this hypothetical loss was about EUR 43.9 million.

C.4. Credit risk

The ECSC in liquidation takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

Guidelines on the choice of counterparties must be applied. Accordingly, the operating unit will be able to place deposits only with eligible banks being part of a "trading list of authorized banks" and having sufficient counterparty limits.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations.

Exposure to credit risk is also managed by obtaining collateral as well as country and corporate guarantees.

At 31 December 2005, the total outstanding nominal amount of loans granted by the ECSC in liquidation was EUR 374.96 million, broken down as follows (in million EUR) **:**

	Nominal Amount
Loans granted to credit institutions	55.89
Loans granted to customers	319.07
Total	**374.96**

59.41 % of the total amount outstanding loans covered by guarantees from a Member State or equivalent bodies (public institutions or public-sector industrial groupings in the Member States). 16.80 % of loans outstanding were granted to banks of zone A or have been guaranteed by banks of zone A.

5.35 % of the outstanding loans (EUR 20.1 million) is made up of loans granted to European institutions' officials from the former ECSC in liquidation pension fund (in the summary table above, loans to officials are included in loans to customers), which are covered by life and disability insurance and the respective salaries.

The outstanding loans balance, i.e. 18.44 %, should be considered as presenting a higher degree of risk. It means that the guarantees received (guarantee bonds put up by private industrial group and other special guarantees) do not generally provide the same level of security.

From a liquidity perspective, loans granted on borrowed funds were fully covered by a specific provision for risks and charges called “Guarantee Fund”. By applying the new accounting rules, this provision has been replaced as of 1 January 2005 by a dedicated reserve. This reserve amounts to EUR 207 million at 31 December 2005.

The loans granted on own funds were covered by another reserve, formerly called “ECSC Special Reserve”. This special reserve amounts to EUR 64 million at 31 December 2005.

(a) Cash and deposits with credit institutions – profile of counterparties

At the balance sheet date, 15 % and 85 % of deposits and current account balances are placed with banks rated (Fitch) F1+ (or equivalent) and F1 (or equivalent), respectively.

All deposits and current account balances are held with banks within the OECD.

(b) Loans and advances – profile of borrowers

Geographical concentrations of the **loans granted from borrowed funds** (expressed at their outstanding nominal amount) at the balance sheet date (31 December 2005) are as follows **:**

	EUR million	**Number of loans**
Greece	84.77	1
France	133.82	2
Italy	3.86	12
United Kingdom	68.58	1
Total	**291.03**	**16**

These loans were secured by guarantees as follows **:**

(EUR million)

Member States	**Guarantee from public body**	**Bank guarantee**	**Industrial group (public company**	**No guarantee**	**Total**
Greece	84.77	-	-	-	**84.77**
France	-	-	133.82	-	**133.82**
Italy	-	3.86	-	-	**3.86**
United Kingdom	-	-	-	68.58	**68.58**
Total EC	**84.77**	**3.86**	**133.82**	**68.58**	**291.03**

Following a restructuring of debts of a defaulting debtor in 1998, the Commission acquired EUR 149.54 million promissory notes from European Investment Bank (rated AAA) in order to re-establish the back-to-back character of the lending/borrowing transaction and thus cover interest rate and currency risks. These promissory notes are not included in the tables above.

Geographical concentrations of the **loans granted on own funds** - without loans to European Institutions officials - (expressed at their outstanding nominal amount) at the balance sheet date are as follows **:**

	31 December 2005 **EUR million**	**Number of loans**
Belgium	3.46	20
Denmark	0.01	1
Germany	31.75	36
Greece	0.35	9
Spain	7.46	21
France	6.31	22
Ireland	0.22	9
Italy	4.44	21
Luxembourg	0.66	6
Netherlands	0.55	7
Austria	3.39	2
Portugal	0.46	6
Finland	0.65	2
United Kingdom	4.12	21
Total	**63.83**	**183**

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

These loans were backed by guarantees as follows :

(EUR million)

Member States	Guarantee from public body	Bank guarantee (1)	Industrial group		No guarantee	Total
			Public	Private		
Belgium	-	3.46	-	-	-	3.46
Denmark	-	0.01	-	-	-	0.01
Germany	-	31.75	-	-	-	31.75
Greece	-	0.35	-	-	-	0.35
Spain	-	7.46	-	-	-	7.46
France	-	6.10	-	-	0.21	6.31
Ireland	0.22	-	-	-	-	0.22
Italy	-	4.44	-	-	-	4.44
Luxembourg	-	0.66	-	-	-	0.66
Netherlands	-	-	-	0.55	-	0.55
Austria	-	3.39	-	-	-	3.39
Portugal	-	0.46	-	-	-	0.46
Finland	-	0.65	-	-	-	0.65
United Kingdom	-	4.12	-	-	-	4.12
Total	**0.22**	**62.85**	**-**	**0.55**	**0.21**	**63.83**

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

(c) Derivative financial instruments – profile of counterparties

See point E.3..

(d) Available-for-sale securities – profile of issuers

Details of the debt securities (expressed at their fair value) by issuer type and by rating (Standard & Poor's) at the balance sheet date are as follows :

	31 December 2005 **EUR**	**%**
Sovereign	444 410 188	31.5
Multinational Organisations	82 761 522	5.9
Banks & Financial Institutions	697 072 995	49.4
Other Public Issuer	186 314 769	13.2
Total	**1 410 559 474**	**100.0**

	31 December 2005 **EUR**	**%**
AAA	873 805 754	61.9
AA+	114 409 488	8.2
AA	122 419 397	8.7
AA-	71 922 828	5.1
A+	50 027 842	3.5
A-	142 200 568	10.1
BBB+	35 773 597	2.5
Total	**1 410 559 474**	**100.0**

Geographical concentrations of the debt securities (expressed at their fair value) at the balance sheet date are as follows :

Country	31 December 2005 EUR million	%
Austria	57.51	4.1
Belgium	10.9	0.8
Canada	10.42	0.7
Cyprus	34.28	2.4
Czech Republic	11.1	0.8
Denmark	10.15	0.7
Finland	10.17	0.7
France	187.62	13.3
Germany	377.86	26.9
United Kingdom	47.15	3.3
Greece	15.75	1.1
Hungary	92.48	6.6
Ireland	73.42	5.2
Italy	62.1	4.4
Lithuania	22.14	1.6
Luxembourg	30.84	2.2
Latvia	10.92	0.8
Netherlands	95.16	6.7
Poland	35.78	2.5
Slovak Republic	5.55	0.4
Spain	120.06	8.5
Switzerland	42.3	3.0
United States of America	46.9	3.3
	1 410.56	**100.0**

C.5. Liquidity risk

The liquidity risks that arise from borrowings are generally offset by equivalent loans in terms and conditions (back-to-back operations). If no perfect matching can be reached, derivative financial instruments are used to match cash flows.

For the asset and liability management of ECSC in liquidation, the Commission manages liquidity requirements based on disbursement forecast with a 11 years horizon obtained through consultations with the responsible Commission services. Investments are carried out accordingly to meet respective annual requirements.

C.6. Fair value

Cash and cash equivalents

The fair value of cash and cash equivalents including current accounts and short-term deposits (of less than three months) is their carrying amount.

Loans and borrowings

The estimated fair value of loans and borrowings is determined using a discounted cash flow model. According to this model, expected future cash flows are discounted by applying AAA yield curves appropriate for the remaining term of maturity.

The estimated fair value of floating rate loans are assumed to approximate their carrying amount since re-pricing at market interest rates takes place every 3 or 6 months.

The estimated fair value of fixed interest bearing loans and borrowings could not be obtained and disclosed as the necessary data for calculating these values was not available.

Available-for-sale securities

The available-for-sale securities are presented at fair value which is the market price plus accrued interest.

Receivables and payables

The nominal value less impairment losses of trade receivables and the nominal value of trade payables are assumed to approximate their fair values.

Financial instruments measured at fair value

The total amount of the change in fair value estimated using a valuation technique recognized in the income statement during the period amounts to EUR 1.57 million (net profit). There are no financial instruments measured at fair value using a valuation technique that is not supported by observable market prices or rates.

Note D - Impact of the transition to new accounting rules

D.1. Basis of preparation

The ECSC in liquidation's opening balance sheet has been prepared in accordance with the new accounting rules (see note B.1.) adopted on December 28, 2004, which apply for the first time for the financial year 2005.

D.2. Presentation of the financial statements

The financial statements include the following primary statements: balance sheet, income statement, statement of changes in equity and cash flow statement. Comparative figures as at the previous balance sheet date are only disclosed in the balance sheet for practical reasons.

D.3 Equity reconciliation

(EUR)

OPENING BALANCE SHEET				
	Note	**31.12.2004**	**Adjustments**	**31.12.2004 (restated)**
Assets				
Cash and deposits with credit institutions		39 949 997	-	39 949 997
Loans and advances to credit institutions	D.3.1.	63 575 809	180 613 130	244 188 939
Loans and advances to customers	D.3.1.	325 628 404	8 061 895	333 690 299
Derivative financial instruments	D.3.2.	7 882 973	23 034 594	30 917 567
Available-for-sale securities	D.3.3.	1 377 789 805	32 414 398	1 410 204 203
Held to maturity securities	D.3.1.	153 038 934	(153 038 934)	-
Intangible assets		950	-	950
Tangible assets		4 698	-	4 698
New Member States' contribution	D.3.4.	169 930 000	(14 186 442)	155 743 558
Other assets		1 752 409	-	1 752 409
Total assets		**2 139 553 979**	**76 898 641**	**2 216 452 620**
Liabilities				
Borrowings from credit institutions		6 603 763	-	6 603 763
Debts evidenced by certificates		439 648 407	2 573 943	442 222 350
Derivative financial instruments	D.3.2.	6 072 173	13 131 836	19 204 009
Other liabilities	D.3.5.	405 575 066	(114 694 350)	290 880 716
Provisions for risks and charges	D.3.5.	213 221 865	(213 221 865)	-
Total liabilities		**1 071 121 274**	**(312 210 436)**	**758 910 838**
Equity				
Retained earnings	D.3.6.	72 953 471	358 503 684	431 457 155
Reserves	D.3.3., D.3.6.	995 479 234	30 605 393	1 026 084 627
Total equity		**1 068 432 705**	**389 109 077**	**1 457 541 782**
Total equity and liabilities		**2 139 553 979**	**76 898 641**	**2 216 452 620**

The table above summarises the impact of the changes made to restate the balance sheet as at 31 December 2004 under the new accounting rules.

The presentation of the balance at 31 December 2004 (before restatement) differs slightly to that published as at 31 December 2004. This is due to the reclassification of certain balances within the balance sheet (as for example the reclassification of accrued interest on loans, derivatives, term deposits and borrowings/debt evidenced by certificates into the corresponding carrying amount within the balance sheet) which were made necessary in order to allow a relevant comparison with the restated figures. The original net equity figure of EUR 1 068 432 705 as at 31 December 2004 corresponds to the published figure.

D.3.1. Loans and advances

Housing loans of the ECSC in liquidation granted at preferential rates were previously recorded at their outstanding nominal amount less any provision for impairment. Under the new accounting rules, these loans are initially recognised at fair value which corresponds to the net present value of expected cash flows discounted at the market rate of interest prevailing for bonds with similar maturities issued by the Member States where the borrowers are located, then subsequently measured at amortised cost. Provisions for impairment, if any, are based on the provisional or definitive write-offs as provided for under the respective finance contracts. The impact of the valuation of these loans at their amortised cost amounts to a negative EUR 21 million.

The previously called "held-to-maturity portfolio" (EUR 153 million) composed of two unquoted debt securities issued by the European Investment Bank have been classified as "loans and receivables" in accordance with the new accounting rules and are disclosed as "Loans and advances to credit institutions". These securities were formerly recorded at their nominal value, the premiums paid at acquisition date being directly expensed in the income statement. Under the new accounting rules, they are initially recognised at fair value, which is normally the transaction price, then subsequently measured at amortised cost using the effective interest rate method. The impact of the valuation of these securities at their amortised cost amounts to EUR 48 million.

D.3.2. Derivative financial instruments

Derivative financial instruments with a positive fair value of EUR 23 million (excluding accruals) are recognised as held-for-trading assets whilst previously they were only disclosed as off balance sheet items.

Derivative financial instruments with a negative fair value of EUR 13 million (excluding accruals and unrealised exchange loss) are recognised as held-for-trading liabilities whilst previously they were only disclosed as off balance sheet items.

D.3.3. Available-for-sale securities

The investment portfolio of the ECSC in liquidation, made up of debt securities, was previously recorded at the lower of cost (or in case of premiums/discounts, amortised cost using linear method) or market value. These securities are now classified as available-for-sale assets and consequently carried at their fair value through equity. The impact of the valuation at fair value has been accounted for in the fair value equity reserve and amounts to EUR 30.6 million.

D.3.4. New Member States' contribution

In accordance with the new accounting rules, the long-term receivables from new Member States have been discounted to their net present value, using a rate that reflects current market assessments of the time value of money and the risks linked to the credit worthiness of the corresponding debtor. The impact of the discounting of these long-term contributions amounts to EUR 14 million.

D.3.5. Provisions/Other liabilities

The provisions previously recognised by the ECSC in liquidation (EUR 328 million including a smoothing provision of EUR 115 million, which was included in the liability towards the Coal and Steal Research Fund) no longer meet the requirements to be classified as provisions under the new accounting rules and so have been removed from this heading and transferred to retained earnings.

D.3.6. Reserves and retained earnings

In accordance with the new accounting rules, the adjustment to fair value of available-for-sale assets is now accounted for through the fair value equity reserve (EUR 31 million).

All changes other than fair value adjustments required to restate the opening balance sheet where made through the retained earnings.

NOTE E - EXPLANATORY NOTES TO THE BALANCE SHEET

E.1. Cash and deposits with credit institutions

(EUR)

	31 December 2005	31 December 2004 (restated)
Repayable on demand	6 392 486	14 197 014
With agreed maturity dates or periods of notice	35 819 829	25 752 983
Total	**42 212 315**	**39 949 997**

The effective interest rates in 2005 on short-term deposits were 2.04 % - 2.41 %. These deposits have an average maturity of 17 days.

E.2. Loans and advances

(EUR)

	31 December 2005	31 December 2004 (restated)
Loans and advances to credit institutions	**242 858 277**	**244 188 939**
Loans granted from own funds	*37 494 935*	*41 431 804*
Loans granted from borrowed funds	*602 428*	*986 296*
Debt securities classified as loans and advances (European Investment Bank)	***204 760 914***	***201 770 839***
Loans and advances to customers	**329 256 846**	**333 690 299**
Loans granted from own funds	*6 168 878*	*7 113 663*
Loans granted from borrowed funds	*302 537 735*	*289 752 179*
Delayed payments	*290 329*	*134 003*
Loans granted to officials of the European Communities	*20 101 723*	*23 796 199*
Other amounts due by customers	*158 181*	*12 894 255*
Total loans and advances	**572 115 123**	**577 879 238**

Loans granted from own funds

This item includes loans granted by the ECSC in liquidation from its own funds in accordance with article 54.2 of the ECSC Treaty. These loans are granted at a fixed rate of 1 % p.a. and, consequently, considered as loans at preferential rates. They are initially recognised at fair value which corresponds to the net present value of expected cash flows discounted at the market rate of interest prevailing for bonds with similar maturities issued by the member states where the borrowers are located, then subsequently measured at amortised cost. The provisions for impairment, if any, are based on the provisional or definitive write-offs as provided for under the respective finance contracts.

Loans granted from borrowed funds

This item includes loans granted by the ECSC in liquidation from borrowed funds in accordance with articles 54 and 56 of the ECSC Treaty.

Loans granted from borrowed funds (expressed in nominal amounts) with variable rates are EUR 137 091 087 (2004 : EUR 138 726 756) and fixed rates are EUR 153 937 046 (2004 : EUR 141 038 081).

The changes in carrying amount correspond to the change in accrued interests plus the amortization of the year of premiums paid and transaction costs incurred at inception, calculated according to the effective interest rate method.

The effective interest rates (expressed as a range of interest rates) were as follows :

Effective interest rates on loans granted from borrowed funds

31.12.2005	31.12.2004
2.241 %-12.077 % (*)	2.276 %-12.077 %(*)

(*) relates to the fixed rate loan covered by the interest rate swap (see point E.3.)

Loans granted to the European Investment Bank (EIB)

This item includes two unquoted debt securities issued by the European Investment Bank (EIB) as substitute of a defaulted debtor. These debt securities will be held till their final maturity (2017 and 2019) in order to cover the service of related borrowings.

The changes in carrying amount correspond to the change in accrued interests plus the amortization of the year of premiums paid and transaction costs incurred at inception, calculated according to the effective interest rate method.

The effective interest rates (expressed as a range of interest rates) were as follows :

Effective interest rates on loans granted to the EIB

31.12.2005	31.12.2004
5.2354 %-5.2401 %	5.2354 %-5.2401 %

LOANS GRANTED ON OWN FUNDS

(EUR)

Loan type	**Balance at 01.01.2005**	**New loans**	**Repayments**	**Exchange differences**	**Changes incarrying amount**	**Impairment losses**	**Net value at 31.12.2005**	**Remaining maturity < 1 year**	**Remaining maturity > 1 year**
Loans and advances to credit institutions	41 431 804	-	(7 342 555)	128 986	3 276 700	-	37 494 935	91 851	37 403 084
Loans and advances to customers	7 113 663	-	(1 431 169)	18 669	467 715	-	6 168 878	65 152	6 103 726
Total	**48 545 467**	**-**	**(8 773 724)**	**147 655**	**3 744 415**	-	**43 663 813**	**157 003**	**43 506 810**

LOANS GRANTED FROM BORROWED FUNDS

(EUR)

Loan type	**Balance at 01.01.2005**	**New loans**	**Repayments**	**Exchange differences**	**Changes in carrying amount**	**Impairment losses**	**Net value at 31.12.2005**	**Remaining maturity < 1 year**	**Remaining maturity > 1 year**
Loans and advances to credit institutions	986 296	-	(373 463)	-	(10 405)	-	602 428	-	602 428
Loans granted to the EIB	201 770 839		-	5 803 250	(2 813 175)		204 760 914		204 760 914
Loans and advances to customers	289 752 179	-	(1 635 670)	13 272 428	1 148 798	-	302 537 735	-	302 537 735
Total	**492 509 314**	**-**	**(2 009 133)**	**19 075 678**	**(1 674 782)**	-	**507 901 077**	-	**507 901 077**

Loans granted to officials of the European Communities

These loans are financed by the ECSC in liquidation from its own funds (the former pension fund of the ECSC). The loans were granted by a Loan Committee and are managed by the Commission (PMO). The last loans were granted in June 2002. The loan period is 20/25 years. The interest rate on the loans is 4 % p.a.. The death and invalidity insurance premium is 2 % p.a.. The capital reimbursement, interests and insurance premium are deducted monthly from the beneficiary's salary by the relevant European Institution. The Commission has decided not to apply the new accounting rules for these loans due to reason of materiality of the amount outstanding.

Other amounts due by customers

This item includes levies and fines payable and interest and research subsidies repayable to the ECSC in liquidation.

(EUR)

	31 December 2005	**31 December 2004 (restated)**
Levies		
- amounts due	3 895 497	4 363 151
- value adjustments	(3 895 497)	(4 363 151)
Total	**-**	**-**
Fines		23 606 660
- amounts due	10 661 741	23 558 896
- value adjustments	(10 661 741)	(10 722 288)
Total	**-**	**12 836 608**
Interest subsidies repayable		
- amounts due	790 618	1 521 344
- value adjustments	(790 618)	(1 521 344)
Total	**-**	**-**
Research subsidies repayable		
- amounts due	207 123	64 910
- value adjustments	(48 942)	(7 263)
Total	**158 181**	**57 647**
Total other amounts due by customers	**158 181**	**12 894 255**

Levies

Total claims at 31 December 2004 amounted to EUR 4 363 151. These were covered in their entirety by value adjustments. Over the period ending on 31 December 2005, payments were received totalling EUR 2 133 and claims totalling EUR 467 163 were written off. Total claims at 31 December 2005 thus amounted to EUR 3 895 497, covered in their entirety by value adjustments. An amount of EUR 1 642 was recorded as income.

Fines

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

(EUR)

Amount (capital and interest) outstanding at				
	31 December 2004	**Payments in 2005**	**Loan loss 2005**	**31 December 2005**
Italian companies	1 222 288	-	60 547	1 161 741

At 31 December 2004 two 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 considered as completed in 2005. The remaining debt of EUR 60 547, 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 partially set aside the judgement of the Court of First Instance on a case involving a Spanish company and referred the case back to the said Court. By a subsequent judgment dated 14 September 2004, the Court of First Instance reduced the fine to EUR 2 540 000. The company has paid the nominal amount of the fine in 2004, but the interest of EUR 1 682 145, calculated on that amount of EUR 2 540 000, was paid in 2005.

The changes in claims were as follows :

(EUR)

	Amount receivable at	
	31 December 2005	**31 December 2004 (restated)**
One Italian company (in liquidation since 28 December 1993)	9 500 000	9 500 000
Spanish companies		
– capital	-	-
– interest	-	1 684 372

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

(EUR)

	Amount (capital) outstanding at	
	31 December 2005	**31 December 2004 (restated)**
Two companies (German/Italian)	-	11 152 236

By a judgment of 14 July 2005, the Court of Justice dismissed the appeals of the two companies. The companies paid capital and interest in 2005.

Interest subsidies

Total claims at 31 December 2004 amounted to EUR 1 521 344, covered in their entirety by value adjustments. During the period ending on 31 December 2005, the ECSC in liquidation received payments of EUR 9 461 and waived or cancelled claims amounting to EUR 721 265. Total claims at 31 December 2005 thus amounted to EUR 790 618, covered in their entirety by value adjustments.

E.3. Derivative financial instruments

The ECSC in liquidation uses the following derivative financial instruments for hedging purposes :

Currency and interest rate swaps are commitments to exchange one set of cash flow for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all those (i.e. cross-currency interest rate swaps). No exchange of principal takes place in case of a simple interest rate swap. Swaps, as detailed below, are used to match perfectly the cash flows of loans with the cash flows of related borrowings.

The ECSC in liquidation entered into the following swap agreements :

- In 1994, an interest rate swap was acquired to match the cash flow of a 14 years loan granted at a fixed rate of 12.077 % and designed with a 5 years grace period on interest payments and a final maturity on 26 March 2008, on one side and the cash flow of the related borrowing obtained at a fixed rate of 6.375 % and with an identical maturity date, on the other side ;

- In 1990, a combination of both interest rate swap and cross-currency interest rate swap was acquired to match the cash flow of a 19 years French franc loan granted at a floating interest rate (reset every 3 months and based on Pibor 3 months less 21 basis points) with a final maturity on 13 March 2009, on one side and the cash flow of the related borrowing obtained in pound sterling at a fixed rate of 11.875 % with an identical maturity date, on the other side.

The details of the swap agreements are as follows :

SWAPS						
Counterparty	**Rating S&P**		**Nominal**	**CCY**	**Terms**	**Maturity**
JP Morgan Chase Bank N.Y., London Branch	A+	to receive	100 000 000.00	USD	6.375 % yearly	26.03.2008
	AAA	to pay	100 000 000.00	USD	0 % the first 5 years, 12.077 % yearly the last following years	26.03.2008
BNP Paribas	AA	to receive	60 000 000.00	GBP	11.875 % yearly	13.03.2009
	AAA	to pay	60 000 000.00	GBP	3M LIBOR –0.31 %	13.03.2009
	AA	to receive	60 000 000.00	GBP	3M LIBOR –0.31 %	13.03.2009
	AAA	to pay	85 036 062.00	EUR	3M EURIBOR –0.21 %	13.03.2009

The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favorable or unfavorable and thus the fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair value of the interest rate swaps was obtained by discounting the net fixed cash flows using zero-coupon swap rates at the balance sheet date.

The valuation of the combined instrument was performed in two steps : first, the interest rate swap component was valued by discounting the cash flows (fixed and floating) that would result from reversing the swap position on the balance sheet date (discounting is performed using zero-coupon swap rates on that date) ; then, the cross-currency interest rate swap was valued by discounting the cash flows (fixed and floating) that would come from returning the two floating branches of the swap with a standard interest rate swap, taking into account the final nominal exchange transaction at maturity of the swap.

The fair value (including accrued interests) of the swaps, which all have a final maturity of more than one year after the balance sheet date, is detailed below :

Assets		Liabilities	
Amount 31.12.2005 EUR	**Amount 31.12.2004 (restated) EUR**	**Amount 31.12.2005 EUR**	**Amount 31.12.2004 (restated) EUR**
27 509 180	30 917 567	14 497 707	19 204 009

E.4. Available-for-sale securities

(EUR)

	Equity instruments	Debt securities	Total
Amount at 31 December 2004 (restated)	**7 092 286**	**1 403 111 917**	**1 410 204 203**
Acquisitions	-	336 634 706	336 634 706
Disposals and withdrawals	(7 092 286)	(321 119 440)	(328 211 726)
Change in carrying amount	-	(8 067 709)	(8 067 709)
Amount at 31 December 2005	-	**1 410 559 474**	**1 410 559 474**

Details of the available-for-sale portfolio (by type of securities) as at the balance sheet date are as follows :

(EUR)

Type	**31 December 2005**	**31 December 2004 (restated)**
Equity instruments - at fair value	-	7 092 286
Total equity instruments	**-**	**7 092 286**
Debt securities - at fair value		
Fixed rate bonds	1 162 525 977	1 108 313 031
Floating rate bonds	217 603 394	265 103 036
Zero-Bonds	3 656 880	3 556 137
Total	**1 383 786 251**	**1 376 972 204**
Accruals	26 773 223	26 139 713
Total debt securities	**1 410 559 474**	**1 403 111 917**
Total investment portfolio	**1 410 559 474**	**1 410 204 203**

Equity instruments

As stipulated in the internal rules of the ECSC in liquidation, 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. The shares and other securities were divested in 2005.

Debt securities

At 31 December 2005, all investments are denominated in EUR and quoted in an active market.

Structure by rating

Details of the debt securities portfolio by rating as at the balance sheet date are as follows :

(EUR million)

Rating	**31 December 2005**	**31 December 2004 (restated)**
Debt securities-at fair value		
AAA	859.0	852.7
AA1	113.3	98.6
AA2	119.7	151.5
AA3	70.7	100.4
A1	32.5	52.5
A2	16.1	-
A3	138.2	84.3
BBB1	34.3	34.4
Other (*)	-	2.6
Total	**1 383.8**	**1 377.0**
Accruals	26.8	26.1
Total Debt securities	**1 410.6**	**1 403.1**

(*) In 1998, under an agreement to restructure the debt of a defaulting debtor, the ECSC in liquidation exceptionally acquired floating rate bonds issued from a private-sector company. These securities were divested in 2005.

The change in the ratings structure is due to the purchase of sovereign securities issued by the new Member States and the sale or arrival at maturity date of securities with a AA2/AA3 rating.

Maturities in 2006

Debt securities (expressed at their fair value) reaching final maturity in the course of 2006 amount to EUR 237.4 million (2005 : 200.1 million).

Return on investment

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 3.261 % for the year 2005, compared with a reference rate for the ECSC in liquidation of 3.156 %. The enhanced performance of the ECSC in liquidation investment portfolio is mainly due to the following 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".

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.

E.5. Intangible assets

These assets consist of computer software.

(EUR)

At 1 January 2004	
Cost	3 800
Accumulated depreciation	(1 900)
Net book amount	1 900
Year ended 2004	
Opening net book amount	1 900
Depreciation charge	(950)
Closing net book amount	950
Year ended 2005	
Opening net book amount	950
Depreciation charge	(950)
Closing net book amount	-

E.6. Tangible assets

These assets consist of computer hardware.

(EUR)

At 1 January 2004	
Cost	18 793
Accumulated depreciation	(9 397)
Net book amount	9 396
Year ended 2004	
Opening net book amount	9 396
Depreciation charge	(4 698)
Closing net book amount	4 698
Year ended 2005	
Opening net book amount	4 698
Depreciation charge	(4 698)
Closing net book amount	-

E.7. New Member States' contribution

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 founded"[9], 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 :

(EUR)

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	20 110 000
Total	**169 930 000**

The present value of these contributions was EUR 155 743 558 at 1 January 2005.

The first instalment (15 %) was due on 2 January, 2006	25 489 500
Payments received in 2005	(1 489 500)
Amount outstanding (1st instalment)	24 000 000

9 OJ L 236, 23.09.2003, p. 33.

For the 2nd, 3rd and 4th instalments a total amount of EUR 144 440 500 is due (see note E.12.). The net present value of these instalments amounts to EUR 134 827 865 at 31 December 2005.

	1 January 2005 EUR	Reclassification EUR	Amounts received EUR	Net present value adjustment EUR	31 December 2005 EUR
Due > 1 year	155 743 558	(25 489 500)	-	4 573 807	134 827 865
Due < 1 year	-	25 489 500	(1 489 500)	-	24 000 000
Total	**155 743 558**	**-**	**(1 489 500)**	**4 573 807**	**158 827 865**

The calculation of the net present value is based on the future expected cash flows, the credit rating of the Member State and the corresponding EUR bank yield table.

E.8. Other assets

(EUR)

	31 December 2005	31 December 2004 (restated)
Current account, ECSC operating budget	16 614	11 467
Withholding taxes and VAT to be received	115 637	115 637
Loans to officials	3 224 220	1 718 577
Miscellaneous	14 702	61 576
Sub-total	**3 371 173**	**1 907 257**
Value adjustments	(154 847)	(154 848)
Total	**3 216 326**	**1 752 409**

E.9. Borrowings

(EUR)

	31 December 2005	31 December 2004 (restated)
Borrowings from credit institutions	4 358 359	6 603 763
Debts evidenced by certificates	463 244 092	442 222 350
Total borrowings	**467 602 451**	**448 826 113**

The detailed movements in borrowings during 2005 are as follows :

(EUR)

BORROWINGS								
Borrowing type	**Balance at 1.01.2005**	**New loans**	**Repayments**	**Exchange differences**	**Changes in carrying amount**	**Balance at 31.12.2005**	**Remaining maturity < 1 year**	**Remaining maturity > 1 year**
Borrowings from credit institutions	6 603 763	-	(2 223 144)	-	(22 260)	4 358 359	-	4 358 359
Debts evidenced by certificates	442 222 350	-	-	21 085 001	(63 259)	463 244 092	-	463 244 092
Total	**448 826 113**	**-**	**(2 223 144)**	**21 085 001**	**(85 519)**	**467 602 451**	**-**	**467 602 451**

The changes in carrying amount correspond to the change in accrued interests plus the amortization of the year of transaction costs incurred at inception calculated according to the effective interest rate method.

The effective interest rates (expressed as a range of interest rates) were as follows :

Effective interest rates on borrowings

31.12.2005	1.01.2005
1.625 %-11.875 % (*)	1.6875 %- 11.875 % (*)

(*) relates to the fixed rate loan covered by the interest rate swap (see point E.3.).

E.10. Other liabilities

(EUR)

	31 December 2005	31 December 2004 (restated)
Outstanding commitments under the ECSC Operating budget	57 312 684	109 240 813
Budget for financing coal and steel research	193 578 720	181 553 720
Debt to EU Budget	4 182	6 902
Other debtors	18 086	21 815
Agent commission	1 193	1 817
Miscellaneous	55 649	55 649
Total	**250 970 514**	**290 880 716**

Outstanding commitments under the ECSC operating budget

During the period from 1 January to 31 December 2005, changes in the item for the ECSC operation budget were as follows :

(EUR)

	Amounts at 1 January 2005	Payments	Cancellations	Amounts at 31 December 2005
Redeployment	43 738 009	11 800 655	14 198 274	17 739 080
Research	48 648 494	15 486 559	4 995 393	28 166 542
Interest subsidies	963 884	212 531	604 083	147 270
Social measures coal (programme “Rechar”)	15 890 426	3 904 697	725 937	11 259 792
Total	**109 240 813**	**31 404 442**	**20 523 687**	**57 312 684**

Budget for financing coal and steel research

(EUR)

	31 December 2005	31 December 2004 (restated)
Credit to be committed	493 827	1 312 476
Commitment to be paid	84 459 893	68 991 244
Allocation for year 2005	-	56 500 000
Allocation for year 2006	54 750 000	54 750 000
Allocation for year 2007	53 875 000	-
Total Budget for financing coal and steel research	**193 578 720**	**181 553 720**

	Steel	Coal	Total
CREDIT			
To be committed 01.01.2005	72 217	1 240 259	1 312 476
Allocation credit 2005	41 132 000	15 368 000	56 500 000
Committed 2005	(41 203 840)	(16 114 809)	(57 318 649)
To be committed 31.12.2005	377	493 450	493 827
COMMITMENTS			
To be paid 01.01.2005	51 742 503	17 248 741	68 991 244
New commitments	41 203 840	16 114 809	57 318 649
Payments	(30 400 000)	(11 450 000)	(41 850 000)
To be paid 31.12.2005	62 546 343	21 913 550	84 459 893

E.11. Retained earnings

(EUR)

	31 December 2005	31 December 2004 (restated)
Balance at 31 December 2004 before restatement	-	72 953 471
First time application impact of the transition to the new accounting rules	-	358 503 684
Result of year 2005	30 737 875	-
Total retained earnings	**30 737 875**	**431 457 155**

The changes from 31 December 2004 to 31 December 2005 are shown in the statement of changes in equity.

E.12. Reserves

(EUR)

	31 December 2005	**31 December 2004 (restated)**
Fair value reserve	24 570 348	30 605 393
Special reserves	291 296 000	96 500 000
Reserve to cover loans	*207 000 000*	-
Reserve to cover housing loans	*64 000 000*	*72 500 000*
Reserve to cover loans to officials	*20 000 000*	*24 000 000*
Other special reserves	*296 000*	-
General reserves	55 000 000	-
Smoothing reserve for RFCS (Research Funding for Coal and Steel)	*55 000 000*	-
Assets of the Coal and Steel Research Fund	935 324 888	729 049 233
Member States' Contribution not yet called	144 440 500	169 930 000
Total Reserves	**1 450 631 736**	**1 026 084 627**

The changes from 31 December 2004 to 31 December 2005 are shown in the statement of changes in equity.

Fair value reserve

In accordance with the new accounting rules, the adjustment to fair value of available-for-sale assets is accounted for through the fair value equity reserve.

Special reserves

Reserve to cover loans

This reserve is intended to cover lending and borrowing operations. On 11 September 1996 the Commission confirmed its intention to cover, as from 23 July 2002, 100 % of those loans which are not guaranteed by the government of a Member State. At 31 December 2005 the amount outstanding of these loans was EUR 206 227 937.

Reserve to cover housing loans

This reserve (formerly called Special Reserve) is used to cover loans granted on own funds of the ECSC in liquidation. At 31 December 2005 the amount outstanding of these loans was EUR 63 827 515.

Reserve to cover loans granted to officials of the European Communities

This 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. Consequently, this fund is now used to finance housing loans for officials of the European Communities. At 31 December 2005, the amount outstanding of these loans was EUR 20 million.

Other special reserve

This reserve is intended to cover any legal and other unforeseen expenditure. The related risk lies primarily in the legal field because for its operations the ECSC in liquidation has less recourse to national agents who bear all expenditures relating to loan operations.

General reserves

Smoothing reserve

As provided by Council Decision 2003/76/EC of 1 February 2003 (OJ 29, 05.02.2003), the smoothing reserve is used to reduce the fluctuations in the research funding resulting from movements on the financial markets. This reserve was valuated at EUR 55 million as at 31 December 2005.

Assets of the Coal and Steel Research Fund

This reserve, created in the context of the winding-up of the ECSC, corresponds to the free reserves.

Member States' contribution not yet called

The 2nd, 3rd and 4th instalments of the contribution to the Research Fund for Coal and Steel have not yet been called (see note E.7.).

The total amounts to be paid by the Member States are as follows (excluding the first instalment) :

	EUR
Czech Republic	33 898 000
Estonia	2 125 000
Latvia	2 286 500
Hungary	8 440 500
Poland	78 591 000
Slovenia	2 006 000
Slovakia	17 093 500
Total	**144 440 500**

Note F - Explanatory notes to the income statement

F.1. Net profit of the year

The overall performance of the ECSC in liquidation is affected by the result of winding-up of the ECSC's financial operations, the net revenue on investments and the funding of Coal and Steel Research as detailed below :

(EUR)

	31 December 2005
Winding-up of ECSC's financial operations	30 841 909
Net revenue of investments	52 895 966
Funding of Coal and Steel Research	(53 000 000)
Net result 2005	**30 737 875**

Winding-up of ECSC's financial operations

(EUR)

	31 December 2005
Lending/borrowing activities	
Net interest	3 329 115
Fair value changes derivatives (net)	1 572 412
Miscellaneous charges/income (net)	384 577
Net change in value adjustments	(889 244)
Sub-total	**4 396 859**
Winding-up commitments under operating budget	
Cancellation of commitments	**20 523 687**
Winding up other ECSC activities	
Levy, fines, interest subsidies	288 210
Research	582 459
Redeployment	1 405 679
Sub-total	**2 276 348**
Variation of Net Present Value (Member States' contribution)	**4 573 808**
Exchange rate differences	**(923 145)**
Depreciation	**(5 648)**
Total	**30 841 909**

Net revenue of investments

(EUR)

	31 December 2005
INCOME	
Interest on nostro accounts	52 453
Interest on deposit accounts	1 063 403
Interest on securities available-for-sale	47 879 727
Fees and commissions income	260 071
Profit on sales of available-for-sale securities	3 890 336
Total income	**53 145 990**
CHARGES	
Debit interest on nostro accounts	(14)
Loss on sales of available-for-sale portfolio	(34 220)
Bank and portfolio transaction charges	(215 790)
Total charges	**(250 024)**
Net revenue on investment	**52 895 966**

Net revenue of investments (rounded to the nearest million) is available to the general Budget of the European Union for financing research projects (see Note A).

Funding of Coal and Steel Research

(Application of Council Decision 2003/76/EC of 1 February 2003)

(EUR)

	31 December 2005
Net revenue of investment	52 895 966
Rounded	53 000 000
Application of smoothing mechanism :	
Net revenue 2005	53 000 000
Allocation decided for 2006	54 750 000
Difference	(-1 750 000)
Half of difference	(-875 000)
Allocation for year 2007 (year n+2 = 2005 + 2 years)	
Net revenue 2005	53 000 000
Allocation half of difference	875 000
Total allocation 2007	**53 875 000**
Financing	
Provisioning net revenue	53 000 000
Diminution of Smoothing reserve	875 000
Total	**53 875 000**

F.2. Interests and similar income

(EUR)

	31 December 2005
Interests on bank accounts	52 453
Interests on deposit accounts	1 063 403
Interests on loans from borrowed funds	29 742 074
Income on loans on own funds	4 518 316
Interests on loans granted to officials of the European Communities	876 010
Interests on swaps	19 528 952
Total interests from bank accounts, deposits, loans and derivatives	**55 781 208**
Interests on available-for-sale portfolio	47 879 727
Total interests from fixed income debt securities	**47 879 727**
Total interests and similar income	**103 660 935**

F.3. Profit on sales of securities

The amount of EUR 3 890 336 comprises profit on sales of available-for-sale bonds.

F.4. Other financial income

(EUR)

	31 December 2005
Variation of Net Present Value on new Member States contribution to the Coal and Steel Research Fund	4 573 808
Penalty for early repayment received	826
Positive change of fair value of derivatives	5 217 866
Total other financial income	**9 792 500**

F.5. Other operating income

(EUR)

	31 December 2005
Matured coupons and bonds	2 860
Income from levy, fines and interest subsidy reimbursements	280 485
Income from Redeployment reimbursements	1 405 679
Income from Research reimbursements	575 195
Reversal of impairment losses for levy, interest subsidies and research	17 216
Reversal of impairment losses for loans to customers	119 120
Miscellaneous income from lending activities	389 422
Cancellation of commitments of operating budget	20 523 687
Total other operating income	**23 313 664**

F.6. Interests and similar charges

(EUR)

	31 December 2005
Bank interests	15
Interests on borrowings	35 906 027
Interests on swaps	15 430 209
Total interests and similar charges	**51 336 251**

F.7. Fees and commissions charges

(EUR)

	31 December 2005
Agent commissions	2 811
Bank charges	4 559
Portfolio charges	209 537
SWIFT charges	1 694
Total fees and commissions charges	**218 601**

F.8. Loss on sales of securities

(EUR)

	31 December 2005
Available-for-sale bonds	34 220
Equity instruments	1 008 364
Total loss on sales of securities	**1 042 584**

F.9. Other financial charges

(EUR)

	31 December 2005
Negative change of fair value of derivatives	3 645 455
Total other financial charges	**3 645 455**

F.10. Other operating charges

(EUR)

	31 December 2005
Borrowing costs	5 734
Other	2 213
Total other operating charges	**7 947**

Note G - Explanatory notes to the cash flow statement

G.1. Purpose and preparation of the cash flow statement

Cash flow information is used to provide a basis for assessing the ability of the ECSC in liquidation to generate cash and cash equivalents, and its need to utilise those cash flows.

The cash flow statement is prepared using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Cash flows arising from transactions in a foreign currency are recorded in ECSC in liquidation’s reporting currency (euro), by applying to the foreign currency amount the exchange rate between the euro and the foreign currency at the date of the cash flow.

The cash flow statement reports cash flows during the period classified by operating, investing and financing activities.

G.2. Operating activities

Operating activities are the activities of the ECSC in liquidation that are not investing or financing activities. These are the majority of the activities performed. Loans granted to beneficiaries (and the related borrowings) are not considered as investing (and financing activities) as they are part of the general objectives and thus daily operations of the ECSC in liquidation. Indeed, the objective of these activities is to participate in the achievement of policy targeted outcomes.

Operating activities cover the activities linked to the winding-up of the financial operations of the ECSC in liquidation which were still in progress when the ECSC Treaty expired (Council decision N° 2003/76/2003 from 1 February 2003).

G.3. Investing activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

Investing activities cover the asset management of the ECSC in liquidation and, on completion of liquidation, of the Research Fund for Coal and Steel (Council Decision N° 2003/77/EC from 1 February 2003). They do not include loans granted to beneficiaries.

G.4. Financing activities

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Borrowings do not include the borrowings related to loans granted to beneficiaries. Consequently, the ECSC in liquidation does not have financing activities.

NOTE H - OFF BALANCE SHEET

(EUR)

CONTINGENT LIABILITIES

	Note	31.12.2005	01.01.2005
Undrawn commitments	H.1.	39 402	60 097

H.1. Undrawn commitments

These are lending agreements signed by the ECSC in liquidation in June 2002 in respect of loans to officials of the European Communities but not yet drawn down completely by the other party before the year-end.

NOTE I - RELATED PARTY DISCLOSURES

The net cash flow between the ECSC in liquidation and the Commission amounts to EUR 69.7 million.

The ECSC paid to the Commission in 2005 (in million EUR) :

- Reimbursement of the payments for ECSC Operating Budget expenses	30.9
- Payments for the Research Fund Coal and Steel	41.9
Total	72.8

The Commission paid to the ECSC in liquidation (in million EUR)

- Reimbursement of capital and interest of loans to officials of the European Communities	3.1
Total	3.1

Net advance to the Commission (million EUR)	69.7

The key management has no entitlement payable by the ECSC in liquidation.

NOTE J - EVENTS AFTER THE BALANCE SHEET DATE

At the time of issuance of the accounts on August 8, 2006, no material issues came to the attention of the General Direction for Economic and Financial Affairs - Direction Financial Operations, programme management and liaison with the EIB Group -, or were reported to it that would require separate disclosure under this section. The accounts and related notes were prepared using the most recently available information and this is reflected in the information presented above.