COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT

FINANCIAL REPORT
ECSC in Liquidation
at 31 December 2008

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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 Research Fund for Coal and Steel. This Protocol confers the ownership of the 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 2008, 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
Antonio TAJANI	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
Androulla VASSILIOU	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
Catherine ASHTON	Member
Andris PIEBALGS	Member
Meglena KUNEVA	Member
Leonard ORBAN	Member

The management of the ECSC in liquidation and of the Research Fund for Coal and Steel 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 2008, of Mr. Marco Buti, Acting Director-General of DG ECFIN, and Mr. Peter Basch, Acting 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 Research Fund for Coal and Steel, on 1 February 2003 the Council decided (Article 3 of Decision 2003/76/EC) that the liquidation and asset-management operations must be the subject, separately from the other financial operations of the remaining Communities, of a profit and loss account, a balance sheet and a financial report.

Activity report

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

The ECSC Treaty expired on 23 July 2002.

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

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

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

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

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1 OJ L29, 05.02.2003, p. 22.

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

Overall status of the winding-up of ECSC financial operations since 23 July 2002

The winding-up for the period from 24.07.2002 to 31.12.2008 proceeded as follows:

In million euros	Status 23.07.2002	Status 31.12.2008
ASSETS		
Loans from borrowed funds		
To credit institutions	25.1	0.0
To Customers*	631.3	133.8
	656.4	133.8
Loans from own funds		
To credit institutions	95.1	33.9
To Customers	17.2	6.3
	112.3	40.2
EIB Loans (granted in GBP)*	161.9	156.9
Loans to officials	33.5	12.7
Loans	964.1	343.6
Levy		
Gross amount	5.0	0.1
Value adjustment	(5.0)	(0.1)
	0.0	0.0
Fines		
Gross amount	46.9	0.0
Value ajustment	(46.9)	0.0
	0.0	0.0
Interest subsidies		
Gross amount	3.1	0.2
Value adjustment	(2.8)	(0.2)
	0.3	0.0
LIABILITIES		
Borrowings	(36.2)	0.0
Debts evidenced by certificate (partially in GBP)	(706.3)	(265.7)
ECSC Operating Budget	(400.9)	(0.7)

* GBP 47 million were reclassified in 2007 from loans to customers to EIB loans.

The "Protocol on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel" (the "Protocol") annexed to the Treaty establishing the European Community transferred all assets and liabilities of the ECSC to the EC with effect of 24 July 2002. It further stipulates that the assets are intended for research in the sectors related to the coal and steel industry and shall be referred to as the "ECSC in liquidation". On completion of the liquidation they shall be referred to as the "Assets of the Research Fund for Coal and Steel".

Considerable progress has been made in the liquidation of the assets and liabilities existing on 23 July 2002 on the balance sheet of the ECSC. The liquidation of the outstanding commitments from the operational budget has been largely achieved at the end of 2008. The remaining outstanding claims for levy and interest rebate repayments have been reduced to a very small amount and are totally covered by value adjustments.

However, there are still an important number of loans and some borrowings outstanding which continue to run for several years and where contractual terms need to be respected.

Given that the ECSC took long term commitments in the area of borrowing and loans during its activity before the expiry of the ECSC Treaty on 23 July 2002, the liquidation process in this area is proceeding in line with the commitments taken. About 64 % of outstanding loans have been reimbursed to date and 36 % of original borrowings remain outstanding. As long as considerable amounts are outstanding in this area, the liquidation needs to be continued. All the assets of the ECSC that are not used for the purpose of its liquidation as well as those provisionally set aside to cover contingent liabilities are invested on the capital markets (bonds and money markets). The revenues from theses assets (referred to as the "Research Fund for Coal and Steel") is used to finance research projects in the sectors related to the coal and steel industry as foreseen in the Protocol.

Management of borrowings of the ECSC in liquidation

During the winding-up period from 31.12.2007 to 31.12.2008, the debt of the ECSC in liquidation changed as follows (nominal amounts):

(EUR million)

Currency	Number of borrowings at 31 December 2007	Debt outstanding at 31 December 2007	Reimbursements from 1 January to 31 December 2008	Exchange rate adjustments	Debt outstanding at 31 December 2008	Number of borrowings at 31 December 2008
EUR	5	46.0	(0.3)	-	45.7	1
GBP	6	285.6	-	(65.7)	220.0	6
USD	1	67.9	(66.1)	(1.8)	-	-
TOTAL	**12**	**399.5**	**(66.4)**	**(67.5)**	**265.7**	**7**

The amortisation of the borrowings outstanding at 31 December 2008 breaks down as follows :

(EUR million)

	EUR	GBP	TOTAL
2009	-	63.0	**63.0**
2010	-	-	-
2011	-	-	-
2012	45.7	-	**45.7**
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	70.6	**70.6**
2018	-	-	-
2019	-	86.4	**86.4**
Total	**45.7**	**220.0**	**265.7**

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 2008	
				in borrowing currency	equivalent in EUR
	Contracts redenominated in EUR				
1992	4.375	20	300 000 000 FRF		45 734 705
			Currency total		**45 734 705**
	Contracts in GBP				
1990	11.875	19	60 000 000 GBP	60 000 000	62 992 126
1992	9.875	25	50 000 000 GBP	17 220 000	18 078 740
1992	9.875	25	30 000 000 GBP	30 000 000	31 496 063
1993	9.875	24	20 000 000 GBP	20 000 000	20 997 375
1994	6.875	25	50 000 000 GBP	35 261 000	37 019 423
1994	8.9375	25	47 000 000 GBP	47 000 000	49 343 832
			Currency total	**209 481 000**	**219 927 559**

Total in EUR **265 662 264**

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NB : Capital and interest in respect of borrowings in GBP totalling GBP 149 481 000 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 2008, 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 2007	Amortisation from 1 January to 31 December 2008	Exchange rate adjustment	Amount outstanding at 31 December 2008	Number of loans
Greece	1	67.93	(66.13)	(1.80)	-	-
France	2	133.82	-	-	133.82	2
Italy	8	0.18	(0.18)	-	-	-
Total EC	**11**	**201.93**	**(66.31)**	**(1.80)**	**133.82**	**2**

Over the year ended 31 December 2008, 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 2007	Amortisation from 1 January to 31 December 2008	Exchange rate adjustment	Amount outstanding at 31 December 2008	Number of loans
Belgium	16	2.51	(0.39)	-	2.12	13
Germany	33	24.14	(4.04)	-	20.10	31
Greece	8	0.29	(0.04)	-	0.25	7
Spain	21	5.78	(0.80)	-	4.98	17
France	14	4.30	(0.70)	-	3.60	12
Ireland	8	0.16	(0.02)	-	0.14	8
Italy	20	3.24	(0.47)	-	2.77	20
Luxembourg	5	0.49	(0.08)	-	0.41	4
Netherlands	6	0.38	(0.04)	-	0.34	6
Austria	2	3.03	(0.18)	-	2.85	2
Portugal	6	0.37	(0.04)	-	0.33	6
Finland	2	0.59	(0.04)	-	0.55	2
United Kingdom	19	2.77	(0.59)	(0.64)	1.54	19
Total EC	**160**	**48.05**	**(7.43)**	**(0.64)**	**39.98**	**147**

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 2007 amounted to EUR 194 805. These were covered in their entirety by value adjustments. During the year ended on 31 December 2008, payments were received totalling EUR 4 467 and claims totalling EUR 136 866 were written off. Total claims at 31 December 2008 thus amounted to EUR 53 471, covered in their entirety by value adjustments. An amount of EUR 28 was recorded as income.

Interest subsidies

Total claims at 31 December 2007 amounted to EUR 499 481, covered in their entirety by value adjustments. During the year ended on 31 December 2008, the ECSC in liquidation received payments of EUR 1 930 and waived or cancelled claims amounting to EUR 280 447. Total claims at 31 December 2008 thus amounted to EUR 217 104 covered in their entirety by value adjustments.

Outstanding commitments under ECSC operating budgets

During the year ended on 31 December 2008, payments were made totalling EUR 1.46 million and cancellations totalled EUR 1.39 million. The changes in commitments under the ECSC operating budgets from 1 January to 31 December 2008 are set out in the notes to the financial statements (Note D.8).

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 and amended by Council Decision N° 2008/750/EC of 15 September 2008. 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 2008 were as follows (EUR million):

	31 December 2008	**31 December 2007**
Total cash holdings	1 571	1 466
Commitments, operating budget	1	4
Credit for Coal and Steel Research [2]	290	275
Guarantee Reserve	134	134
Reserve to cover loans on own funds (former "ECSC special reserve")	40	48
Reserve to cover loans to officials (former "pension fund")	13	15
Free reserves (after allocation of result)	1 235	1 174

2 Smoothing reserve included.

Financing of coal and steel research

The net revenue generated by the assets of the ECSC in liquidation, constituting the Research Fund for Coal and Steel, 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 2008 will be used for research in 2010.

Calculation of the allocation for research in 2010: (in EUR thousand)

Financing provisions for 2009	51 719.0
Net revenue in 2008 (rounded)	56 000.0
Difference	(4 281.0)

Allocation:

Net revenue in 2008	56 000.0
Half of the difference	(2 140.5)
Available for research in 2010	53 859.5

Financing:

Net revenue in 2008	56 000.0
Increase of smoothing reserve	(2 140.5)
	53 859.5

Budget for financing coal and steel research

The following resources have been made available to the Research Fund:

(EUR)

Allocations to the Research Fund for Coal and Steel	Coal 27,20 %	Steel 72,80 %	Total 100 %
Allocation 2003 (lump sum)	16 320 000	43 680 000	60 000 000
Allocation 2004 (lump sum)	16 320 000	43 680 000	60 000 000
Allocation 2005 (result 2003)	15 368 000	41 132 000	56 500 000
Allocation 2006 (result 2004)	14 892 000	39 858 000	54 750 000
Allocation 2007 (result 2005)	14 654 000	39 221 000	53 875 000
Allocation 2008 (result 2006)	14 535 136	38 902 864	53 438 000
Allocation 2009 (result 2007)	14 067 568	37 651 432	51 719 000
Allocation 2010 (result 2008)	14 649 784	39 209 716	53 859 500
	120 806 488	**323 335 012**	**444 141 500**

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 seventh report on the ECSC in liquidation, covering the year ended on 31 December 2008.

The ECSC in Liquidation financial statements for the year ended 31 December 2008 were submitted to the Commission for approval under written procedure No **PE/2009/3924** of **09/06/2009** and are shown in this financial report in the form approved by the Commission.

Independent Auditors' Report

Report on the financial statements

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, 2008, 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. 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 assets (KEUR 64) and in Other liabilities (EUR 0.7 Mio), the loans to officials disclosed in Loans and advances to customers (EUR 12.7 Mio) and in Other assets (EUR 1.2 Mio), the interests received on loans to officials disclosed in Interests and similar income from bank accounts and loans (EUR 0.6 Mio), the amount relating to the cancellation of commitments of operating budget and to the income from research disclosed in Other operating income (EUR 1.8 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.

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. Luxembourg, April 3, 2009
Réviseur d'entreprises

Represented by
Philippe Sergiel

Balance sheet at 31 December 2008

(amounts in EUR) - before allocation of surplus

	Note	31 December 2008	31 December 2007
Assets			
Cash and deposits with credit institutions	B.3.4., D.1.	107 009 747	48 726 135
Loans and advances to credit institutions	B.3.1., D.2.	228 246 505	298 126 933
Loans and advances to customers	B.3.1., D2.	152 058 662	229 131 313
Derivative financial instruments	B.3.2., D.3.	7 026 820	13 375 786
Available-for-sale securities	B.3.3., C.4. D.4.	1 463 674 511	1 416 589 111
New Member States' contribution	D.5.	86 201 360	144 106 205
Other assets	D.6.	1 231 812	1 598 096
Total assets		**2 045 449 417**	**2 151 653 579**
Liabilities			
Borrowings from credit institutions	B.3.5., D.7.	-	276 841
Debts evidenced by certificate	B.3.5., D.7.	282 302 625	424 135 671
Derivative financial instruments	B.3.2., D.3.	25 112 750	10 571 428
Other liabilities	B.5.1., D.8.	235 471 245	225 487 313
Total liabilities		**542 886 720**	**660 471 253**
Equity			
Retained earnings	D.9.	(14 753 306)	5 323 153
Reserves	D.10.	1 517 316 003	1 485 859 173
Total equity		**1 502 562 697**	**1 491 182 326**
Total equity and liabilities		**2 045 449 417**	**2 151 653 579**

The notes on pages 23-59 are an integral part of these financial statements.

Income statement for the year ended 31 December 2008

(amounts in EUR)

	Note	31 December 2008		31 December 2007	
Income					
Interest and similar income :					
From bank accounts and loans		39 710 581		54 556 939	
From fixed income debt securities					
and other interest		60 734 112		55 952 217	
Total	B.4.1., E.2.		100 444 693		110 509 156
Fees and commissions income		179 748		143 233	
Net profit on foreign exchange	B.2	7 567 091		3 070 808	
Other financial income	E.4	4 134 469		8 101 518	
Total			11 881 308		11 315 559
Other operating income	E.5.		3 834 324		13 626 594
Total income			**116 160 325**		**135 451 309**
Charges					
Interest and similar charges	B.4.1., E.6.		36 779 292		52 220 560
Fees and commissions charges	E.7.		204 702		206 320
Financial operations :					
Net loss on sale of securities	E.3	8 174 300		8 898 341	
Other financial charges	E.8	29 738 350		18 790 707	
Total			37 912 650		27 689 048
Provision for Research financing	E.1.	56 000 000		50 000 000	
Other operating charges	E.9.	16 987		12 228	
Total			56 016 987		50 012 228
Total charges			**130 913 631**		**130 128 156**
Net profit for the year	E.1.		**(14 753 306)**		**5 323 153**

The notes on pages 23-59 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2008

(amounts in thousands EUR)

	Assets of the Coal and Steel Research Fund (B.5.2.)	Member States' Contribution not yet called (D.5.)	Special Reserves	General Reserves	Fair value Reserve	Retained earnings	Total
Previously reported balance at 31 December 2007	1 168 811	101 306	197 290	52 842	(34 390)	5 323	1 491 182
Allocation of retained earnings	5 323	-	-	-	-	(5 323)	-
Net change in available-for-sale portfolio	-	-	-	-	23 993	-	23 993
Use of reserves	-	-	-	-	-	-	-
Call for Member States' Contribution	65 750	(65 750)	-	-	-	-	-
Transfer of reserves on 31 December 2008	10 000	-	(10 000)	2 141	-	-	2 141
Net profit 2008	-	-	-	-	-	(14 753)	(14 753)
At 31 December 2008	**1 249 884**	**35 556**	**187 290**	**54 983**	**(10 397)**	**(14 753)**	**1 502 563**

The notes on pages 23-59 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2008

(amounts in thousands EUR)

	2008	2007
Operating activities (F.2.)		
New Member States' contribution	54 455	33 986
Granting of loans	-	(88 693)
Repayment of loans	74 003	79 356
Interest received - loans	44 193	49 110
Repayment of borrowings	(66 404)	(2 024)
Interest expenses - borrowings	(43 711)	(48 236)
Proceeds from other assets	5	247
Net advance to the General Budget of the EU	(36 919)	(45 578)
Operating cost	(149)	798
Net cash flow from operating activities	**25 473**	**(21 034)**
Investing activities (F.3.)		
Interest received - cash and cash equivalents	3 382	2 521
Purchase of investments available-for-sale portfolio	(306 440)	(599 447)
Proceeds of investments available-for-sale portfolio	275 997	554 914
Interest received - available-for-sale portfolio	60 076	55 805
Investing cost and other	(204)	(204)
Net cash flow from investing activities	**32 811**	**13 589**
Net increase in cash and cash equivalents	58 284	(7 445)
Cash and cash equivalents at 01 January	**48 726**	**56 171**
Cash and cash equivalents at 31 December	**107 010**	**48 726**

The notes on pages 23-59 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2008

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 Research Fund for Coal and Steel. 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 Research Fund for Coal and Steel".

The Commission is responsible for winding-up the financial operations of the ECSC that were still in progress at the moment of the expiry of the ECSC Treaty. 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 "Research Fund for Coal and Steel", constitutes revenue in the general budget of the European Union and will be used exclusively for research in the sectors associated with the coal and steel industries, in accordance with Council Decision 2003/76/EC of 1 February 2003 establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel[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 Research Fund for Coal and Steel. 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 ACCOUNTIN POLICIIES

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/EC (as amended) and the Commission Decision of 9 August 2005 (C/2005/2992). The annual accounts shall be based upon and presented in accordance with the EC Accounting Rules as adopted by he Commission's Accounting officer, taking into account the specific nature of the ECSC in liquidation[6]. EC Accounting Rules 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, the 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 EURO (EUR), which is the ECSC in liquidation's functional and reporting currency.

B.2.2. Transactions and balances

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

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

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

	31 December 2008	**31 December 2007**
Pound sterling	0.9525	0.73335
United States dollar	1.3917	1.4721

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.

Interest on available-for-sale financial assets calculated using the effective interest rate method is 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.4. Income statement

B.4.1. Interest income and expenses

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

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

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

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 2008 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 Research Fund for Coal and Steel (2003/76/EC), the income from managing the assets of the ECSC in liquidation should be allocated to the general budget of the European Union[7]. This income is

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

earmarked for a research programme relating to the coal and steel industries, as stated in Note A to this report.

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

NOTE C - FINANCIAL RISK MANAGEMENT

C.1. Risk management policies and hedging activities

Following the expiry of the ECSC Treaty on 23 July 2002, in accordance with Decision 2003/76/EC the assets and liabilities of the ECSC were 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 UK pound (GBP).

The table below summarises the ECSC in liquidation's exposure to foreign currency exchange rate risk at 31 December 2008. 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
Assets	158.95
Liabilities	219.93
Net balance sheet position	**(60.98)**
Effect of cross currency interest rate swaps	*62.99*
Net exposure	***2.01***

The GBP assets and liabilities position is mainly composed of EUR equivalent 156.9 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 1.54 million housing loans and EUR equivalent 0.47 million current account balances.

According to the 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 97 % 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 2008, this hypothetical loss was about EUR 57 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 2008, the total outstanding nominal amount of loans granted by the ECSC in liquidation was EUR 186.40 million, broken down as follows (in million EUR):

	Nominal amount
Loans granted to credit institutions	33.68
Loans granted to customers	152.78
Total	**186.46**

73.0 % 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). 20.0 % of loans outstanding were granted to banks of zone A or have been guaranteed by banks of zone A.

6.8 % of the outstanding loans (EUR 12.67 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 and pensions.

The small remaining outstanding loans balance, i.e. 0.2 %, should be considered as presenting a higher degree of risk. It means that the guarantees received 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 134 million at 31 December 2008.

The loans granted on own funds were covered by another reserve, formerly called "ECSC Special Reserve". This special reserve amounts to EUR 40 million at 31 December 2008.

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

At the balance sheet date, respectively 57 % and 43 % 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 2008) are as follows:

	EUR million	**Number of loans**
France	133.82	2
Total	**133.82**	**2**

These loans were granted to a public owned company.

Loans granted to the European Investment Bank

Following a restructuring of debts of a defaulting debtor, the Commission acquired in 2002 and 2007 EUR equivalent 156.9 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 2008 **EUR million**	**31 December 2008** **Number of loans**
Belgium	2.12	13
Germany	20.10	31
Greece	0.25	7
Spain	4.98	17
France	3.60	12
Ireland	0.14	8
Italy	2.77	20
Luxembourg	0.41	4
Netherlands	0.34	6
Austria	2.85	2
Portugal	0.33	6
Finland	0.55	2
United Kingdom	1.54	19
Total	**39.98**	**147**

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

These loans were classified as follows:

(EUR million)

Member States	Loans guaranteed by public body	Loans granted to a public sector entity	Loans guaranteed by banks	Loans granted to banks	Loans guaranteed by private company	Total
Belgium	-	2.12	-	-	-	2.12
Germany	-	-	-	20.10	-	20.10
Greece	-	-	-	0.25	-	0.25
Spain	-	-	-	4.98	-	4.98
France	-	-	-	3.60	-	3.60
Ireland	0.14	-	-	-	-	0.14
Italy	-	-	-	2.77	-	2.77
Luxembourg	-	-	-	0.41	-	0.41
Netherlands	-	-	-	-	0.34	0.34
Austria	-	-	2.85	-	-	2.85
Portugal	-	-		0.33	-	0.33
Finland	-	-	0.55	-	-	0.55
United Kingdom	-	-	0.30	1.24	-	1.54
Total	**0.14**	**2.12**	**3.70**	**33.68**	**0.34**	**39.98**

(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 2008** **EUR**	**%**
Sovereign	614 239 043	42.0
Multinational Organisations	87 643 891	6.0
Banks & Financial Institutions	461 116 380	31.5
Other Public Issuer	300 675 197	20.5
Total	**1 463 674 511**	**100.0**

Rating (Standard and Poor's)	**31 December 2008** **EUR**	**%**
AAA	1 045 362 182	71.4
AA+	73 762 874	5.0
AA	128 638 083	8.8
AA-	32 754 016	2.2
A+	62 243 174	4.3
A	55 035 429	3.8
A-	45 810 186	3.1
BBB+	5 423 656	0.4
BBB	14 644 911	1.0
Total	**1 463 674 511**	**100.0**

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

Country	31 December 2008 EUR million	%
Austria	76.4	5.2
Belgium	52.2	3.6
Bulgaria	5.4	0.4
Canada	39.9	2.7
Cyprus	32.8	2.2
Danmark	5.2	0.4
Finland	6.3	0.4
France	184.3	12.6
Germany	282.3	19.3
Greece	47.1	3.2
Hungary	47.0	3.2
Ireland	23.8	1.6
Italy	77.3	5.3
Japan	10.7	0.7
Latvia	17.0	1.2
Lithuania	39.9	2.7
Luxembourg	10.2	0.7
Netherlands	81.8	5.6
Norway	6.1	0.4
Poland	15.2	1.1
Portugal	13.5	0.9
Romania	14.6	1.0
Slovak Republic	15.1	1.0
Slovenia	3.1	0.2
Spain	67.3	4.6
Supranational	87.6	6.0
Sweden	26.1	1.8
United Kingdom	97.7	6.7
United States of America	77.8	5.3
	1 463.7	**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 the 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.

The maturity of the liabilities has been analyzed as follows:

In million euro

	Not later than 3 months	Later than 3 months and not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years
Debts evidenced by certificate	71.1	15.6	107.7	226.5

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 22.15 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 2008	31 December 2007
Repayable on demand	6 165 849	6 808 498
With agreed maturity dates or periods of notice	100 843 898	41 917 637
Total	**107 009 747**	**48 726 135**

The effective interest rates in December 2008 on short-term deposits were 1,82 % - 4,01 %. These deposits have an average maturity of 29 days.

D.2. Loans and advances

(EUR)

	31 December 2008	31 December 2007
Loans and advances to credit institutions	**228 246 506**	**298 126 933**
Loans granted from own funds	*24 428 485*	*29 094 275*
Loans granted from borrowed funds	–	*185 780*
Debt securities classified as loans and advances (European Investment Bank)	*203 818 021*	*268 846 878*
Loans and advances to customers	**152 058 662**	**229 131 313**
Loans granted from own funds	*4 805 792*	*5 334 669*
Loans granted from borrowed funds	*134 456 779*	*208 664 210*
Delayed payments	–	*134 283*
Loans granted to officials of the European Communities	*12 667 496*	*14 859 257*
Other amounts due by customers	*128 595*	*138 894*
Total loans and advances	**380 305 168**	**527 258 246**

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

31.12.2008	31.12.2007
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 133 819 747 (2007: EUR 134 465 597) and fixed rates are EUR 0 (2007: EUR 74 198 613).

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

31.12.2008	31.12.2007
3.072 – 4.939%	4.375 – 12.077% (*)

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

Loans granted to the European Investment Bank (EIB)

At 31 December 2008 this item included three 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

31.12.2008	31.12.2007
5.2354 % - 5.8103 %	5.2354 % - 5.8103 %

Loans granted on own funds

(EUR)

Loan type	Balance at 01.01.2008	Repayments	Exchange differences	Changes in carrying amount	Net value at 31.12.2008	Remaining maturity < 1 year	Remaining maturity > 1 year
Loans and advances to credit institutions	29 094 275	(6 734 595)	(362 546)	2 431 350	24 428 484	2 775	24 425 709
Loans and advances to customers	5 334 669	(698 797)	(67 442)	237 362	4 805 792	7 688	4 798 104
Total	**34 428 944**	**(7 433 392)**	**(429 988)**	**2 668 712**	**29 234 276**	**10 463**	**29 223 813**

Loans granted on borrowed funds

(EUR)

Loan type	Balance at 01.01.2008	Repayments	Exchange differences	Changes in carrying amount	Net Value at 31.12.2008	Remaining maturity < 1 year	Remaining maturity > 1 year
Loans and advances to credit institutions	185 780	(181 001)	-	(4 779)	-	-	-
Loans granted to the EIB	268 846 879	-	(59 526 320)	(5 502 538)	203 818 021	-	203 818 021
Loans and advances to customers	208 664 210	(66 133 192)	(1 793 760)	(6 280 479)	134 456 779	88 212 824	46 243 955
Total	**477 696 869**	**(66 314 193)**	**(61 320 080)**	**(11 787 796)**	**338 274 800**	**88 212 824**	**250 061 976**

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 interest and research subsidies repayable to the ECSC in liquidation.

(EUR)

	31 December 2008	31 December 2007
Levies - amounts due - value adjustments	 53 471 (53 471)	 194 805 (194 805)
Total	-	-
Interest subsidies repayable - amounts due - value adjustments	 217 104 (217 104)	 499 481 (499 481)
Total	-	-
Research subsidies repayable - amounts due - value adjustments	 128 595 -	 138 997 -
Total	**128 595**	**138 997**
Total other amounts due by customers	**128 595**	**138 997**

Levies

Total claims at 31 December 2007 amounted to EUR 194 805. These were covered in their entirety by value adjustments. During the year ended on 31 December 2008, payments were received totalling EUR 4 467 and claims totalling EUR 136 866 were written off. Total claims at 31 December 2008 thus amounted to EUR 53 471, covered in their entirety by value adjustments. An amount of EUR 28 was recorded as income.

Interest subsidies

Total claims at 31 December 2007 amounted to EUR 499 481, covered in their entirety by value adjustments. During the year ended on 31 December 2008, the ECSC in liquidation received payments of EUR 1 930 and waived or cancelled claims amounting to EUR 280 447 Total claims at 31 December 2008 thus amounted to EUR 217 104, covered in their entirety by value adjustments.

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 1990 into the following swap agreement:

- 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**
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 favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favourable or unfavourable 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 is detailed below:

(EUR)

	Assets		**Liabilities**	
	Amount	**Amount**	**Amount**	**Amount 31.12.2007**

	31.12.2008	31.12.2007	31.12.2008	
Short Term	7 026 820	-	25 112 750	3 820 840
Long Term	-	13 375 786	-	6 750 588
TOTAL	**7 026 820**	**13 375 786**	**25 112 750**	**10 571 428**

D.4. Available-for-sale securities

(EUR)

	Debt securities
Amount at 31 December 2007	**1 416 589 111**
Acquisitions	303 583 420
Disposals and withdrawals	(274 543 711)
Change in carrying amount	18 045 691
Amount at 31 December 2008	**1 463 674 511**

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

(EUR)

Type	31 December 2008	31 December 2007
Debt securities - at fair value		
Fixed rate bonds	1 383 719 998	1 299 889 638
Floating rate bonds	48 387 220	87 229 803
Total	**1 432 107 218**	**1 387 118 841**
Accruals	31 567 293	29 470 270
Total debt securities	**1 463 674 511**	**1 416 589 111**
Total available-for-sale portfolio	**1 463 674 511**	**1 416 589 111**

Debt securities

At 31 December 2008, all investments are denominated in EUR and quoted in an active market.

Structure by rating

See Note C.4.(d)

Maturities in 2009

Debt securities (expressed at their fair value) reaching final maturity in the course of 2009 amount to EUR 126.2 million (2008: 145.8 million).

Return on investment

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 5.372 % for the whole year 2008. This result has been achieved despite the severe effects of the sub-prime crisis which started in July 2007. The benchmark, serving as the reference rate for the ECSC in liquidation portfolio, yielded 7.444%.

The yearly relative performance of the ECSC portfolio was then -2.072%.

D.5. New Member States' contribution to the Coal and Steel Research Fund

(EUR)

	Nominal amount 31.12.2008	**Net present value Adjustment**	**Net present value 31.12.2008**
a) Czech Republic, Estonia, Latvia, Poland, Slovenia and Slovakia	56 000 000	-	56 000 000
b) Bulgaria and Romania	41 830 000	(11 628 640)	30 201 360
TOTAL	**97 830 000**	**(11 628 640)**	**86 201 360**

a) Contribution of Czech Republic, Estonia, Latvia, Hungary, Poland, Slovenia and Slovakia

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"[8], 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 %

[8] OJ L 236, 23.09.2003, p. 33.

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

(EUR)

Czech Republic	39 880 000
Estonia	2 500 000
Latvia	2 690 000
Hungary	9 930 000
Poland	92 460 000
Slovenia	2 360 000
Slovakia	20 110 000
Total	**169 930 000**

The fourth and last instalment (35 %) was due on 2 January, 2009	59 475 500
Payments already received in 2008	3 475 500
Amount outstanding (4th instalment) at 31 December 2008	56 000 000

	1 January 2008 EUR	Reclassification EUR	Amounts received EUR	Net present value adjustment EUR	31 December 2008 EUR
Due > 1 year	56 681 632	(59 475 500)	-	2 793 868	-
Due < 1 year	50 979 000	59 475 500	(54 454 500)	-	56 000 000
Total	**107 660 632**	**-**	**(54 454 500)**	**2 793 868**	**56 000 000**

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.

b) Contribution of Bulgaria and Romania

According to Article 26 of the "Protocol concerning the conditions and arrangements for admission of the Republic of Bulgaria and Romania to the European Union",[9] Bulgaria and Romania shall pay to the assets of the Coal and Steel Research Fund, in 4 instalments on the first working day of each year, the following amounts:

(EUR)

		BULGARIA	ROMANIA	TOTAL

9 OJ L157, 21.06.2005, p. 29

2009	15 %	1 792 500.00	4 482 000.00	6 274 500.00
2010	20 %	2 390 000.00	5 976 000.00	8 366 000.00
2011	30 %	3 585 000.00	8 964 000.00	12 549 000.00
2012	35 %	4 182 500.00	10 458 000.00	14 640 500.00
TOTAL	100 %	11 950 000.00	29 880 000.00	41 830 000.00

The present value of these contributions was EUR 36 445 573 at 31 December 2007.

The first instalment is due on 2 January 2009	6 274 500
Payments received in 2008	-
Amount outstanding (1st instalment) at 31 December 2008	6 274 500

For the 2nd – 4th installments a total amount of EUR 35 555 500 is due (see Note D.10). The net present value of these installments amounts to EUR 23 926 860 at 31 December 2008. 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.

	1 January 2008 EUR	**Reclassification EUR**	**Amounts received EUR**	**Net present value adjustment EUR**	**31 December 2008 EUR**
Due > 1 year	36 445 573	(6 274 500)	-	(6 244 213)	23 926 860
Due < 1 year	-	6 274 500	-	-	6 274 500
Total	**36 445 573**	**-**	**-**	**(6 244 213)**	**30 201 360**

The net present value adjustment of EUR 6 244 213 is composed of an increase of the net present value of EUR 478 591 for one Member State and a diminution of EUR 6 722 804 for the other Member State, due to the downgrade of its rating.

D.6. Other assets

(EUR)

	31 December 2008	**31 December 2007**
Current account, ECSC operating budget	63 865	9 006
Loans to officials	1 177 613	1 612 310
Miscellaneous	21 697	8 143
Sub-total	**1 263 175**	**1 629 459**
Value adjustments	(31 363)	(31 363)
Total	**1 231 812**	**1 598 096**

D.7. Borrowings

(EUR)

	31 December 2008	31 December 2007
Borrowings from credit institutions	-	276 841
Debts evidenced by certificates	282 302 625	424 135 671
Total	**282 302 625**	**424 412 512**

The detailed movements in borrowings during 2008 are as follows:

(EUR)

Borrowing type	Balance at 1.01.2008	Repayments	Exchange differences	Changes in carrying amount	Balance at 31.12.2008	Remaining maturity < 1 year	Remaining maturity > 1 year
Borrowings from credit institutions	276 841	(270 473)	-	(6 368)	-	-	-
Debts evidenced by certificates	424 135 671	(66 133 192)	(72 467 686)	(3 232 168)	282 302 625	68 976 378	213 326 247
Total	**424 412 512**	**(66 403 665)**	**(72 467 686)**	**(3 238 536)**	**282 302 625**	**68 976 378**	**213 326 247**

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

31.12.2008	31.12.2007
4.939 – 11.875%*	4.375 – 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 2008	31 December 2007
Outstanding commitments under the ECSC operating budgets	722 843	3 576 721
Budget for financing coal and steel research	234 730 338	221 881 732
Debt to EU Budget	-	-
Other debtors	18 163	28 860
Miscellaneous	-	-
Total	**235 471 344**	**225 487 313**

Outstanding commitments under the ECSC operating budgets

During the year from 1 January to 31 December 2008, changes in the item for the ECSC operation budgets were as follows:

(EUR)

	Balance outstanding at 1 January 2008	Payments	Cancellations	Balance outstanding at 31 December 2008
Research	3 576 721	1 464 263	1 389 615	722 843
Total	**3 576 721**	**1 464 263**	**1 389 615**	**722 843**

Budget for financing coal and steel research

Allocations to be transferred to General Budget of EU	Amount due 31 December 2007	Cancellation of credits	Payments 2008	Amount due 31 December 2008
a) Coal				
Allocations 2003 to 2007	33 952 190	-	(2 500 000)	31 452 190
Allocation 2008	14 535 136	(138 153)	(8 500 000)	5 896 983
Allocation 2009	14 067 568	-	-	14 067 568
Allocation 2010	-	-	-	14 649 784
Sub-total	**62 554 894**	**(138 153)**	**(11 000 000)**	**66 066 525**
b) Steel				
Allocations 2003 to 2007	82 772 542	-	(1 500 000)	81 272 542
Allocation 2008	38 902 864	(1 872 741)	(26 500 000)	10 530 123
Allocation 2009	37 651 432	-	-	37 651 432
Allocation 2010	-	-	-	39 209 716
Sub-total	**159 326 838**	**(1 872 741)**	**(28 000 000)**	**168 663 813**
c) Total				
Allocations 2003 to 2007	116 724 732	-	(4 000 000)	112 724 732
Allocation 2008	53 438 000	(2 010 894)	(35 000 000)	16 427 106
Allocation 2009	51 719 000	-	-	51 719 000
Allocation 2010	-	-	-	53 859 500
Sub-total	**221 881 732**	**(2 010 894)**	**(39 000 000)**	**234 730 338**

D.9. Retained earnings

(EUR)

	31 December 2008	31 December 2007
Result for the year 2007	-	5 323 153
Result for the year 2008	(14 753 306)	-
Total retained earnings	**(14 753 306)**	**5 323 153**

D.10. Reserves

(EUR)

	31 December 2008	31 December 2007
Fair value reserve	(10 396 936)	(34 390 113)
Special reserves	187 290 485	197 290 485
Reserve to cover loans	*134 000 000*	*134 000 000*
Reserve to cover housing loans	*40 000 000*	*48 000 000*
Reserve to cover loans to officials	*13 000 000*	*15 000 000*
Other special reserves	*290 485*	*290 485*
General reserves	54 983 500	52 843 000
Smoothing reserve for RFCS (Research Fund for Coal and Steel	*54 983 500*	*52 843 000*
Assets of the Research Fund for Coal and Steel	1 249 883 454	1 168 810 301
Member States' Contribution not yet called	35 555 500	101 305 500
Total Reserves	**1 517 316 003**	**1 485 859 173**

The changes from 31 December 2007 to 31 December 2008 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 2008 the amount outstanding of these loans was EUR 133 819 747.

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 2008 the amount outstanding of these loans was EUR 39 976 420.

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 2008, the amount outstanding of these loans was EUR 12.7 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 for the ECSC in liquidation's loan related operations, the recovery of interest subsidies and levy.

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 54.98 million as at 31 December 2008.

Assets of the Research Fund for Coal and Steel

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 not yet called instalments of the contribution to the Research Fund for Coal and Steel (see Note D.5.a and b) are as follows:

(EUR)

Bulgaria	10 157 500
Romania	25 398 000
Total	**35 555 500**

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 2008	31 December 2007
Winding-up of ECSC's financial operations	(16 678 412)	5 347 647
Net revenue of investments	55 914 212	49 511 518
Cancellation of CSRF commitments	2 010 894	463 988
Coal and Steel Research Fund	(56 000 000)	(50 000 000)
Net result	**(14 753 306)**	**5 323 153**

Winding-up of the ECSC's financial operations

(EUR)

	31 December 2008	**31 December 2007**
Lending/borrowing activities		
Net interest	(448 065)	(183 860)
Fair value changes derivatives (net)	(22 153 536)	(9 255 033)
Miscellaneous charges/income (net)	925	152 862
Sub-total	**(22 600 676)**	**(9 286 031)**
Winding-up commitments under operating budget		
Cancellation of commitments	1 389 615	12 132 307
Winding-up other ECSC activities		
Levy, fines, interest subsidies	6 425	65 282
Research, Redeployment	409 478	700 922
Other	-	98 513
Sub-total	**1 805 518**	**12 997 024**
Variation of Net Present Value (Member States' contribution)	**(3 450 345)**	**(1 434 154)**
Exchange rate differences	**7 567 091**	**3 070 808**
Total	**(16 678 412)**	**5 347 647**

Net revenue on investments

(EUR)

	31 December 2008	**31 December 2007**
INCOME		
Interest on nostro accounts	51 425	48 700
Interest on deposit accounts	3 328 815	2 476 530
Interest on securities available-for-sale	60 734 112	55 952 217
Fees and commissions income	179 748	143 233
Total income	**64 294 100**	**58 620 680**
CHARGES		
Debit interest on nostro accounts	(886)	(4 992)
Loss on sales of available-for-sale portfolio	(8 174 300)	(8 898 341)
Bank and portfolio transaction charges	(204 702)	(205 829)
Total charges	**(8 379 888)**	**(9 109 162)**
Net revenue on investment	**55 914 212**	**49 511 518**

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).

Research Fund for Coal and Steel

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

(EUR)

	31 December 2008	**31 December 2007**
Net revenue on investment	55 914 212	49 511 518
Rounded	56 000 000	50 000 000
Application of smoothing mechanism :		
Net revenue 2008/2007	56 000 000	50 000 000
Allocation decided for 2009/2008	51 719 000	53 438 000
Difference	4 281 000	(3 438 000)
Half of difference 2010/2009	2 140 500	1 719 000
Allocation for year 2010/2009		
Net revenue	56 000 000	50 000 000
Allocation half of difference	(2 140 500)	1 719 000
Total allocation 2010/2009	**53 859 500**	**51 719 000**
Financing		
Provisioning net revenue	56 000 000	50 000 000
Increase / Diminution of Smoothing reserve	(2 140 500)	1 719 000
Total	**53 859 500**	**51 719 000**

E.2. Interest and similar income

(EUR)

	31 December 2008	**31 December 2007**
Interest on bank accounts	51 425	48 700
Interest on deposit accounts	3 328 815	2 476 530
Interest on loans from borrowed funds	19 456 386	28 662 581
Income on loans on own funds	3 691 004	3 544 126
Interest on loans granted to officials of the European Communities	552 415	638 724
Interest on swaps	12 630 536	19 186 278
Total interest from bank accounts, deposits, loans and derivatives	**39 710 581**	**54 556 939**
Interest on available-for-sale portfolio	60 734 112	55 952 217
Total interest from fixed income debt securities	**60 734 112**	**55 952 217**
Total interest and similar income	**100 444 693**	**110 509 156**

E.3. Net loss on sales of securities

(EUR)

	31 December 2008	**31 December 2007**
Profit on sales of available-for-sale bonds	302 118	570 008
Loss on sales of available-for-sale bonds	(8 476 418)	(9 468 349)
Total	**(8 174 300)**	**(8 898 341)**

E.4. Other financial income

(EUR)

	31 December 2008	**31 December 2007**
Variation of net present value on new Member States contribution to the Coal and Steel Research Fund	3 272 459	3 950 273
Positive change of fair value of financial derivatives	862 010	4 151 245
Total other financial income	**4 134 469**	**8 101 518**

E.5. Other operating income

(EUR)

	31 December 2008	**31 December 2007**
Matured coupons and bonds	-	131 852
Income from levy, fines and interest subsidy reimbursements	28	2 094
Income from Redeployment reimbursements	-	52 902
Income from Research reimbursements	409 478	648 019
Reversal of impairment losses for levy, interest subsidies and research	6 397	63 188
Reversal of impairment losses for VAT receivable	-	42 864
Miscellaneous income from lending activities	17 912	33 731
Cancellation of CSRF commitments	2 010 894	463 988
Cancellation of commitments of operating budget	1 389 615	12 132 307
Reversal of provision for liabilities and charges	-	55 649
Total	**3 834 324**	**13 626 594**

E.6. Interest and similar charges

(EUR)

	31 December 2008	31 December 2007
Bank interest	886	4 992
Interest on borrowings	26 803 939	35 381 425
Interest on swaps	9 974 467	16 834 143
Total	**36 779 292**	**52 220 560**

E.7. Fees and commissions charges

(EUR)

	31 December 2008	31 December 2007
Agent commissions	-	491
Bank charges	596	670
Portfolio charges	202 495	203 307
SWIFT charges	1 611	1 852
Total	**204 702**	**206 320**

E.8. Other financial charges

(EUR)

	31 December 2008	31 December 2007
Variation of net present value on new Member States' contribution of the Research Fund for Coal and Steel	6 722 804	5 384 428
Negative change of fair value of financial derivatives	23 015 546	13 406 279
Total	**29 738 350**	**18 790 707**

E.9. Other operating charges

(EUR)

	31 December 2008	31 December 2007
Borrowing costs	12 494	12 244
Other	4 493	(16)
Total	**16 987**	**12 228**

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 the 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

There was no contingent asset or liability on 31.12 2008 / 31.12.2007.

NOTE H - RELATED PARTY DISCLOSURES

The net cash flow between the ECSC in liquidation and the Commission amounts to EUR 36.92 million.

The ECSC paid to the Commission in 2008 (in million EUR):

– Reimbursement of the payments for ECSC operating budget expenses	1.10
– Payments for the Research Fund for Coal and Steel	39.00
Total	40.10

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

Reimbursement of capital & interest of loans to officials of the European Communities	3.18
Total	3.18
Net advance to the Commission (million EUR)	36.92

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 April 3rd, 2009, no material issues than the disclosed below came to the attention of the Directorate General for Economic and Financial Affairs - Directorate 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.