

**REPORT OF THE EUROPEAN COURT OF AUDITORS****on the financial statements of the European Coal and Steel Community at 31 December 1997**

1. This report concerns the reliability of the accounts drawn up by the Commission in accordance with Article 45c of the Treaty establishing the European Coal and Steel Community.
2. The Court has audited the accounts and financial statements of the European Coal and Steel Community at 31 December 1997 in accordance with generally accepted auditing standards and carried out such checks as it considered necessary.
3. In the Court's opinion, the attached financial statements (balance sheet at 31 December 1997, profit-and-loss account, statement of the allocation of surplus and notes to the financial statements), which have been drawn up in accordance with generally accepted accounting principles, give a true and fair view of the assets and financial situation of the European Coal and Steel Community at 31 December 1997 and of the result of its operations for the year then ended.

Luxembourg, 30 June 1998.

Bernhard FRIEDMANN  
*President of the Court of Auditors*

Armando de SOUSA RIBEIRO  
*Member of the Court of Auditors*

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## ECSC FINANCIAL STATEMENTS AT 31 DECEMBER 1997

(98/C 255/03)

## Balance sheets at 31 December 1997

(amounts in ecus)

— before allocation of surplus —

## ASSETS

	31 December 1997	31 December 1996
Balances with central banks (Note 3)	555 027	602 921
Loans and advances:		
— repayable on demand	6 355 643	15 711 356
— with agreed maturity dates or periods of notice (Note 4.1)	367 368 554	662 066 466
— loans (Note 4.2)	1 746 786 240	2 239 862 130
Total	2 120 510 437	2 917 639 952
Loans and advances to customers (Note 5):		
— loans	1 836 139 393	2 342 728 278
— levy	2 141 909	1 316 270
— fines	72 785 575	68 565 376
— credits	14 927 351	9 910 423
Total	1 925 994 228	2 422 520 347
Bonds and other fixed-income securities (Note 6):		
— issued by public bodies	1 302 095 776	1 254 055 367
— issued by other borrowers	321 410 542	193 334 405
Total	1 623 506 318	1 447 389 772
Tangible and intangible assets (Note 7)	2 623 844	3 412 827
Other assets (Note 8)	87 399 574	20 146 111
Prepayments and accrued income (Note 9)	169 427 311	198 377 594
TOTAL ASSETS	5 930 016 739	7 010 089 524
Off-balance-sheet commitments (Note 26)	590 786 635	1 684 494 717

## — before allocation of surplus —

## LIABILITIES

	31 December 1997	31 December 1996
LIABILITIES <i>VIS-À-VIS</i> THIRD PARTIES		
Amounts owed to credit institutions:		
— with agreed maturity dates or periods of notice	45 239	—
— borrowings (Note 10)	2 277 664 834	2 542 395 630
Total	2 277 710 073	2 542 395 630
Debts evidenced by certificates (Note 11)	1 359 610 749	2 134 840 697
Other liabilities (Note 12)	12 788 060	78 273 662
Accruals and deferred income (Note 13)	121 190 289	159 831 193
Provisions for liabilities and charges (Note 14)	87 376 377	75 213 372
Commitments for the ECSC operating budget (Note 15)	853 779 193	1 059 928 511
TOTAL LIABILITIES <i>VIS-À-VIS</i> THIRD PARTIES	4 712 454 741	6 050 483 065
NET POSITION		
Provisions for financing the ECSC operating budget (Note 16)	441 712 926	207 586 988
Provisions for large exposures (Note 17)	27 000 000	36 000 000
Reserves (Note 18):		
— guarantee fund	500 000 000	468 743 644
— special reserve	176 055 284	176 055 284
— former pension fund	69 622 926	67 917 524
Total	745 678 210	712 716 452
Value adjustment reserve	313 119	1 060 011
Surplus brought forward	537 606	132 487
Surplus for the financial year (Note 19)	2 320 137	2 110 521
NET TOTAL	1 217 561 998	959 606 459
TOTAL LIABILITIES	5 930 016 739	7 010 089 524
Off-balance-sheet commitments (Note 26)	712 444 915	3 578 156 001

**Profit-and-loss accounts for the year ending 31 December 1997**

(amounts in ecus)

**CHARGES**

	1997 financial year	1996 financial year
Interest payable and similar charges (Note 20)	331 419 509	580 314 585
Commissions payable	844 743	1 264 272
Net losses on financial operations:		
— foreign-exchange losses	31 292	3 033
— losses on bonds and other fixed-income securities	1 622 062	5 402 521
— value adjustments in respect of bonds and other fixed-income securities (Note 6)	14 278 026	2 533 922
Total	15 931 380	7 939 476
Administrative expenditure (Note 21)	5 000 000	5 000 000
Value adjustments in respect of tangible assets (Note 7)	573 251	777 962
Other operating charges (Note 22)	382 650	382 568
Value adjustments: loans, advances, provisions		
— value adjustment in respect of loans and advances	372 189	27 670 405
— allocation to the provision for liabilities and charges (Note 14)	8 818 500	34 228 973
Total	9 190 689	61 899 378
<b>TOTAL OPERATING CHARGES</b>	<b>363 342 222</b>	<b>657 578 241</b>
Extraordinary charges	580 380	4 593 762
Conversion difference	746 892	0
Allocation to the value adjustment reserve (Note 19.1)	0	1 060 011
Legal commitments for the financial year (Note 15)	180 869 553	201 176 900
Allocation to the provision for financing the ECSC operating budget (Note 16)	274 000 000	73 131 189
Allocation to the guarantee fund (Note 18)	31 256 356	19 000 000
<b>TOTAL CHARGES</b>	<b>850 795 403</b>	<b>956 540 103</b>
Surplus for the financial year (Note 19)	2 320 137	2 110 521
<b>TOTAL</b>	<b>853 115 540</b>	<b>958 650 624</b>

## INCOME

	1997 financial year	1996 financial year
Interest receivable and similar income (Note 23)		
(including interest on fixed-income securities: 84 157 839 in 1997 and 91 253 453 in 1996)	420 240 962	699 872 042
Net profit on financial operations:		
— foreign-exchange profits	36 600	15 240
— profits on bonds and other fixed-income securities	10 665 375	26 276 516
— withdrawal of value adjustments in respect of bonds and other fixed-income securities (Note 6)	2 533 921	2 739 881
Total	13 235 896	29 031 637
Value adjustment in respect of loans and advances and provisions:		
— withdrawal of value adjustments in respect of loans and advances	37 198 844	3 092 016
— transfer from the provision for large exposures (Note 17)	9 000 000	19 000 000
Total	46 198 844	22 092 016
Other operating income (Note 24)	22 507 685	1 544 770
TOTAL OPERATING INCOME	502 183 387	752 540 465
Conversion difference	0	1 060 011
Withdrawal from the value adjustment reserve (Note 19.1)	746 892	0
Income relating to the ECSC operating budget (Note 25)	301 054 072	190 427 105
Transfer from the provision for financing the ECSC operating budget (Note 16)	49 131 189	14 623 043
TOTAL INCOME	853 115 540	958 650 624

**Allocation of the surplus for the year ending 31 December 1997**

(amounts in ecus)

	1997 financial year	1996 financial year
Surplus not allocated at 1 January	537 606	132 487
Surplus for the year to be allocated	2 320 137	2 110 521
<b>Total</b>	<b>2 857 743</b>	<b>2 243 008</b>
Allocation to the former pension fund (note 18)	1 662 513	1 705 402
Surplus not allocated at 31 December	1 195 230	537 606

## NOTES RELATING TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 1997

(amounts in ecus)

### 1. PRESENTATION OF THE FINANCIAL STATEMENTS

- 1.1. The European Coal and Steel Community (ECSC) was established by the Treaty of 18 April 1951. According to the Treaty, the task of the ECSC is to contribute to the economic expansion of the Member States through the establishment of a common market for coal and steel. Most of the ECSC's funds come from the levy, the net profit from its financial activity, borrowings raised on the financial markets and direct bank loans.
- 1.2. The ECSC's financial statements at 31 December 1997 are presented in accordance with Council Directives 78/660/EEC and 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions (OJ L 222, 14.8.1978 and OJ L 372, 31.12.1986).
- 1.3. ECSC accounts are kept in the various currencies used for its financial activity. The financial statements are expressed in ecus.

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

	31.12.1997	31.12.1996
Belgian and Luxembourg francs	40,7675	40,10210
Danish krone	7,52797	7,44655
German mark	1,97632	1,94653
Greek drachma	312,039	309,50200
Portuguese escudo	202,137	195,96800
French franc	6,61214	6,56193
Finnish markka	5,98726	5,81640
Dutch guilder	2,22742	2,18472
Irish pound	0,771961	0,745342
Italian lira	1 942,03	1 913,72000
Austrian schilling	13,9020	13,69650
Spanish peseta	167,388	164,16700
Swedish krona	8,73234	8,62800
Pound sterling	0,666755	0,737273
Canadian dollar	1,58256	1,71660
Swiss franc	1,60553	1,69129
United States dollar	1,10421	1,25299
Japanese yen	143,680	145,84900

- 1.4. At 31 December 1997 the various currencies listed in 1.3, together with the ecu, made up the ECSC's balance sheet as follows:

*(ECU)*

Currency	Assets	Liabilities
ECU	1 181 727 815	1 890 577 369
Belgian franc	138 080 244	88 537 405
Danish krone	669 480	0
German mark	1 421 513 893	1 202 400 271
Greek drachma	2 117 650	2 115
Portuguese escudo	142 791 176	141 712 138
French franc	822 030 596	606 772 399
Finnish markka	112 496	0
Dutch guilder	36 515 123	14 870 747
Irish pound	956 864	0
Luxembourg franc	133 205 287	119 032 991
Italian lira	366 998 357	326 183 302
Austrian schilling	4 571 323	3 665 239
Spanish peseta	104 385 745	81 488 050
Swedish krona	269 831	0
Pound sterling	971 902 678	867 278 955
Swiss franc	32 923 774	32 317 804
United States dollar	455 253 179	441 409 957
Japanese yen	113 991 228	113 767 997
Total	5 930 016 739	5 930 016 739

*NOTES:*

The ecu has a much larger place in the ECSC's accounts than suggested by the above table.

This is explained by certain accounting operations, mainly the offsetting of accounts receivable and payable relating to currency swaps.

The offsetting of these items on the assets and liabilities sides is designed to prevent artificial inflation of the balance sheet.

This accounting operation is carried out in ecus and involved a total of ECU 268 027 585 in 1997.

The real weight of the ecu in the ECSC's accounts can therefore be assessed more accurately if this amount is added both to the assets and to the liabilities sides of the balance sheet.

2. ACCOUNTING PRINCIPLES AND METHODS

- 2.1. The financial statements are drawn up in accordance with generally recognised accounting principles.
- 2.2. Charges and income for the financial year are converted to ecus at the monthly accounting rate in force on the day of the transaction.



## 3. BALANCES WITH CENTRAL BANKS

This item represents the ECSC's balances with the central banks of certain Member States.

## 4. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

## 4.1. With agreed maturity dates or periods of notice

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

	<i>(ECU)</i>	
	31.12.1997	31.12.1996
Up to three months	361 076 698	636 956 250
Three months to one year	6 291 856	15 598 022
Over one year	—	9 512 194
Total	367 368 554	662 066 466

## 4.2. Loans

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

	<i>(ECU)</i>	
	31.12.1997	31.12.1996
Up to three months	172 233 077	151 481 547
Three months to one year	324 131 965	525 525 670
One to five years	1 149 308 488	1 466 966 464
Over five years	101 112 710	95 888 449
Total	1 746 786 240	2 239 862 130

## 5. LOANS AND ADVANCES TO CUSTOMERS

## 5.1. Loans

The loans granted to credit institutions are shown under 'Loans and advances to credit institutions' (see Note 4).

The other loans break down as follows:

(ECU)

	31.12.1997	31.12.1996
1. Loans disbursed from borrowed funds (*)		
— amounts outstanding	1 943 860 811	2 395 599 317
— value adjustments	— 170 220 655	— 115 731 446
Subtotal	1 773 640 156	2 279 867 871
2. Loans from the special reserve and other own funds for financing subsidised housing	20 235 203	20 355 307
Interim total	1 793 875 359	2 300 223 178
The breakdown of these loans by time remaining to maturity is as follows at 31 December:		
	1997	1996
— up to three months	84 129 143	114 196 449
— three months to one year	55 848 217	767 048 080
— one to five years	1 007 507 068	907 432 527
— over five years	816 611 585	627 277 568
3. Loans paid from the former pension fund to officials of the European Communities for housing construction	41 539 969	42 163 173
4. Loans repayments overdue and interest on arrears		
— amounts outstanding	724 065	18 428 850
— value adjustments	—	— 18 086 923
Grand total	1 836 139 393	2 342 728 278

(\*) At 31 December 1997, claims on defaulting borrowers are included (see Note 8).

NB: These loans are generally guaranteed by Member States, banks or companies or by mortgages.

## 5.2. Levy

Before value adjustment, this item amounts to ECU 9 165 606 at 31 December 1997 (ECU 8 171 552 at 31 December 1996). It comprises in particular ECU 6 342 867 subject to legal proceedings (ECU 6 042 902 at 31 December 1996) and ECU 282 491 relating to temporary deferment in respect of coal in stock (ECU 414 223 at 31 December 1996).

Payment of the levy in respect of coal in stock is temporarily deferred under a general decision taken in 1972.

## 5.3. Fines

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

After value adjustment it amounts to ECU 72 785 575 (ECU 68 565 376 at 31 December 1996).

The main component in this item is fines totalling ECU 104 364 350 that the Commission imposed on steel companies for infringing the rules on competition in the marketing of steel beams (Decision 94/215/ECSC (\*)). ECU 32 151 350 has been paid in fines under this Decision, against which appeals have been lodged with the Court of First Instance by virtually all the companies concerned.

(\*) OJ L 116, 6.5.1994.

#### 5.4. Interest subsidies to be recovered

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

### 6. BONDS AND OTHER FIXED-INCOME SECURITIES

#### 6.1. Valuation

Bonds and other fixed-income securities are valued at average purchase price or market value at 31 December 1997, whichever is the lower.

This principle is not applied in the case of securities considered as financial fixed assets (see note 6.5).

#### 6.2. Composition

Bonds and other fixed-income securities break down as follows:

<i>(ECU)</i>			
	Value adjustments on bonds and other fixed-income securities (withdrawal)	31.12.1997	31.12.1996
<b>ISSUED BY PUBLIC BODIES</b>			
— gross value		1 306 255 040	1 256 416 093
— value adjustment	1 798 538	— 4 159 264	— 2 360 726
— net value		1 302 095 776	1 254 055 367
<b>OWN-DEBT SECURITIES</b>			
— gross value		89 033 938	40 206 650
— value adjustment	9 691 158	— 9 785 153	— 93 995
— net value		79 248 785	40 112 655
<b>ISSUED BY OTHER BORROWERS</b>			
— gross value		242 495 366	153 300 950
— value adjustment	254 409	— 333 609	— 79 200
— net value		242 161 757	153 221 750
<b>TOTAL</b>			
— gross value		1 637 784 344	1 449 923 693
— value adjustment	11 744 105	— 14 278 026	— 2 533 921
— net value		1 623 506 318	1 447 389 772

#### 6.3. Maturities in 1998

Securities in the portfolio reaching final maturity during 1998 represent the following amounts (ECU):

— issued by public bodies:	487 441 866
— own-debt securities:	—
— issued by other borrowers:	23 072 663
Total	510 514 529

**6.4. Listed/unlisted securities**

The securities portfolio comprises ECU 1 543 830 768 of securities with a stock-exchange listing, the balance of ECU 79 675 550 being unlisted securities.

**6.5. Financial fixed assets**

6.5.1. Financial fixed assets are defined as securities that will remain in the portfolio until their final maturity.

They comprise mainly short-term paper and own-debt securities repurchased for servicing ECSC borrowings.

6.5.2. Financial fixed assets are valued at average purchase price or redemption value, whichever is the lower.

The redemption value of these securities is less than the average purchase price by a total of ECU 8 645 845.

6.5.3. Financial fixed assets are made up as follows (ECU):

— issued by public bodies:	40 333 549
— own-debt securities:	89 033 938
— other issuers:	0
Total	<u>129 367 487</u>

## 7. TANGIBLE AND INTANGIBLE ASSETS

(ECU)

	Year of acquisition	Acquisition price	31.12.1996 Net value	Operations during the year			31.12.1997 Net value
				Acquisitions	Net book value of disposals	Amortisation	
Tangible assets:							
— Washington	1971	882 654	235 344	—	215 732	19 612	0
— Lisbon	1986-1993	2 670 796	1 264 962	—	—	224 887	1 040 075
— Canberra	1987	2 511 059	1 165 122	—	—	194 187	970 935
— Windhoek	1992	802 172	447 434	—	—	74 572	372 862
			3 112 862	—	215 732	513 258	2 383 872
Intangible assets:							
— Lease on Milan building	1986	879 882	299 965	—	—	59 993	239 972
Total tangible and intangible assets			3 412 827	—	215 732	573 251	2 623 844

The various buildings owned by the ECSC were originally leased to the European Community. The rent paid on such leases provided a return on the funds invested by the ECSC.

Under the terms of the leases, in 1994 and 1995, the Commission repaid the outstanding principal due to the ECSC with a view to transferring ownership officially from the ECSC to the European Community.

The transfer of ownership of the building in Washington was completed in 1997.

For the ECSC, this transaction generated a capital gain of ECU 156 982, this being the difference between the transfer price (ECU 372 714) and the net book value (ECU 215 732) at the date of the transfer.

As regards the other buildings, pending the completion of legal formalities for the transfer of ownership that are currently being conducted with the competent authorities, the advances received from the European Community feature on the liabilities side of the balance sheet for a total of ECU 5 067 579 (Note 12).

## 8. OTHER ASSETS

<i>(ECU)</i>		
	31.12.1997	31.12.1996
Exchange value in ecus of the difference between currency receivable and payable under currency exchange operations (swaps) <sup>(1)</sup>	79 710 355	—
— loans, payments due and not received and rescheduled payments <sup>(2)</sup>	—	58 384 142
— portfolio taxes and VAT to be reclaimed	2 890 676	3 590 273
— loans to officials — miscellaneous	4 777 265	5 051 395
— miscellaneous	21 278	55 174
	87 399 574	67 080 984
Cumulative value adjustments	—	— 46 934 873
Total	87 399 574	20 146 111

<sup>(1)</sup> See Note 12.

<sup>(2)</sup> At 31 December 1997, the amounts due are included in loans and advances to customers (Note 5.1).

## 9. PREPAYMENTS AND ACCRUED INCOME

<i>(ECU)</i>		
	31.12.1997	31.12.1996
— Interest on loans and swaps	88 543 207	132 745 798
— Interest on deposits and securities portfolio	45 429 135	53 004 743
— Levy declared for current and previous years but payable after 31 December	26 209 470	24 303 131
— Issuing costs and redemption premiums	9 245 499	646 113
	169 427 311	210 699 785
Cumulative value adjustments	—	— 12 322 191
Total	169 427 311	198 377 594

## 10. AMOUNTS OWED TO CREDIT INSTITUTIONS

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

	<i>(ECU)</i>	
	31.12.1997	31.12.1996
Repayable on demand	—	—
Up to three months	147 072 173	68 199 122
Three months to one year	246 407 737	608 666 894
One to five years	1 831 349 202	1 653 514 445
Over five years	52 880 961	212 015 169
Total	2 277 710 073	2 542 395 630

## 11. DEBTS EVIDENCED BY CERTIFICATES

Part of the borrowings outstanding at 31 December 1997 will reach maturity during the 1998 financial year. These borrowings total ECU 320 146 925.

## 12. OTHER LIABILITIES

	<i>(ECU)</i>	
	31.12.1997	31.12.1996
Exchange value in ecus of the difference between currency receivable and payable under currency exchange operations (swaps) <sup>(1)</sup>	—	61 402 589
Current account, ECSC operating budget	3 572 400	11 092 742
Advance payments for transfer of buildings <sup>(2)</sup>	5 067 579	5 440 293
Other	4 148 081	338 038
Total	12 788 060	78 273 662

<sup>(1)</sup> See Note 8.

<sup>(2)</sup> In accordance with the opportunity offered under the Decision of 11 June 1992, in the course of 1994 and 1995 the Commission made advance payments in respect of the transfer of the buildings leased to it by the ECSC (Note 7).

## 13. ACCRUALS AND DEFERRED INCOME

*(ECU)*

	31.12.1997	31.12.1996
Interest on borrowings and credit lines	111 943 954	159 589 145
Commission on loans	233 001	242 048
Issuing premiums	9 013 334	—
Total	121 190 289	159 831 193

## 14. PROVISION FOR LIABILITIES AND CHARGES

*(ECU)*

	31.12.1996	Operations in 1997			31.12.1997
		Allocation	Withdrawal	Exchange-rate movement	
Provision for withholding tax to be paid <sup>(1)</sup>	5 950 545	273 462	—	— 98 333	6 125 674
Provision for interest-rate risk <sup>(2)</sup>	32 552 393	7 259 038	—	3 442 838	43 254 269
Provision for special costs relating to banking activities <sup>(3)</sup>	200 000	—	—	—	200 000
Provision for appeal against Decision 94/215/ECSC <sup>(4)</sup>	36 510 434	1 286 000	—	—	37 796 434
Total	75 213 372	8 818 500	—	3 344 505	87 376 377

<sup>(1)</sup> This provision was created to allow the ECSC to meet its obligations in respect of a securities transaction on which there is a difference of interpretation regarding the applicability of withholding tax.

<sup>(2)</sup> Following the default of one borrower, long-term securities issued by the ECSC (i.e. with a maturity date after 2002) are no longer paired with asset items bearing an equivalent interest rate. Under the principle of caution and in view of the expiry of the ECSC Treaty in 2002, a provision has been constituted to fully cover interest-rate risks.

<sup>(3)</sup> This provision was created to cover any legal costs and other unforeseen expenditure. The risk in question is primarily in the legal field because the ECSC has less recourse, for its operations, to national agents who bear all expenditure relating to loan operations.

<sup>(4)</sup> This provision was created from the fines paid under Decision 94/215/ECSC of 16 February 1994 to cover the possible reimbursement of the amounts received should the Court of First Instance rule in favour of the companies which have appealed against this Decision (Note 5.3).



## 15. COMMITMENTS FOR THE ECSC OPERATING BUDGET

In 1997, commitments for the ECSC operating budget were as follows:

(ECU)

	Commitments at 31.12.1996	New legal commitments	Payments	Cancellations	Commitments at 31.12.1997
Redeployment	302 944 688	65 974 553	81 080 040	24 766 541	263 072 660
Research	183 426 384	84 000 000	71 750 672	9 129 829	186 545 883
Interest subsidies (Article 54)	4 400 769	—	879 370	—	3 521 399
Interest subsidies (Article 56)	330 905 781	1 841 000	18 491 916	104 127 711	210 127 154
Social measures, steel industry	147 817 759	—	— 4 295 291	40 982 806	11 130 244
Social measures, coal industry (Rechar)	90 433 130	29 054 000	23 876 769	16 228 508	79 381 853
Total	1 059 928 511	180 869 553	191 783 476	195 235 395	853 779 193

## 16. PROVISION FOR FINANCING THE ECSC OPERATING BUDGET

(ECU)

	Provisions at 31.12.1996	Operations during the year		Provisions at 31.12.1997
		Withdrawal	Allocation	
Budgetary contingency reserve <sup>(1)</sup>	80 000 000	—	—	80 000 000
Surplus from the out-turn of the operating budget: — 1996 financial year	49 131 189	49 131 189	—	—
Provision for financing future operating budgets <sup>(2)</sup>			274 000 000	274 000 000
Impact on the result		49 131 189	274 000 000	
Provision for late-payment fines and surcharges to be paid subsequently <sup>(3)</sup>	68 565 376	—	4 220 199	72 785 575
Provision for subsidies to be recovered <sup>(3)</sup>	9 890 423	—	5 036 928	14 927 351
Total	207 586 988			441 712 926

<sup>(1)</sup> This reserve is intended to cover any differences between expenditure committed and income generated by activities during the budget period. The provision has been increased in view of the abolition of the levy and the expiry of the ECSC Treaty in 2002.

<sup>(2)</sup> This provision was foreseen by the budgetary authority when it approved the 1997 ECSC operating budget. It was prompted by the reduction of the levy to 0% from 1998 and the need to plan for the regular financing of future operational budgets until 2002.

<sup>(3)</sup> Fines and interest subsidies whose repayment has been requested are considered as ECSC resources only when they have actually been paid. Fines imposed but not yet paid and interest subsidies whose repayment has been requested are therefore allocated to provisions.

## 17. PROVISION FOR LARGE EXPOSURES

Against the background of the expiry of the ECSC Treaty in 2002 and the gradual reduction in outstanding loans, exposure is becoming increasingly concentrated on a limited number of large loans (these large exposures are defined in accordance with Directive 92/121/EEC of 21 December 1992 on the monitoring and control of large exposures).

The provision for large exposures concerns loans exceeding 25% of the ECSC's own funds which are not covered by first-rate guarantees.

It is intended to provide cover specifically for this concentration of risk and enable the ECSC to weather any major default.

The provision, calculated on the basis of outstanding large exposures at 31 December 1997 and according to a procedure recommended by a firm of international experts, totals ECU 27 million.

## 18. RESERVES

(ECU)

	Reserves at 31.12.1996 after allocation	Transfer (withdrawal)	Reserves at 31.12.1997 before allocation	Allocations at 31.12.1997	Reserves at 31.12.1997 after allocation
Guarantee fund	468 743 644	31 256 356	500 000 000	—	500 000 000
Special reserve	176 055 284		176 055 284	—	176 055 284
Former pension fund	69 622 926		69 622 926	1 662 513	71 285 439
Total	714 421 854	31 256 356	745 678 210	1 662 513	747 340 723

The guarantee fund is intended to cover lending and borrowing operations. After allocation of ECU 31,26 million, the guarantee fund totalled ECU 500 million at 31 December 1997. This reinforcing of the guarantee fund is connected with the forthcoming expiry of the ECSC Treaty.

On 11 September 1996 the Commission confirmed its intention of maintaining reserves to cover 100 % of those loans outstanding after 23 July 2002 which are not guaranteed by the government of a Member State. This means that the guarantee fund must be gradually increased to approximately ECU 720 million (including any specific value adjustments).

In view of (a) the regular decrease in the amounts outstanding up to and after 23 July 2002 and (b) the increase in the guarantee fund, the solvency ratio can be expected to depart from the 14 to 16 % range laid down during the period of continuous operation and move towards 100 %.

The ECSC's solvency ratio thus increased from 21 % at 31 December 1996 to 28 % at 31 December 1997.

The special reserve is used to grant loans from ECSC own funds to finance subsidised housing.

The former pension fund originally represented the ECSC's total pension obligations prior to 5 March 1968. Since that date, the Member States have assumed responsibility, via the general budget, for the payment of staff pensions. This fund is used to finance housing loans for officials of the European Communities and has also been used to grant special loans to the coal and steel industries.

## 19. ANALYSIS OF THE RESULT FOR THE FINANCIAL YEAR

Overall ECSC performance is influenced by both the result of non-budgetary operations (lending/borrowing, investment, exchange-rate variations) and the out-turn of the ECSC operating budget.

## 19.1. Non-budgetary operations

<i>(ECU)</i>		
Result	31.12.1997	31.12.1996
GROSS OPERATING MARGIN BEFORE CHANGES IN PROVISIONS:		
— lending/borrowing operations	— 3 029 327	— 9 120 323
— interest on bank accounts	28 622 820	35 777 487
— transactions concerning portfolio securities	81 422 198	112 333 406
— miscellaneous	— 1 499 987	— 2 512 676
Total	105 515 704	136 477 894
NET CHANGES IN PROVISIONS:		
— provision for liabilities and charges <sup>(1)</sup>	— 8 818 500	— 34 228 973
— provision for large exposures <sup>(2)</sup>	9 000 000	19 000 000
— reserve for exchange differences <sup>(3)</sup>	746 892	— 1 060 011
— value adjustments in respect of loans and advances	36 826 654	— 24 578 389
Result of non-budgetary operations	143 270 750	95 610 521
Amount allocated to financing the operating budget <sup>(4)</sup>	— 109 694 257	— 50 500 000
Result after deducting the net balance allocated to the operating budget	33 576 493	45 110 521

<sup>(1)</sup> Note 14.

<sup>(2)</sup> Note 17.

<sup>(3)</sup> During 1997, changes in exchange rates led to an exchange loss of ECU 746 892, which was offset by a withdrawal from the value adjustment reserve.

<sup>(4)</sup> In accordance with the change in accounting method on 31 December 1992, income received during the 1997 financial year has been allocated to financing the 1997 operating budget (net balance as in Note 19.2).

## 19.2. Out-turn of the ECSC operating budget

	<i>(ECU)</i>	
	31.12.1997	31.12.1996
<b>OUT-TURN OF THE BUDGET</b>		
Expenditure:		
— administrative expenditure (Note 21)	5 000 000	5 000 000
— legal commitments (Note 15)	180 869 553	201 176 900
— financing of future operational budgets	274 000 000	0
Total	459 869 553	206 176 900
Revenue (net amounts):		
— levy (Note 25)	101 640 567	95 872 589
— fines (Note 25)	0	0
— interest subsidies (Note 25)	4 168 145	4 336 252
— miscellaneous (Note 25)	0	9 397
— cancellations of legal commitments (Note 25)	195 235 395	89 966 808
— surplus from the previous budget (Note 16)	49 131 189	14 623 043
— net balance for the year (Note 19.1)	109 694 257	50 500 000
Total	459 869 553	255 308 089
<b>BUDGET OUT-TURN</b>	0	49 131 189

## 19.3. Result for the financial year

	<i>(ECU)</i>	
	31.12.1997	31.12.1996
Result from non-budgetary operations after deducting the net balance allocated to the operating budget (Note 19.1)	33 576 493	45 110 521
Out-turn of the budget (Note 19.2)	0	49 131 189
Total	33 576 493	94 241 710
Allocation to the provisions for financing the operating budget (Note 16)	0	— 73 131 189
Allocation to the guarantee fund (Note 18)	— 31 256 356	— 19 000 000
<b>RESULT BEFORE ALLOCATION</b>	2 320 137	2 110 521

## 20. INTEREST AND OTHER CHARGES

*(ECU)*

	31.12.1997	31.12.1996
Interest on loans and swaps	329 439 704	578 089 223
Bank interest	36 150	143 213
Issuing costs and redemption premiums	1 943 655	2 082 149
Total	331 419 509	580 314 585

## 21. ADMINISTRATIVE EXPENDITURE

The ECSC paid a lump sum of ECU 5 million to the general budget of the Commission of the European Communities to cover its administrative expenditure.

## 22. OTHER OPERATING CHARGES

*(ECU)*

	31.12.1997	31.12.1996
Borrowing costs	90 620	104 432
Swift/Reuters charges	173 665	201 272
Other	118 365	76 864
Total	382 650	382 568

## 23. INTEREST RECEIVED AND SIMILAR INCOME

*(ECU)*

	31.12.1997	31.12.1996
Interest on loans and swaps	305 580 385	571 400 594
Payment and redemption premiums	1 657 860	1 297 295
Bank interest	28 844 878	35 920 700
Interest on bonds and other fixed-income securities	84 157 839	91 253 453
Total	420 240 962	699 872 042

## 24. OTHER OPERATING INCOME

<i>(ECU)</i>		
	31.12.1997	31.12.1996
Lapsed coupons and bonds	36 351	606 165
Other income from lending activities	22 124 702	—
Miscellaneous	346 632	938 605
Total	22 507 685	1 544 770

## 25. INCOME RELATING TO THE OPERATING BUDGET

<i>(ECU)</i>		
	31.12.1997	31.12.1996
Levy <sup>(1)</sup>	101 650 532	96 114 647
Fines <sup>(2)</sup>	0	0
Miscellaneous	0	9 398
Cancellation of legal commitments (Note 15)	195 235 395	89 966 808
Repayment of interest subsidies (Notes 5.4 and 16) <sup>(3)</sup>	4 168 145	4 336 252
Total	301 054 072	190 427 105

<sup>(1)</sup> The ECSC is authorised under the Treaty to impose a levy on coal and steel produced by undertakings in the Community. The levy is calculated on the basis of the average values in the Community of the various products concerned. The levy rate was 0,31 % for the years 1980 to 1990, 0,29 % for 1991, 0,27 % for 1992, 0,25 % for 1993, 0,23 % for 1994, 0,21 % for 1995, 0,19 % for 1996 and 0,17 % for 1997. On 23 December 1997, the European Commission decided to set the levy rate for the 1998 financial year at 0 %. At 31 December 1997, levy income included ECU 15 213 in respect of surcharges for late payment (ECU 66 022 at 31 December 1996).

<sup>(2)</sup> This item comprises the revenue from fines imposed by the Commission in accordance with Articles 58 and 65 of the ECSC Treaty, together with surcharges for late payment.

<sup>(3)</sup> This item comprises the revenue from the repayments of interest subsidies which the Commission was obliged to demand.

## 26. OFF-BALANCE-SHEET COMMITMENTS

## 26.1. Commitments received

<i>(ECU)</i>		
	31.12.1997	31.12.1996
(a) Commitments arising from swaps:		
— notional capital commitments relating to interest-rate swaps	243 048 695	404 417 158
— capital commitments relating to interest-rate and currency swaps	347 737 940	1 218 389 909
(b) Commitments on securities:		
— securities bought forward	—	61 687 650
Total	590 786 635	1 684 494 717

## 26.2. Commitments given

	<i>(ECU)</i>	
	31.12.1997	31.12.1996
(a) Loans granted:		
— global loan contracts, lines still to be used	—	1 542 037 656
— loans from borrowed funds signed but not yet disbursed	182 293 126	253 115 328
— loans from own funds signed but not yet disbursed	19 039 158	37 096 332
(b) Commitments arising from swaps:		
— notional capital commitments relating to interest-rate swaps	243 048 695	404 417 158
— capital commitments relating to interest-rate and currency swaps	268 027 585	1 279 792 499
(c) Commitments on securities:		
— securities bought forward	—	61 687 650
(d) Receipts from lapsed coupons and bonds	36 351	9 378
Total	712 444 915	3 578 156 001



## 27. CHANGES IN THE FINANCIAL SITUATION FOR THE YEAR ENDING 31 DECEMBER 1997

	<i>(ECU million)</i>	
	1997	1996
Origin of funds:		
Balance of profit-and-loss account	2,3	2,1
Items not involving a movement of funds:		
— amortisation of issuing costs and redemption premiums	0,4	0,8
— value adjustments in respect of securities	11,7	— 0,2
— value adjustments in respect of tangible assets	0,6	0,8
— value adjustments in respect of loans and advances (net)	23,4	43,0
— decrease in 'Provision for legal commitments'	— 206,1	— 195,4
— increase in 'Provision for financing the ECSC operating budget'	234,1	62,8
— decrease in accruals and deferred payments	— 38,6	— 47,8
— decrease in accruals and deferred income and issuing costs and redemption premiums	41,5	62,7
— decrease in 'Other liabilities'	— 65,5	— 271,6
— increase in 'Other assets'	— 109,0	— 11,8
— allocation to the provision for risks and charges	12,2	34,0
— withdrawal from the provision for large exposures	— 9,0	— 19,0
— allocation to (withdrawal from) the provision for changes in the ecu rate	— 0,7	1,1
— exchange-rate adjustments in respect of borrowings and loans	— 26,9	88,2
— allocation to the guarantee fund/special reserve	31,3	19,0
TOTAL FUNDS	— 98,3	— 231,3
Other resources:		
— proceeds from borrowings	473,8	298,2
— loan repayments	1 661,0	1 860,0
— disposals of buildings	0,2	1,1
— decrease in bank balances and portfolio	116,3	40,6
TOTAL RESOURCES	2 153,0	1 968,6
Use of funds:		
— loan disbursements	546,9	283,7
— redemptions of borrowings	1 606,1	1 684,9
TOTAL USES	2 153,0	1 968,6

## OUT-TURN OF THE ECSC OPERATING BUDGET FOR 1997

(ECU million)

Requirements	Forecast (draft 1997 operating budget)	Out-turn	Resources	Forecast (draft 1997 operating budget)	Out-turn
Operations to be financed from current resources (not reimbursable):			Resources for the financial year		
1. Administrative expenditure	5,0	5,0	1. Current resources		
2. Aid for redeployment (Article 56)	85,0	66,0	1.1. Yield from levy at 0,17 %	100,3	101,6
3. Aid for research (Article 55)	84,0	84,0	1.2. Net balance	96,0	109,7
3.1. Steel	55,0	55,0	1.3. Fines and surcharges for late payment	p.m.	p.m.
3.2. Coal	29,0	29,0	1.4. Miscellaneous	6,0	4,2
3.3. Social	0,0	0,0	2. Cancellation of commitments unlikely to be implemented	173,0	195,2
4. Aid for conversion	2,0	1,8	3. Unused resources carried over from 1996	49,1	49,1
5. Social measures (steel) (Article 56)	p.m.	p.m.	4. Utilisation of the contingency reserve	p. m.	p. m.
6. Social measures (coal) (Article 56)	30,0	29,0	5. Extraordinary resources	p.m.	p.m.
7. Provision for financing the operating budget	218,4	274,0			
TOTAL	424,4	459,8	TOTAL	424,4	459,8
Operations financed by loans from non-borrowed funds			Origin of non-borrowed funds		
Subsidised housing	13,0	13,0	Special Reserve and former ECSC pension fund	13,0	13,0