COMMISSION EUROPÉENNE

SECRÉTARIAT GÉNÉRAL

EN

Bruxelles, le 21 juin 2007

C(2007)3103

NOTE POUR LES MEMBRES DE LA COMMISSION

E/1306/2007

NORMALE

Délai: **JEUDI 28 JUIN 2007 - 11 H**

Observations éventuelles : service des procédures écrites SG-A-2
Fax : 64316 - Tél.: 52362 / 52363

Objet : Communauté européenne du charbon et de l'acier (CECA)
- rapport financier exercice 2006

Proposition de M. ALMUNIA

Décision proposée :

- approuver les états financiers, les notes explicatives et l'affectation du résultat ainsi que le projet de rapport de la Commission rapport financier "CECA en liquidation au 31 décembre 2006";
- ne pas publier au JO.

Commentaire :

Ce projet vise à faire rapport de l'activité de la CECA en liquidation pour l'exercice 2006 et présenter ses états financiers au 31 décembre 2006, ainsi que des notes relatives à ces états.

Selon le service responsable, ce projet ne comporte pas d'incidences financières sur le budget communautaire.

Jordi AYET PUIGARNAU
Directeur du Greffe

Copie : MM. REGLING, ROMERO REQUENA, SILVA RODRIGUES, PETITE

E/1306/2007

NOTE DU SECRETARIAT GENERAL

PREPARATION DU DOCUMENT

Direction(s) générale(s) responsable(s)

ECFIN	Affaires économiques et financières	

Service(s) consulté(s)

pour accord

BUDG	Budget	: Accord
RTD	Recherche	: Accord
SG	Secrétariat général	: Accord

pour avis

SJ	Service juridique	: Avis favorable

Langue originale : EN

En cas de demande de corrigendum/suspension de cette procédure, les cabinets et/ou le Service juridique sont invités à envoyer leurs observations à la boîte fonctionnelle "SG A-2 ACCORDS CABINETS".

Dossier traité par - Raimondo ANTONACCIO Berl 8/393 - Tél.54012

Info-point PROCEDURE : SG/A/2 (52362- 52363)
Info-point PUBLICATION : SG/A/2 (52362 - 52363)
Info-point NOTIFICATION : Christoforos MASTROGIANNIS (tél. 64741)

COMMUNICATION FROM MR. ALMUNIA
to the Members of the Commission

Subject: ECSC in liquidation, closure of the financial year 2006

1. DOCUMENTS SUBMITTED TO THE COMMISSION FOR APPROVAL

The Commission is requested to approve the fifth Financial Report (for 2006) of the ECSC in liquidation, which comprises the following:

a) Activity report

b) ECSC financial statements to 31 December 2006 and their notes.

2. ACTIVITY REPORT

This fifth Financial Report of the ECSC in liquidation describes the financial activities of the ECSC in liquidation over the financial year 2006. The report will be published in English, French and German on the web-site of DG ECFIN.

The first chapter of the report summarises the effects of the expiry of the ECSC Treaty on 23 July 2002 and the arrangements made to cover the financial consequences of this expiry as well as the Research Fund for Coal and Steel.

The subsequent chapters describe the winding up of the ECSC's financial operations that were in progress on 23 July 2002, how the assets have been managed and the financing of Coal and Steel Research during 2006.

3. FINANCIAL STATEMENTS FOR 2006 AND THEIR EXPLANATORY NOTES

The financial situation of the ECSC in liquidation at 31 December 2006 is shown in detail in the attached financial statements.

The main features of the financial statements are as follows:

- a financial surplus of around € 53 million from treasury management (net revenue from investments). Applying the smoothing mechanism foreseen by the Council decision 2003/76/EC of 1st February 2003 the 2007 Allocation for Coal and Steel Research amounts to € 53.438 million. An amount of € 438 000 has been taken from the Smoothing reserve;
- a surplus of about € 24 million relating to the winding up operations. The principal elements producing this result are the cancellation of commitments of around € 20 million from the Operating budget, a variation of around € 2.9 million in the net present value of the new Member States' contributions and a financial surplus of about € 2 million from borrowing/lending operations.

It is proposed that the result of € 23 782 537 for the year 2006 be allocated to the Assets of the Coal and Steel Research Fund, thus increasing it to about € 1 036 million.

In accordance with paragraph 6 of the annex to Council Decision 2003/77/CE of 1 February 2003, the financial statements have been audited by an independent auditor, in this case, the firm PricewaterhouseCoopers S.à.r.l., Luxembourg.

4. DRAFT DECISION

The Members of the Commission are requested:

4.1. to approve the financial statements for the year 2006, the explanatory notes thereto, and the allocation of the surplus;

4.2. to approve the fifth Financial Report of the ECSC in liquidation;

4.3. to fix the amount to be transferred to the General Budget of the European Union as a dedicated revenue for the Coal and Steel Research Fund 2008 at € 53.438 million, in line with the Council Decision 2003/76/EC from 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.

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels,
COM (2007)

REPORT FROM THE COMMISSION

FINANCIAL REPORT
E C S C in liquidation
at 31 December 2006

REPORT FROM THE COMMISSION

FINANCIAL REPORT
E C S C in liquidation
at 31 December 2006

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 2006, 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 is 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 2006, of Mr. Klaus Regling, Director-General of DG ECFIN, and Mr. David McGlue, Director of Directorate L.
Address	European Commission Directorate-General for Economic and Financial Affairs Directorate L Drosbach Building 12 rue Guillaume Kroll L - 1882 Luxembourg Tel. (352) 4301 - 1 Fax (352) 4301 - 33459 Internet : ECFIN-registry@ec.europa.eu

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 Coal and Steel Research Fund, 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 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. 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 Coal and Steel Research Fund 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 31.12.2005 to 31.12.2006, the debt of the ECSC in liquidation changed as follows (nominal amounts) :

(EUR million)

Currency	Number of borrowings at 31 December 2005	Debt outstanding at 31 December 2005	Reimbursements from 1 January to 31 December 2006	Exchange rate adjustments	Debt outstanding at 31 December 2006	Number of borrowings at 31 December 2006
EUR	9	50.1	(2.1)	-	48.0	9
GBP	6	305.7	-	6.3	312.0	6
USD	1	84.7	-	(8.8)	75.9	1
TOTAL	**16**	**440.5**	**(2.1)**	**(2.5)**	**435.9**	**16**

The amortisation of the borrowings outstanding at 31 December 2006 breaks down as follows :

(EUR million)

	EUR	GBP	USD	TOTAL
2007	2.0	-	-	**2.0**
2008	0.3	-	75.9	**76.2**
2009	-	89.4	-	**89.4**
2010	-	-	-	-
2011	-	-	-	-
2012	45.7	-	-	**45.7**
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	100.1	-	**100.1**
2018	-	-	-	-
2019	-	122.5	-	**122.5**
Total	**48.0**	**312.0**	**75.9**	**435.9**

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 2006	
				in borrowing currency	equivalent in EUR
	Contracts redenominated in EUR				
1992	3.87113	15	11 900 000 DEM		562 421
1992	3.00	15	9 000 000 000 ITL		464 811
1992	3.064	20	300 000 000 FRF		45 734 705
1992	3.54475	15	11 000 000 DEM		608 437
1992	8.34	15	2 300 000 DEM		117 597
1993	7.08	15	1 750 000 DEM		178 952
1993	6.39	15	1 355 000 DEM		138 560
1993	6.64	15	1 185 000 DEM		121 176
1993	6.75	15	1 000 000 DEM		102 259
			Currency total		**48 028 918**
	Contracts in GBP				
1990	11.875	19	60 000 000 GBP	60 000 000	89 352 197
1992	9.875	25	50 000 000 GBP	17 220 000	25 644 080
1992	9.875	25	30 000 000 GBP	30 000 000	44 676 098
1993	9.875	24	20 000 000 GBP	20 000 000	29 784 066
1994	6.875	25	50 000 000 GBP	35 261 000	52 510 797
1994	8.9375	25	47 000 000 GBP	47 000 000	69 992 554
			Currency total	**209 481 000**	**311 959 792**
	Contracts in USD				
1993	6.375	15	100 000 000 USD	100 000 000	75 930 144
			Currency total	**100 000 000**	**75 930 144**

Total in EUR **435 918 854**

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NB : 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 year ended 31 December 2006, 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 2005	Amortisation from 1 January to 31 December 2006	Exchange rate adjustment	Amount outstanding at 31 December 2006	Number of loans
Greece	1	84.77	-	(8.84)	75.93	1
France	2	133.82	-	-	133.82	2
Italy	12	3.86	(1.85)	-	2.01	12
United Kingdom	1	68.58	-	1.41	69.99	1
Total EC	**16**	**291.03**	**(1.85)**	**(7.43)**	**281.75**	**16**

Over the year ended 31 December 2006, 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 2005	Amortisation from 1 January to 31 December 2006	Exchange rate adjustment	Amount outstanding at 31 December 2006	Number of loans
Belgium	20	3.46	(0.49)	-	2.97	16
Denmark	1	0.01	-	-	0.01	1
Germany	36	31.75	(3.90)	-	27.85	35
Greece	9	0.35	(0.03)	-	0.32	8
Spain	21	7.46	(0.83)	-	6.63	21
France	22	6.31	(1.33)	-	4.98	14
Ireland	9	0.22	(0.03)	-	0.19	9
Italy	21	4.44	(0.61)	-	3.83	20
Luxembourg	6	0.66	(0.09)	-	0.57	5
Netherlands	7	0.55	(0.11)	-	0.44	7
Austria	2	3.39	(0.18)	-	3.21	2
Portugal	6	0.46	(0.05)	-	0.41	6
Finland	2	0.65	(0.03)	-	0.62	2
United Kingdom	21	4.12	(0.69)	0.08	3.51	20
Total EC	**183**	**63.83**	**(8.37)**	**0.08**	**55.54**	**166**

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 2005 amounted to EUR 3 895 497. These were covered in their entirety by value adjustments. Over the year ended on 31 December 2006, payments were received totalling EUR 79 526 and claims totalling EUR 3 304 261 were written off. An amount of EUR 998 was booked as income. Total claims at 31 December 2006 thus amounted to EUR 512 708, covered in their entirety by value adjustments.

Interest subsidies

Total claims at 31 December 2005 amounted to EUR 790 618, covered in their entirety by value adjustments. During the year ended on 31 December 2006, the ECSC in liquidation received payments of EUR 44 623, an amount of EUR 1 629 was booked as income and the ECSC in liquidation waived or cancelled claims amounting to EUR 81 361. Total claims at 31 December 2006 thus amounted to EUR 666 263, covered in their entirety by value adjustments.

Fines

Total claims at 31 December 2005 amounted to EUR 10 661 741, covered entirely by value adjustments. Over the year ended on 31 December 2006, a total of claims of EUR 10 661 741 was written off. Details are described in the notes to the financial statements (Note D.2.).

Outstanding commitments under ECSC operating budgets

During the year ended on 31 December 2006, payments were made totalling EUR 16.45 million and cancellations totalled EUR 20 million. The changes in commitments under the ECSC operating budgets from 1 January to 31 December 2006 are set out in the notes to the financial statements (Note D.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 total cash holdings, provisions and free reserves in 2006 were as follows (EUR million) :

	31 December 2006	**31 December 2005**
Total cash holdings	1 457	1 600
Commitments, operating budget	21	57
Credit for Coal and Steel Research [2]	269	248
Guarantee Reserve	206	207
Reserve to cover loans on own funds (former "ECSC special reserve")	56	64
Reserve to cover loans to officials (former "pension fund")	17	20
Free reserves (after allocation of result)	1 036	966

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 0.915 % for the year 2006, compared with a reference rate for the ECSC in liquidation of 0.901 % (see note to the financial statements D.4).

2 Smoothing reserve 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[3]. The revenue for 2006 will be used for research in 2008.

Calculation of the allocation for research in 2008 : (in EUR thousand)

Financing provisions for 2007	53 875
Net revenue in 2006 (rounded)	53 000
Difference	875

Allocation :

Net revenue in 2006	53 000
Half of the difference	438
Available for research in 2008	53 438

Financing :

Net revenue in 2006	53 000
Use of smoothing reserve	438
	53 438

3 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 fifth report on the ECSC in liquidation, covering the year ended on 31 December 2006.

The ECSC in Liquidation financial statements for the year ended 31 December 2006 were submitted to the Commission for approval under written procedure No E/......./2007 of .... 2007 and are shown in this financial report in the form approved by the Commission.

Independent Auditor's report

Report on the financial statements

In accordance with the mandate received from DG ECFIN, we have audited the accompanying financial statements of European Coal and Steel Community in liquidation ("ECSC in liquidation") managed by the Economic and Financial Affairs DG (DG ECFIN) on behalf of the European Commission (the "Commission"), which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DG ECFIN's Management responsibility for the financial statements

DG ECFIN's Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting rules applicable to the European Communities set out in note B. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

We have not performed any audit work for the accounts that are managed by DG Budget relating to the operating budget disclosed in Other liabilities (EUR 21.8 Mio), the loans to officials disclosed in Loans and advances to customers (EUR 17.1 Mio) and in Other assets (EUR 2.2 Mio), the interests received on loans to officials disclosed in Interests and similar income from bank accounts and loans (EUR 0.7 Mio), the amount relating to the cancellation of commitments of operating budget and to the income from research disclosed in Other operating income (EUR 20.6 Mio).

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

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

Opinion

In our opinion, except for the matter noted in the previous paragraph, these financial statements have been prepared, in all material respects, in accordance with the accounting rules applicable to the European Communities set out in note B.

Without qualifying our opinion, we emphasize that the accounting policies used and disclosures made are not intended to, and do not, comply with all the requirements of the International Financial Reporting Standards.

Report on other legal and regulatory requirements

The activity report, which is the responsibility of DG ECFIN's Management, is in accordance with the financial statements.

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

Luxembourg, March 30, 2007

Philippe Sergiel

Balance sheet at 31 December 2006

(amounts in EUR) - before allocation of surplus

	Note	31 December 2006	31 December 2005
Assets			
Cash and deposits with credit institutions	B.3.4., D.1.	56 171 336	42 212 315
Loans and advances to credit institutions	B.3.1., D.2.	239 875 023	242 858 277
Loans and advances to customers	B.3.1., D2.	316 014 466	329 256 846
Derivative financial instruments	B.3.2., D.3.	20 806 845	27 509 180
Available-for-sale securities	B.3.3., C.4. D.4.	1 400 991 264	1 410 559 474
New Member States' contribution	D.5.	137 696 359	158 827 865
Other assets	D.6.	2 177 428	3 216 326
Total assets		**2 173 732 721**	**2 214 440 283**
Liabilities			
Borrowings from credit institutions	B.3.5., D.7.	1 853 519	4 358 359
Debts evidenced by certificate	B.3.5., D.7.	461 234 819	463 244 092
Derivative financial instruments	B.3.2., D.3.	8 320 540	14 497 707
Other liabilities	B.5.1., D.8.	236 233 307	250 970 514
Total liabilities		**707 642 185**	**733 070 672**
Equity			
Retained earnings	D.9.	23 782 537	30 737 875
Reserves	D.10.	1 442 307 999	1 450 631 736
Total equity		**1 466 090 536**	**1 481 369 611**
Total equity and liabilities		**2 173 732 721**	**2 214 440 283**

The notes on pages 21-61 are an integral part of these financial statements.

Income statement for the year ended 31 December 2006

(amounts in EUR)

	Note	31 December 2006		31 December 2005	
Income					
Interest and similar income :					
From bank accounts and loans		56 108 519		55 781 208	
From fixed income debt securities and other interest		49 824 001		47 879 727	
Total	B.4.1., E.2.		105 932 520		103 660 935
Fees and commissions income		104 806		260 071	
Net profit on sale of securities	E.3.	879 141		2 847 752	
Other financial income	E.4.	9 296 891		9 792 500	
Total			10 280 838		12 900 323
Other operating income	E.5.		21 015 842		23 313 664
Total income			**137 229 200**		**139 874 922**
Charges					
Interest and similar charges	B.4.1., E.6.		51 660 406		51 336 251
Fees and commissions charges	E.7.		204 676		218 601
Financial operations :					
Net loss on foreign exchange	B.2.	1 113 798		923 145	
Other financial charges	E.8.	7 452 607		3 645 455	
Total			8 566 405		4 568 600
Depreciation	B.3.6.	-		5 648	
Provision for Research financing	E.1.	53 000 000		53 000 000	
Other operating charges	B.5.1., E.9.	15 176		7 947	
Total			53 015 176		53 013 595
Total charges			**113 446 663**		**109 137 047**
Net profit for the year	E.1.		**23 782 537**		**30 737 875**

The notes on pages 21-61 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2006

(amounts in thousands EUR)

	Assets of the Coal and Steel Research Fund (B.5.2.)	Member States' Contribution not yet called (D.7.)	Special Reserves	General Reserves	Fair value Reserve	Retained earnings	Total
Previously reported balance at 31 December 2005	935 325	144 441	291 296	55 000	24 570	30 738	1 481 370
Allocation of retained earnings	30 738	-	-	-	-	(30 738)	-
Net change in available-for-sale portfolio	-	-	-	-	(38 623)	-	(38 623)
Call for Member States' Contribution	33 986	(33 986)	-	-	-	-	-
Transfer of reserves on 31 December 2006	12 000	-	(12 000)	(439)	-	-	(439)
Net profit 2006	-	-	-	-	-	23 783	23 783
At 31 December 2006	**1 012 049**	**110 455**	**279 296**	**54 561**	**(14 053)**	**23 783**	**1 466 091**

The notes on pages 21-61 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2006

(amounts in thousands EUR)

	2006	2005
Operating activities (F.2.)		
New Member States' contribution	24 000	1 489
Repayment of loans	10 222	10 627
Interest received - loans	53 968	50 782
Repayment of borrowings	(2 044)	(2 223)
Interest expenses - borrowings	(52 495)	(45 689)
Proceeds from other assets	(934)	15 043
Net advance to the General Budget of the EU	(42 559)	(69 716)
Operating cost	(327)	(496)
Net cash flow from operating activities	**(10 169)**	**(40 183)**

Investing activities (F.3.)		
Interest received - cash and cash equivalents	2 382	1 149
Purchase of investments available-for-sale portfolio	(526 107)	(340 778)
Proceeds of investments available-for-sale portfolio	493 697	331 848
Interest received - available-for-sale portfolio	54 158	50 230
Investing cost and other	(2)	(4)
Net cash flow from investing activities	**24 128**	**42 445**

Net increase in cash and cash equivalents	13 959	2 262

Cash and cash equivalents at 01 January	**42 212**	**39 950**
Cash and cash equivalents at 31 December	**56 171**	**42 212**

The notes on pages 21-61 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

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[4] 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 Coal and Steel Research Fund[5].

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4 OJ C80, 10.03.2001.
5 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[6], 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 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.

6 In order to better reflect the nature of the activity of the ECSC in liquidation which corresponds to a high degree to an entity in the financial services sector, the layout of the balance sheet, established in line with article 3 of the Council Decision 2003/76/EC of 1 February 2003, departs from the presentation laid out in the EC Accounting Rules 2 Financial statements (page 9). Furthermore, the presentation of the cash-flow statement is established using the direct method compared to the indirect method laid out in the EC Accounting Rules (page 16). However, these discrepancies are eliminated through the consolidation process with the financial statements of the European Communities.

B.2. Currency and basis for conversion

B.2.1. Functional and reporting currency

The financial statements are presented in EUR (euros), 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 2006	31 December 2005
Danish crone	7.4560	7.4605
Pound sterling	0.6715	0.6853
United States dollar	1.3170	1.1797

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 in liquidation 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]. The final amortization was booked in 2005.

Computer hardware was stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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.

[7] OJ L 336, 30.12.2000, p.75.

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.

B.5. Special features of the ECSC in liquidation 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".

Changes in commitments vis-à-vis third parties entered into under the operating budget between 1 January and 31 December 2006 are shown under the heading "Outstanding commitments under the ECSC operating budget" (see Note D.8.).

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 Coal and Steel Research Fund (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.

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8 OJ L 29, 1.2.2003, p.22.

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 are passed to the European Community, and the liquidation of the liabilities of the ECSC is 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.

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 D.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 2006. 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	226.79	75.94
Liabilities	311.96	75.93
Net balance sheet position	**(85.17)**	**0.01**
Effect of cross currency interest rate swaps	*89.35*	-
Net exposure	***4.18***	***0.01***

The GBP assets and liabilities position is mainly composed of EUR equivalent 152.6 million (nominal value) unquoted debt securities issued by the European Investment Bank as substitute of a defaulted debtor (see point D.2.). The "effect of cross currency interest rate swaps" 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 Note D.3.). Remaining net exposure concerns EUR equivalent 3.51 million housing loans and EUR equivalent 0.67 million current account balances.

The USD position principally consists of EUR equivalent 75.93 million loans granted from borrowed funds. Net exposure results of EUR equivalent 0.01 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 Note D.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 93 % 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 2006, this hypothetical loss was about EUR 54 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 2006, the total outstanding nominal amount of loans granted by the ECSC in liquidation was EUR 354.35 million, broken down as follows (in million EUR):

	Nominal amount
Loans granted to credit institutions	48.70
Loans granted to customers	305.65
Total	**354.35**

60.07 % of the total amount outstanding loans is covered by guarantees from a Member State or equivalent bodies (public institutions or public-sector industrial groupings in the Member States). 15.23 % of loans outstanding were granted to banks of zone A or have been guaranteed by banks of zone A.

4.82 % of the outstanding loans (EUR 17.07 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. 19.88 %, 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 206 million at 31 December 2006.

The loans granted on own funds were covered by another reserve, formerly called "ECSC Special Reserve". This special reserve amounts to EUR 56 million at 31 December 2006.

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

At the balance sheet date, respectively 42 % and 58 % 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 2006) are as follows:

	EUR million	Number of loans
Greece	75.93	1
France	133.82	2
Italy	2.01	12
United Kingdom	69.99	1
Total	**281.75**	**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	75.93	-	-	-	**75.93**
France	-	-	133.82	-	**133.82**
Italy	-	2.01	-	-	**2.01**
United Kingdom	-	-	-	69.99	**69.99**
Total EC	**75.93**	**2.01**	**133.82**	**69.99**	**281.75**

Following a restructuring of debts of a defaulting debtor in 1998, the Commission acquired EUR 152.6 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 2006 **EUR million**	**31 December 2006** **Number of loans**
Belgium	2.97	16
Denmark	0.01	1
Germany	27.85	35
Greece	0.32	8
Spain	6.63	21
France	4.98	14
Ireland	0.19	9
Italy	3.83	20
Luxembourg	0.57	5
Netherlands	0.44	7
Austria	3.21	2
Portugal	0.41	6
Finland	0.62	2
United Kingdom	3.51	20
Total	**55.54**	**166**

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 guarantee		Total
			Public	Private	
Belgium	-	-	2.97	-	2.97
Denmark	-	0.01	-	-	0.01
Germany	-	27.85	-	-	27.85
Greece	-	0.32	-	-	0.32
Spain	-	6.63	-	-	6.63
France	-	4.98	-	-	4.98
Ireland	0.19	-	-	-	0.19
Italy	-	3.83	-	-	3.83
Luxembourg	-	0.57	-	-	0.57
Netherlands	-	-	-	0.44	0.44
Austria	-	3.21	-	-	3.21
Portugal	-	0.41	-	-	0.41
Finland	-	0.62	-	-	0.62
United Kingdom	-	3.51	-	-	3.51
Total	**0.19**	**51.94**	**2.97**	**0.44**	**55.54**

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

(c) Derivative financial instruments – profile of counterparties

See Note D.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 :

Issuers	**31 December 2006** **EUR**	**%**
Sovereign	451 787 383	32.2
Multinational Organisations	58 344 575	4.2
Banks & Financial Institutions	695 039 641	49.6
Other Public Issuer	195 819 665	14.0
Total	**1 400 991 264**	**100.0**

Rating (Standard and Poor's)	**31 December 2006** **EUR**	**%**
AAA	806 412 974	57.6
AA+	133 350 493	9.5
AA	189 554 719	13.5
AA-	12 153 534	0.9
A+	93 324 050	5.6
A	85 914 840	7.2
A-	80 280 654	5.7
Total	**1 400 991 264**	**100.0**

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

Country	31 December 2006 EUR million	%
Austria	79.6	5.7
Belgium	10.4	0.7
Canada	29.5	2.1
Cyprus	32.6	2.3
Czech Republic	10.5	0.8
Denmark	9.9	0.7
Finland	10.0	0.7
France	93.1	6.7
Germany	261.8	18.7
Greece	50.2	3.6
Hungary	87.9	6.3
Ireland	92.5	6.6
Italy	70.4	5.0
Japan	10.9	0.8
Latvia	10.4	0.7
Lithuania	36.1	2.6
Netherlands	88.1	6.3
Poland	34.2	2.4
Portugal	7.8	0.6
Slovak Republic	5.2	0.4
Slovenia	3.2	0.2
Spain	127.0	9.1
Supranational	58.3	4.2
United Kingdom	101.4	7.2
United States of America	77.5	5.5
	1 401.0	**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 year amounts to EUR 1.03 million (net loss). 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 - Explanatory notes to the balance sheet

D.1. Cash and deposits with credit institutions

(EUR)

	31 December 2006	31 December 2005
Repayable on demand	3 452 195	6 392 486
With agreed maturity dates or periods of notice	52 719 141	35 819 829
Total	**56 171 336**	**42 212 315**

The effective interest rates in 2006 on short-term deposits were 3.56 % - 3.67 %. These deposits have an average maturity of 16 days.

D.2. Loans and advances

(EUR)

	31 December 2006	31 December 2005
Loans and advances to credit institutions	**239 875 023**	**242 858 277**
Loans granted from own funds	*33 553 510*	*37 494 935*
Loans granted from borrowed funds	*386 518*	*602 428*
Debt securities classified as loans and advances (European Investment Bank)	*205 934 995*	*204 760 914*
Loans and advances to customers	**316 014 466**	**329 256 846**
Loans granted from own funds	*5 290 051*	*6 168 878*
Loans granted from borrowed funds	*292 073 898*	*302 537 735*
Delayed payments	*1 353 487*	*290 329*
Loans granted to officials of the European Communities	*17 068 496*	*20 101 723*
Other amounts due by customers	*228 534*	*158 181*
Total loans and advances	**555 889 489**	**572 115 123**

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.

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

Effective interest rates on loans granted from own funds

31.12.2006	31.12.2005
2.806 % - 22.643 %	2.806 % - 22.643 %

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 135 455 417 (2005 : EUR 137 091 087) and fixed rates are EUR 146 299 124 (2005 : EUR 153 937 046).

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

31.12.2006	31.12.2005
3.064 % - 12.077 % (*)	2.241 % - 12.077 % (*)

(*) relates to the fixed rate loan covered by the interest rate swap (see Note D.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

31.12.2006	31.12.2005
5.2354 % - 5.2401 %	5.2354 % - 5.2401 %

Loans granted on own funds

(EUR)

Loan type	Balance at 01.01.2006	Repayments	Exchange differences	Changes in carrying amount	Net value at 31.12.2006	Remaining maturity < 1 year	Remaining maturity > 1 year
Loans and advances to credit institutions	37 494 935	(7 052 277)	74 387	3 036 465	33 553 510	5 454	33 548 056
Loans and advances to customers	6 168 878	(1 323 745)	10 996	433 922	5 290 051	11 854	5 278 197
Total	**43 663 813**	**(8 376 022)**	**85 383**	**3 470 387**	**38 843 561**	**17 308**	**38 826 253**

(EUR)

Loan type	Balance at 01.01.2006	Repayments	Exchange differences	Changes in carrying amount	Net Value at 31.12.2006	Remaining maturity < 1 year	Remaining maturity > 1 year
Loans and advances to credit institutions	602 428	(210 204)	-	(5 706)	386 518	14 957	371 561
Loans granted to the EIB	204 760 914	-	4 208 043	(3 033 962)	205 934 995	-	205 934 995
Loans and advances to customers	302 537 735	(1 635 670)	(8 160 423)	(667 744)	292 073 898	74 875 149	217 198 749
Total	**507 901 077**	**(1 845 874)**	**(3 952 380)**	**(3 707 412)**	**498 395 411**	**74 890 106**	**423 505 305**

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 2006	31 December 2005
Levies		
- amounts due	512 708	3 895 497
- value adjustments	(512 708)	(3 895 497)
Total	-	-
Fines		
- amounts due	-	10 661 741
- value adjustments	-	(10 661 741)
Total	-	-
Interest subsidies repayable		
- amounts due	666 263	790 618
- value adjustments	(666 263)	(790 618)
Total	-	-
Research subsidies repayable		
- amounts due	228 534	207 123
- value adjustments	-	(48 942)
Total	**228 534**	**158 181**
Total other amounts due by customers	**228 534**	**158 181**

Levies

Total claims at 31 December 2005 amounted to EUR 3 895 497. These were covered in their entirety by value adjustments. Over the year ended on 31 December 2006, payments were received totalling EUR 79 526 and claims totalling EUR 3 304 261 were written off. Total claims at 31 December 2006 thus amounted to EUR 512 708, covered in their entirety by value adjustments. An amount of EUR 998 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 2005	**Payments in 2006**	**Write offs 2006**	**31 December 2006**
Italian companies	1 161 741	-	1 161 741	-

At 31 December 2005 one company was in liquidation, and a value adjustment of 100 % had been entered in the ECSC in liquidation's books. The winding-up process was considered as completed in 2006. The remaining debt of EUR 1 161 741, which was covered by a 100 % provision, has been written off.

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

(EUR)

Amount outstanding at				
	31 December 2005	**Payments in 2006**	**Write offs 2006**	**31 December 2006**
Italian company	9 500 000	-	9 500 000	-

At December 2005 one company was in liquidation and a value adjustment of 100 % had been entered in the ECSC's' books. The winding-up process was considered as completed in 2006. The debt of EUR 9 500 000 which was covered by a 100 % provision, has been written off.

Interest subsidies

Total claims at 31 December 2005 amounted to EUR 790 618, covered in their entirety by value adjustments. During the year ended on 31 December 2006, the ECSC in liquidation received payments of EUR 44 623 and waived or cancelled claims amounting to EUR 81 361. Total claims at 31 December 2006 thus amounted to EUR 666 263, covered in their entirety by value adjustments. An amount of EUR 1 629 was recorded as income.

D.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 entered in the past 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
Barclays Bank PLC	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
BNP Paribas	AA	to receive	60 000 000.00	GBP	3M LIBOR – 0.31 %	13.03.2009
	AAA	to pay	88 085 042.16	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 31.12.2006 **EUR**	**Amount 31.12.2005** **EUR**	**Amount 31.12.2006** **EUR**	**Amount 31.12.2005** **EUR**
20 806 845	27 509 180	8 320 540	14 497 707

D.4. Available-for-sale securities

(EUR)

	Debt securities
Amount at 31 December 2005	**1 410 559 474**
Acquisitions	520 748 789
Disposals and withdrawals	(489 999 258)
Change in carrying amount	(40 317 741)
Amount at 31 December 2006	**1 400 991 264**

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

(EUR)

Type	**31 December 2006**	**31 December 2005**
Debt securities - at fair value		
Fixed rate bonds	1 271 679 351	1 162 525 977
Floating rate bonds	101 934 559	217 603 394
Zero-bonds	-	3 656 880
Total	**1 373 613 910**	**1 383 786 251**
Accruals	27 377 354	26 773 223
Total debt securities	**1 400 991 264**	**1 410 559 474**
Total available-for-sale portfolio	**1 400 991 264**	**1 410 559 474**

Debt securities

At 31 December 2006, all investments are denominated in EUR and quoted in an active market.

Structure by rating

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

(EUR million)

Rating	31 December 2006	31 December 2005
Debt securities-at fair value		
AAA	792.8	859.0
AA+	131.4	113.3
AA	185.8	119.7
AA-	12.0	70.7
A+	90.8	32.5
A	82.8	16.1
A-	78.0	138.2
BBB+	-	34.3
Total	**1 373.6**	**1 383.8**
Accruals	27.4	26.8
Total debt securities	**1 401.0**	**1 410.6**

The change in the rating structure is due to the upgrade of new Member States' rating and purchase of high rated securities.

Maturities in 2007

Debt securities (expressed at their fair value) reaching final maturity in the course of 2007 amount to EUR 134.6 million (2006: 237.4 million).

Return on investment

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 0.915 % for the year 2006, compared with a reference rate for the ECSC in liquidation of 0.901 %.

D.5. 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 4 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**

9 OJ L 236, 23.09.2003, p. 33.

The present value of these contributions was EUR 134 827 865 at 31 December 2005.

The first instalment (15 %) was due on 2 January, 2006	25 489 500
Payments received in 2005	(1 489 500)
Payments received in 2006	(24 000 000)
Amount outstanding (1st instalment) at 31 December 2006	-

The second instalment (20 %) was due on 2 January, 2007	33 986 000
Payments received in 2006	-
Amount outstanding (2nd instalment) at 31 December 2006	33 986 000

For the 3rd and 4th instalments a total amount of EUR 110 454 500 is due (see note D.12.). The net present value of these instalments amounts to EUR 103 710 359 at 31 December 2006.

	1 January 2006 **EUR**	**Reclassification** **EUR**	**Amounts received** **EUR**	**Net present value adjustment** **EUR**	**31 December 2006** **EUR**
Due > 1 year	134 827 865	(33 986 000)	-	2 868 494	103 710 359
Due < 1 year	24 000 000	33 986 000	(24 000 000)	-	33 986 000
Total	**158 827 865**	**-**	**(24 000 000)**	**2 868 494**	**137 696 359**

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 interbank yield table.

D.6. Other assets

(EUR)

	31 December 2006	31 December 2005
Current account, ECSC operating budget	-	16 614
Withholding taxes and VAT to be received	115 637	115 637
Loans to officials	2 189 008	3 224 220
Miscellaneous	19 781	14 702
Sub-total	**2 324 428**	**3 371 173**
Value adjustments	(147 000)	(154 847)
Total	**2 177 428**	**3 216 326**

D.7. Borrowings

(EUR)

	31 December 2006	31 December 2005
Borrowings from credit institutions	1 853 519	4 358 359
Debts evidenced by certificates	461 234 819	463 244 092
Total	**463 088 338**	**467 602 451**

The detailed movements in borrowings during 2006 are as follows:

(EUR)

Borrowing type	Balance at 1.01.2006	Reclassification	Repayments	Exchange differences	Changes in carrying amount	Balance at 31.12.2006	Remaining maturity < 1 year	Remaining maturity > 1 year
Borrowings from credit institutions	4 358 359	(933 567)	(1 558 929)	-	(12 344)	1 853 519	1 299 837	553 682
Debts evidenced by certificates	463 244 092	933 567	(464 811)	(2 497 800)	19 771	461 234 819	468 452	460 766 367
Total	**467 602 451**	**-**	**(2 023 740)**	**(2 497 800)**	**7 427**	**463 088 338**	**1 768 289**	**461 320 049**

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

31.12.2006	31.12.2005
3.0 % - 11.875 % (*)	1.625 % - 11.875 % (*)

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

D.8. Other liabilities

(EUR)

	31 December 2006	31 December 2005
Outstanding commitments under the ECSC operating budgets	20 893 318	57 312 684
Budget for financing coal and steel research	214 326 720	193 578 720
Debt to EU Budget	929 783	4 182
Other debtors	27 183	18 086
Agent commission	654	1 193
Miscellaneous	55 649	55 649
Total	**236 233 307**	**250 970 514**

Outstanding commitments under the ECSC operating budgets

During the year from 1 January to 31 December 2006, changes in the item for the ECSC operation budgets were as follows:

(EUR)

	Balance outstanding at 1 January 2006	Payments	Cancellations	Balance outstanding at 31 December 2006
Redeployment	17 739 080	(4 974 205)	(12 721 939)	42 936
Research	28 166 542	(10 973 969)	(4 617 697)	12 574 876
Interest subsidies	147 270	(36 351)	(110 919)	-
Social measures coal (programme "Rechar")	11 259 792	(470 000)	(2 514 286)	8 275 506
Total	**57 312 684**	**(16 454 525)**	**(19 964 841)**	**20 893 318**

Budget for financing coal and steel research

(EUR)

	31 December 2006	31 December 2005
Credit to be committed	1 498 868	493 827
Commitment to be paid	105 514 852	84 459 893
Allocation for year 2006	-	54 750 000
Allocation for year 2007	53 875 000	53 875 000
Allocation for year 2008	53 438 000	-
Total	**214 326 720**	**193 578 720**

	Steel	Coal	Total
CREDIT			
To be committed 01.01.2006	377	493 450	493 827
Allocation credit 2006	39 858 000	14 892 000	54 750 000
Committed 2006	(39 552 317)	(14 192 642)	(53 744 959)
To be committed 31.12.2006	**306 060**	**(1 192 808)**	**1 498 868**
COMMITMENTS			
To be paid 01.01.2006	62 546 343	21 913 550	84 459 893
New commitments	39 552 317	14 192 642	53 744 959
Payments	(26 400 000)	(6 100 000)	(32 500 000)
Cancellations	-	(190 000)	(190 000)
To be paid 31.12.2006	**75 698 660**	**29 816 192**	**105 514 852**

D.9. Retained earnings

(EUR)

	31 December 2006	31 December 2005
Result for the year 2005	-	30 737 875
Result for the year 2006	23 782 538	-
Total retained earnings	**23 782 538**	**30 737 875**

D.10. Reserves

(EUR)

	31 December 2006	**31 December 2005**
Fair value reserve	(14 053 264)	24 570 348
Special reserves	279 296 000	291 296 000
Reserve to cover loans	*206 000 000*	*207 000 000*
Reserve to cover housing loans	*56 000 000*	*64 000 000*
Reserve to cover loans to officials	*17 000 000*	*20 000 000*
Other special reserves	*296 000*	*296 000*
General reserves	54 562 000	55 000 000
Smoothing reserve for CSRF (Coal and Steel Research Fund)	*54 562 000*	*55 000 000*
Assets of the Coal and Steel Research Fund	1 012 048 763	935 324 888
Member States' Contribution not yet called	110 454 500	144 440 500
Total Reserves	**1 442 307 999**	**1 450 631 736**

The changes from 31 December 2005 to 31 December 2006 are shown in the statement of changes in equity.

Fair value reserve

In accordance with the 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 2006 the amount outstanding of these loans was EUR 205 824 397.

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 2006 the amount outstanding of these loans was EUR 55 536 164.

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, 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 2006, the amount outstanding of these loans was EUR 17.07 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 valued at EUR 54.56 million as at 31 December 2006.

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 3rd and 4th instalments of the contribution to the Coal and Steel Research Fund have not yet been called (see Note D.5.).

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

	EUR
Czech Republic	25 922 000
Estonia	1 625 000
Latvia	1 748 500
Hungary	6 454 500
Poland	60 099 000
Slovenia	1 534 000
Slovakia	13 071 500
Total	**110 454 500**

Note E - Explanatory notes to the income statement

E.1. Net profit for the year

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

(EUR)

	31 December 2006	31 December 2005
Winding-up of ECSC's financial operations	23 559 150	30 841 909
Net revenue of investments	53 033 388	52 895 966
Cancellation of CSRF commitments	190 000	-
Coal and Steel Research Fund	(53 000 000)	(53 000 000)
Net result	**23 782 538**	**30 737 875**

Winding-up of ECSC's financial operations

(EUR)

	31 December 2006	31 December 2005
Lending/borrowing activities		
Net interest	2 019 748	3 329 115
Fair value changes derivatives (net)	(1 024 304)	1 572 412
Miscellaneous charges/income (net)	18 783	384 577
Net change in value adjustments	-	(889 244)
Sub-total	**1 014 227**	**4 396 860**
Winding-up commitments		
under operating budget		
Cancellation of commitments	19 964 841	20 523 687
Winding-up other ECSC activities		
Levy, fines, interest subsidies	143 150	288 210
Research	677 483	582 459
Redeployment	4 753	1 405 679
Sub-total	**20 790 227**	**22 800 035**
Variation of Net Present Value	**2 868 494**	**4 573 808**
(Member States' contribution)		
Exchange rate differences	**(1 113 798)**	**(923 145)**
Depreciation	**-**	**(5 648)**
Total	**23 559 150**	**30 841 910**

Net revenue on investments

(EUR)

	31 December 2006	31 December 2005
INCOME		
Interest on nostro accounts	41 567	52 453
Interest on deposit accounts	2 386 797	1 063 403
Interest on securities available-for-sale	49 824 001	47 879 727
Fees and commissions income	104 806	260 071
Profit on sales of available-for-sale securities	2 426 326	3 890 336
Total income	**54 783 497**	**53 145 990**
CHARGES		
Debit interest on nostro accounts	-	(14)
Loss on sales of available-for-sale portfolio	(1 547 185)	(34 220)
Bank and portfolio transaction charges	(202 924)	(215 790)
Total charges	**(1 750 109)**	**(250 024)**
Net revenue on investment	**53 033 388**	**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).

Coal and Steel Research Fund

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

(EUR)

	31 December 2006	31 December 2005
Net revenue on investment	53 033 388	52 895 966
Rounded	53 000 000	53 000 000
Application of smoothing mechanism :		
Net revenue 2006	53 000 000	53 000 000
Allocation decided for 2007/2006	53 875 000	54 750 000
Difference	(875 000)	(1 750 000)
Half of difference 2008/2007	438 000	(875 000)
Allocation for year 2008/2007		
Net revenue	53 000 000	53 000 000
Allocation half of difference	438 000	875 000
Total allocation 2008/2007	**53 438 000**	**53 875 000**
Financing		
Provisioning net revenue	53 000 000	53 000 000
Diminution of Smoothing reserve	438 000	875 000
Total	**53 438 000**	**53 875 000**

E.2. Interests and similar income

(EUR)

	31 December 2006	31 December 2005
Interests on bank accounts	41 567	52 453
Interests on deposit accounts	2 386 797	1 063 403
Interests on loans from borrowed funds	29 312 176	29 742 074
Income on loans on own funds	4 113 023	4 518 316
Interests on loans granted to officials of the European Communities	738 306	876 010
Interests on swaps	19 516 650	19 528 952
Total interests from bank accounts, deposits, loans and derivatives	**56 108 519**	**55 781 208**
Interests on available-for-sale portfolio	**49 824 001**	47 879 727
Total interests from fixed income debt securities	**49 824 001**	**47 879 727**
Total interests and similar income	**105 932 520**	**103 660 935**

E.3. Net profit on sales of securities

(EUR)

	31 December 2006	31 December 2005
Profit on sales of available-for-sale bonds	2 426 326	3 890 336
Loss on sales of available-for-sale bonds	(1 547 185)	(34 220)
Loss on sales of equity instruments	-	(1 008 364)
Total	**879 141**	**2 847 752**

E.4. Other financial income

(EUR)

	31 December 2006	31 December 2005
Variation of net present value on new Member States contribution to the Coal and Steel Research Fund	2 868 494	4 573 808
Penalty for early repayment received	6	826
Positive change of fair value of financial derivatives	6 428 301	5 217 866
Total other financial income	**9 296 891**	**9 792 500**

E.5. Other operating income

(EUR)

	31 December 2006	31 December 2005
Matured coupons and bonds	1 505	2 860
Income from levy, fines and interest subsidy reimbursements	21 628	280 485
Income from Redeployment reimbursements	4 753	1 405 679
Income from Research reimbursements	677 483	575 195
Reversal of impairment losses for levy, interest subsidies and research	121 522	17 216
Reversal of impairment losses for loans to customers	-	119 120
Miscellaneous income from lending activities	34 110	389 422
Cancellation of CSRF commitments	190 000	-
Cancellation of commitments of operating budget	19 964 841	20 523 687
Total	**21 015 842**	**23 313 664**

E.6. Interests and similar charges

(EUR)

	31 December 2006	31 December 2005
Bank interests	-	15
Interests on borrowings	35 919 730	35 906 027
Interests on swaps	15 740 676	15 430 209
Total	**51 660 406**	**51 336 251**

E.7. Fees and commissions charges

(EUR)

	31 December 2006	31 December 2005
Agent commissions	1 751	2 811
Bank charges	1 445	4 559
Portfolio charges	199 577	209 537
SWIFT charges	1 903	1 694
Total	**204 676**	**218 601**

E.8. Other financial charges

(EUR)

	31 December 2006	31 December 2005
Negative change of fair value of financial derivatives	7 452 607	3 645 455
Total	**7 452 607**	**3 645 455**

E.9. Other operating charges

(EUR)

	31 December 2006	31 December 2005
Borrowing costs	15 045	5 734
Other	131	2 213
Total	**15 176**	**7 947**

Note F - Explanatory notes to the cash flow statement

F.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 year classified by operating, investing and financing activities.

F.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).

F.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.

F.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 G - OFF BALANCE SHEET

(EUR)

CONTINGENT LIABILITIES	Note	31.12.2006	31.12.2005
Undrawn commitments	G.1.	15 557	39 402

G.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 H - 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 2006 (in million EUR) :

- Reimbursement of the payments for ECSC operating budget expenses	14.9
- Payments for the Coal and Steel Research Fund	32.5
Total	47.4

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

- Reimbursement of capital and interest of loans to officials of the European Communities	4.8
Total	4.8

Net advance to the Commission (million EUR)	42.6

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

NOTE I - EVENTS AFTER THE BALANCE SHEET DATE

At the time of issuance of the accounts on March 30, 2007, no material issues than the disclosed below 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.

The Republic of Bulgaria and Romania became Member of the European Union on 1 January 2007. Article 26 of the "Protocol concerning the conditions and arrangements for admission of the republic of Bulgaria and Romania to the European Union" [10] provides for Bulgaria and Romania to make a contribution to the assets of the Coal and Steel Research Fund. The net present value at the total contribution at 1 January 2007 is EUR 37.1 million.

In the past, ECSC granted a loan for GBP 47 million to a debtor that presented in November 2006, a restructuring plan to its creditors. The plan was approved by the competent Court on 15 January 2007. According to the plan adopted by the Court, the ECSC in liquidation should receive an early repayment of the principal of GBP 47 million plus the interests accrued. The repayment is likely to be received during the first semester of 2007.

NOTE J – PRESENTATION OF THE INCOME STATEMENT

The presentation of the income statement for the year ended 31 December 2005 has been amended in order to adapt it to the presentation of the income statement for the year ended 31 December 2006.

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10 O.J. L 157, 21.06.2005, p. 29.