

Report of the European Court of Auditors on the financial statements of the European Coal and Steel Community at 31 December 1998

Official Journal C 240 , 25/08/1999 P. 0024 - 0024

REPORT OF THE EUROPEAN COURT OF AUDITORS

on the financial statements of the European Coal and Steel Community at 31 December 1998

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 1998 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 1998, 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 1998 and of the result of its operations for the year then ended.

Luxembourg, 30 June 1999.

Bernhard FRIEDMANN

Acting President

Armindo de SOUSA RIBEIRO

Member of the Court

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**FINANCIAL STATEMENTS OF THE EUROPEAN COAL AND STEEL COMMUNITY AT
31 DECEMBER 1998**

(1999/C 240/03)

In accordance with undertakings given by the Commission on behalf of the ECSC with regard to its borrowing activities, the following financial statements, drawn up in conformity with Article 45c of the Treaty establishing the ECSC, have been published:

- the balance sheet of the European Coal and Steel Community at 31 December 1998,
- the profit-and-loss accounts for the year ending 31 December 1998,
- the allocation of the surplus for the year ending 31 December 1998,
- the notes relating to the financial statements at 31 December 1998.

These financial statements are accompanied by the report of the Court of Auditors, as provided for under Article 45c of the ECSC Treaty.

ECSC financial statements at 31 December 1998

(Amounts in ecus)

— Before allocation of surplus —

ASSETS

	31 December 1998	31 December 1997
Balances with central banks (Note 3)	27 373	555 027
Loans and advances		
— repayable on demand	5 687 189	6 355 643
— with agreed maturity dates or periods of notice (Note 4.1)	400 672 394	367 368 554
— loans (Note 4.2)	1 249 393 642	1 746 786 240
Total	<u>1 655 753 225</u>	<u>2 120 510 437</u>
Loans and advances to customers (Note 5)		
— loans	1 583 902 933	1 836 139 393
— levy	732 880	2 141 909
— fines	90 001 060	72 785 575
— credit	6 039 382	14 927 351
Total	<u>1 680 676 255</u>	<u>1 925 994 228</u>
Financial assets (Note 6)		
— issued by public bodies	1 133 982 993	1 302 095 776
— issued by other borrowers	390 437 998	321 410 542
Shares and similar securities	34 770 301	—
Total	<u>1 559 191 292</u>	<u>1 623 506 318</u>
Tangible and intangible assets (Note 7)	1 293 461	2 623 844
Other assets (Note 8)	8 083 389	87 399 574
Prepayments and accrued income (Note 9)	121 505 439	169 427 311
TOTAL ASSETS	<u>5 026 530 434</u>	<u>5 930 016 739</u>
Off-balance-sheet commitments (Note 26)	372 924 076	590 786 635

— Before allocation of surplus —

LIABILITIES

	31 December 1998	31 December 1997
LIABILITIES VIS-À-VIS THIRD PARTIES		
Amounts owed to credit institutions		
— repayable on demand	244	—
— with agreed maturity dates or periods of notice	—	45 239
— borrowings (Note 10)	1 847 546 788	2 277 664 834
Total	1 847 547 032	2 277 710 073
Debts evidenced by certificates (Note 11)	958 179 659	1 359 610 749
Other liabilities (Note 12)	29 591 303	12 788 060
Accruals and deferred income (Note 13)	93 919 208	121 190 289
Provisions for liabilities and charges (Note 14)	122 906 181	87 376 377
Commitments for the ECSC operating budget (Note 15)	695 662 822	853 779 193
TOTAL LIABILITIES VIS-À-VIS THIRD PARTIES	3 747 806 205	4 712 454 741
NET POSITION		
Provisions for financing the ECSC operating budget (Note 16)	476 042 442	441 712 926
Provisions for major exposures (Note 17)	23 000 000	27 000 000
Reserves (Note 18):		
— Guarantee Fund	530 000 000	500 000 000
— Special Reserve	176 055 284	176 055 284
— Former Pension Fund	71 285 439	69 622 926
Total	777 340 723	745 678 210
Value adjustment reserve	—	313 119
Surplus brought forward	1 195 230	537 606
Surplus for the financial year (Note 19)	1 145 834	2 320 137
NET TOTAL	1 278 724 229	1 217 561 998
TOTAL LIABILITIES	5 026 530 434	5 930 016 739
Off-balance-sheet commitments (Note 26)	497 605 519	712 444 915

Profit-and-loss account for the year ending 31 December 1998

(Amounts in ecus)

CHARGES

	1998 financial year	1997 financial year
Interest payable and similar charges (Note 20)	232 061 730	331 419 509
Commissions payable	561 449	844 743
Net losses on financial operations		
— foreign-exchange losses	171	31 292
— losses on financial assets	17 752 113	1 622 062
— value adjustments in respect of financial assets (Note 6)	55 704 738	14 278 026
Total	73 457 022	15 931 380
Administrative expenditure (Note 21)	5 000 000	5 000 000
Value adjustments in respect of tangible assets (Note 7)	407 994	573 251
Other operating charges (Note 22)	267 708	382 650
Value adjustments: loans, advances, provisions:		
— value adjustments for loans and advances	32 334 370	372 189
— allocation to the provision for liabilities and charges (Note 14)	30 102 913	8 818 500
Total	62 437 283	9 190 689
TOTAL OPERATING CHARGES	374 193 186	363 342 222
Extraordinary charges	137 845	580 380
Conversion difference	2 735 343	746 892
Legal commitments for the financial year (Note 15)	153 992 955	180 869 553
Allocation to the provisions for financing the ECSC operating budget (Note 16)	26 000 000	274 000 000
Allocation to the Guarantee Fund (Note 18)	30 000 000	31 256 356
TOTAL CHARGES	587 059 329	850 795 403
Surplus for the financial year (Note 19)	1 145 834	2 320 137
Total	588 205 163	853 115 540

INCOME

	1998 financial year	1997 financial year
Interest receivable and similar income (Note 23) (including interest on fixed-income securities: 78 459 620 in 1998 and 84 157 839 in 1997)	346 079 959	420 240 962
Net profit on financial operations		
— foreign-exchange profits	257 775	36 600
— profits on financial assets	12 386 190	10 665 375
— withdrawal of value adjustments in respect of financial assets (Note 6)	11 882 835	2 533 921
Total	24 526 800	13 235 896
Withdrawal of value adjustments in respect of loans and advances and provisions:		
— withdrawal of value adjustments in respect of loans and advances	63 963 378	37 198 844
— withdrawal from the provision for major exposures (Note 17)	4 000 000	9 000 000
Total	67 963 378	46 198 844
Other operating income (Note 24)	2 729 291	22 507 685
Extraordinary income	22 262	—
TOTAL OPERATING INCOME	441 321 690	502 183 387
Withdrawal from the value adjustment reserve	313 119	746 892
Income relating to the ECSC operating budget (Note 25)	146 570 354	301 054 072
Withdrawal from the provision for financing the ECSC operating budget (Note 16)	—	49 131 189
TOTAL INCOME	588 205 163	853 115 540

Allocation of the surplus for the year ending 31 December 1998

(Amounts in ecus)

	1998 financial year	1997 financial year
Surplus not allocated at 1 January	1 195 230	537 606
Surplus for the year to be allocated	1 145 834	2 320 137
Total	2 341 064	2 857 743
Allocation to the former pension fund (Note 18)	1 674 223	1 662 513
Surplus not allocated at 31 December	666 841	1 195 230

NOTES RELATING TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 1998

(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. Since the ECSC Treaty is due to expire on 23 July 2002, the rate of the ECSC levy was reduced to zero in 1998 (Commission Decision of 23 December 1997), and the ECSC lending activity has been virtually discontinued since July 1997 (Commission Decision of 22 June 1994). Thus most of the ECSC's funds now come from the net balance achieved in the management of the various reserves and provisions.
- 1.2. The ECSC's financial statements at 31 December 1998 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 ⁽¹⁾.
- 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:

	31.12.1998	31.12.1997
Belgian and Luxembourg francs	40,3399	40,7675
Danish krone	7,44878	7,52797
German mark	1,95583	1,97632
Greek drachma	329,689	312,039
Portuguese escudo	200,482	202,137
French franc	6,55957	6,61214
Finnish markka	5,94573	5,98726
Dutch guilder	2,20371	2,22742
Irish pound	0,787564	0,771961
Italian lira	1 936,27	1 942,03
Austrian schilling	13,76030	13,9020
Spanish peseta	166,386	167,388
Swedish krona	9,48803	8,73234
Pound sterling	0,705455	0,666755
Canadian dollar	1,80613	1,58256
Swiss franc	1,60778	1,60553
United States dollar	1,16675	1,10421
Japanese yen	132,800	143,680

⁽¹⁾ OJ L 222, 14.8.1978 and OJ L 372, 31.12.1986.

- 1.4. At 31 December 1998 the various currencies listed above, together with the ecu, made up the ECSC's balance sheet as follows:

(ECU)		
Currency	Assets	Liabilities
Ecu	1 167 020 649	1 863 091 129
Belgian franc	126 164 697	77 171 989
German mark	959 419 309	807 585 927
Portuguese escudo	141 684 725	140 586 054
French franc	800 737 451	574 589 511
Finnish markka	870 878	0
Dutch guilder	61 469 282	5 106 708
Irish pound	966 793	0
Luxembourg franc	129 182 221	120 294 732
Italian lira	300 108 832	264 812 940
Austrian schilling	44 034 166	3 702 982
Spanish peseta	121 479 377	78 212 738
Sub-total	3 853 138 380	3 935 154 710
Danish krone	696 352	0
Greek drachma	1 166 651	2 002
Swedish krona	259 227	0
Pound sterling	811 867 016	727 005 212
Swiss franc	5 286 193	5 281 416
United States dollar	269 209 931	274 206 946
Japanese yen	84 906 684	84 880 148
Total	5 026 530 434	5 026 530 434

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 169 388 841 in 1998.

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

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

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:

	(ECU)	
	31.12.1998	31.12.1997
Up to three months	390 192 760	361 076 698
Three months to one year	10 479 634	6 291 856
Total	400 672 394	367 368 554

4.2. **Loans**

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

	(ECU)	
	31.12.1998	31.12.1997
Up to three months	54 614 003	172 233 077
Three months to one year	275 119 394	324 131 965
One to five years	827 990 889	1 149 308 488
Over five years	91 669 356	101 112 710
Total	1 249 393 642	1 746 786 240

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)	
	31.12.1998	31.12.1997
1. Loans disbursed from borrowed funds		
— amounts outstanding	1 648 424 166	1 943 860 811
— value adjustments	- 129 626 942	- 170 220 655
Sub-total	1 518 797 224	1 773 640 156
2. Loans from the special reserve and other own funds for financing subsidised housing	23 693 878	20 235 203
Interim total	1 542 491 102	1 793 875 359
The breakdown of these loans by time remaining to maturity is as follows at 31 December		
	1998	1997
Up to three months	19 462 330	84 129 143
Three months to one year	90 966 387	55 848 217
One to five years	1 074 090 693	1 007 507 068
Over five years	487 598 634	816 611 585
3. Loans paid from the former pension fund to officials of the European Communities for housing construction	41 160 654	41 539 969
4. Loan repayments overdue and interest on arrears		
— amounts outstanding	251 177	724 065
Grand total	1 583 902 933	1 836 139 393

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

5.2. Levy

The 1998 levy rate was 0 %, so the claims at 31 December 1998 therefore refer to previous years.

Before value adjustment, this item amounted to ECU 7 488 192 at 31 December 1998 (ECU 9 165 606 at 31 December 1997). It comprises in particular ECU 5 958 532 subject to legal proceedings (ECU 6 342 867 at 31 December 1997) and ECU 42 261 relating to temporary deferment in respect of coal in stock (ECU 282 491 at 31 December 1997).

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 90 001 060 (ECU 72 785 575 at 31 December 1997).

This item has two main components.

A fine 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 ⁽¹⁾ of 16 February 1994). 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.

A fine totalling ECU 27 380 000 was imposed by the Commission (Decision 98/247/ECSC ⁽²⁾ of 21 January 1998) under Article 65 of the Treaty on steel companies for concerted agreement on the formula for calculating the alloy surcharge. Payments totalling ECU 14 740 000 have been received, while two-thirds of the companies affected by the decision have lodged appeals with the Court of First Instance.

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. FINANCIAL ASSETS

The ECSC internal rules imposing the obligation to exercise due caution stipulate that portfolio investments are to be confined to securities issued by first-ranking entities. However, in 1998, by way of exception, the ECSC acquired shares and other variable-income securities from a private-sector company under an agreement to restructure the debt of a defaulting debtor.

6.1. **Valuation**

Bonds, other fixed-income securities and shares and similar securities are valued at the average purchase price or the market value obtaining at the end of the financial year, whichever is the lower.

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

⁽¹⁾ OJ L 116, 6.5.1994.

⁽²⁾ OJ L 100, 1.4.1998.

6.2. **Composition**

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

(ECU)			
	Value adjustments on bonds/shares and similar securities allo- cation (withdrawal)	31.12.1998	31.12.1997
(a) Bonds:			
ISSUED BY PUBLIC BODIES:			
— Gross value		1 114 016 464	1 306 255 040
— Value adjustments	- 2 195 917	- 1 963 347	- 4 159 264
— Net value		1 112 053 117	1 302 095 776
OWN-DEBT SECURITIES:			
— Gross value		22 028 111	89 033 938
— Value adjustments	- 9 686 918	- 98 235	- 9 785 153
— Net value		21 929 876	79 248 785
ISSUED BY OTHER BORROWERS:			
— Gross value		390 861 607	242 495 366
— Value adjustments	90 000	- 423 609	- 333 609
— Net value		390 437 998	242 161 757
TOTAL BONDS:			
— Gross value		1 526 906 182	1 637 784 344
— Value adjustments	- 11 792 835	- 2 485 191	- 14 278 026
— Net value		1 524 420 991	1 623 506 318
(b) Shares and similar securities ⁽¹⁾:			
— Gross value		90 385 039	0
— Value adjustments	55 614 738	- 55 614 738	0
— Net value		34 770 301	0
GRAND TOTAL:			
— Gross value		1 617 291 221	1 637 784 344
— Value adjustments	43 821 903	- 58 099 929	- 14 278 026
— Net value		1 559 191 292	1 623 506 318

⁽¹⁾ These shares and securities were received by the ECSC on signing a plan to restructure the debt of a defaulting debtor.

6.3. Maturities in 1999

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

— Issued by public bodies:	515 733 748
— Own-debt securities:	1 737 802
— Issued by other borrowers:	58 014 123
Total	<u>575 485 673</u>

6.4. Listed/unlisted securities

The securities portfolio comprises ECU 1 455 715 767 of securities with a stock-exchange listing, the balance of ECU 103 475 525 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 911 682.

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

— Issued by public bodies:	76 276 763
— Own-debt securities:	19 660 077
— Issued by other borrowers:	25 672 081
Total	<u>121 608 921</u>

7. TANGIBLE AND INTANGIBLE ASSETS

(ECU)

	Year of acquisition	Acquisition price	31.12.1997 Net value	Operations during the year			31.12.1998 Net value
				Acquisitions	Net book value of disposals	Amortisation	
Tangible assets							
— Lisbon	1986-1993	2 670 796	1 040 075	—	—	224 892	815 183
— Canberra	1987	2 511 059	970 935	—	922 389	48 546	0
— Windhoek	1992	802 172	372 862	—	—	74 568	298 294
			2 383 872	—	922 389	348 006	1 113 477
Intangible assets							
— Lease on Milan building	1986	879 882	239 972	—	—	59 988	179 984
Total tangible and intangible assets			2 623 844	—	922 389	407 994	1 293 461

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 Canberra was completed in 1998.

For the ECSC, this transaction generated a capital gain of ECU 954 130, this being the difference between the transfer price (ECU 1 876 519) and the net book value (ECU 922 389) at the date of transfer.

As regards the other buildings, pending the completion of the 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 3 191 060 (Note 12).

8. OTHER ASSETS

	(ECU)	
	31.12.1998	31.12.1997
Exchange value in ecus of the difference between currency receivable and payable under currency exchange operations (swaps) ⁽¹⁾	—	79 710 355
— Portfolio taxes and VAT to be reclaimed	2 619 620	2 890 676
— Loans to officials	5 423 399	4 777 265
— Miscellaneous	40 370	21 278
Total	8 083 389	87 399 574

⁽¹⁾ See Note 12

9. PREPAYMENTS AND ACCRUED INCOME

	(ECU)	
	31.12.1998	31.12.1997
Interest accrued on loans and swaps	78 722 077	88 543 207
Interest accrued on deposits and securities portfolio	39 676 408	45 429 135
Levy declared for current and previous years, but payable after 31 December (Note 25)	—	26 209 470
Issuing costs and redemption premiums	6 897 774	9 245 499
	125 296 259	169 427 311
Cumulative value adjustments	- 3 790 820	—
Total	121 505 439	169 427 311

10. AMOUNTS OWED TO CREDIT INSTITUTIONS

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

	(ECU)	
	31.12.1998	31.12.1997
Repayable on demand	244	—
Up to three months	154 270 850	147 072 173
Three months to one year	329 368 744	246 407 737
One to five years	1 326 792 455	1 831 349 202
Over five years	37 114 739	52 880 961
Total	1 847 547 032	2 277 710 073

11. DEBTS EVIDENCED BY CERTIFICATES

Part of the borrowings outstanding at 31 December 1998 will reach maturity during the 1999 financial year. These borrowings total ECU 5 336 981.

12. OTHER LIABILITIES

	(ECU)	
	31.12.1998	31.12.1997
Exchange value in ecus of the difference between currency receivable and payable under currency exchange operations (swaps) ⁽¹⁾	14 945 315	—
Current account, ECSC operating budget	7 276 488	3 572 400
Advance payments for transfer of buildings ⁽²⁾	3 191 060	5 067 579
Other	4 178 440	4 148 081
Total	29 591 303	12 788 060

⁽¹⁾ See Note 8.

⁽²⁾ In accordance with the possibility offered under the decision of 11 June 1992, in the course of 1994 and 1995 the Commission had 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)	
	31.12.1998	31.12.1997
Interest on borrowings and credit lines	87 650 053	111 943 954
Commissions on loans	189 976	233 001
Issuing premiums	6 079 179	9 013 334
Total	93 919 208	121 190 289

14. PROVISION FOR LIABILITIES AND CHARGES

(ECU)

	31.12.1997	Operations in 1998			31.12.1998
		Allocation	Withdrawal	Exchange-rate movement	
Provision for withholding tax to be paid ⁽¹⁾	6 125 674	274 402	—	65 667	6 465 743
Provision for interest-rate risk ⁽²⁾	43 254 269	28 278 573	—	- 2 708 775	68 824 067
Provision for special costs relating to banking activities ⁽³⁾	200 000	—	—	—	200 000
Provision for appeal against Decision 94/215/ECSC ⁽⁴⁾	37 796 434	1 332 875	—	—	39 129 309
Provision for appeal against Decision 98/247/ECSC ⁽⁵⁾	—	8 287 062	—	—	8 287 062
Total	87 376 377	38 172 912	—	- 2 643 108	122 906 181

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ 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).

⁽⁵⁾ This provision was created from the fines paid under Decision 98/247/ECSC of 21 January 1998 to cover the possible reimbursement of the amounts received should the Court of First Instance rule in favour of the companies which have appealed against this Decision (Note 5.3).

15. COMMITMENTS FOR THE ECSC OPERATING BUDGET

In 1998, commitments for the ECSC operating budget were as follows:

(ECU)

	Commitments at 31.12.1997	New legal commitments	Payments	Cancellations	Commitments at 31.12.1998
Redeployment	263 072 660	43 148 955	53 406 909	41 511 742	211 302 964
Research	186 545 883	84 000 000	60 336 616	3 567 314	206 641 953
Interest subsidies (Article 54)	3 521 399	—	909 477	—	2 611 922
Interest subsidies (Article 56)	210 127 154	—	26 389 880	56 127 021	127 610 253
Social measures steel industry	111 130 244	—	13 183 228	18 021 517	79 925 499
Social measures coal industry (Rechar)	79 381 853	26 844 000	23 639 478	15 016 144	67 570 231
Total	853 779 193	153 992 955	177 865 588	134 243 738	695 662 822

16. PROVISION FOR FINANCING THE ECSC OPERATING BUDGET

(ECU)

	Provisions at 31.12.1997	Operations during the year		Provisions at 31.12.1998
		Withdrawal	Allocation	
Budgetary contingency reserve ⁽¹⁾	80 000 000	—	—	80 000 000
Provision for financing future operating budgets ⁽²⁾	274 000 000	—	26 000 000	300 000 000
Impact on the result		—	26 000 000	
Provision for late-payment fines and surcharges to be paid subsequently ⁽³⁾	72 785 575	—	17 215 485	90 001 060
Provision for subsidies to be recovered ⁽³⁾	14 927 351	8 885 969	—	6 041 382
Total	441 712 926			476 042 442

⁽¹⁾ 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.

⁽²⁾ This provision was constituted as a precautionary measure from the 1997 budget period onwards. 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.

⁽³⁾ 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. PROVISIONS FOR MAJOR 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 1998 and according to a procedure recommended by a firm of international experts, totals ECU 23 million.

18. RESERVES

(ECU)

	Reserves at 31.12.1997 after allocation	Allocation (withdrawal)	Reserves at 31.12.1998 before allocation	Allocations at 31.12.1998	Reserves at 31.12.1998 after allocation
Guarantee fund	500 000 000	30 000 000	530 000 000	—	530 000 000
Special reserve	176 055 284	—	176 055 284	—	176 055 284
Former pension fund	71 285 439	—	71 285 439	1 674 223	72 959 662
Total	747 340 723	30 000 000	777 340 723	1 674 223	779 014 946

The Guarantee Fund is intended to cover lending and borrowing operations. After allocation of ECU 30 million, the Guarantee Fund totalled ECU 530 million at 31 December 1998. 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 reserves (Guarantee Fund and provisions) must be gradually increased to approximately ECU 730 million.

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 28 % at 31 December 1997 to 33 % at 31 December 1998.

The Special Reserve is used to grant loans from ECSC own funds to finance subsidised housing.

Lastly, 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

	(ECU)	
Result	31.12.1998	31.12.1997
GROSS OPERATING MARGIN BEFORE CHANGES IN PROVISIONS		
— Lending/borrowing operations	15 129 889	– 3 029 327
— Interest on bank accounts	17 797 802	28 622 820
— Transactions concerning portfolio securities	32 845 995	81 422 198
— Miscellaneous	– 2 044 464	– 1 499 987
Total	63 729 222	105 515 704
NET CHANGES IN PROVISIONS		
— Provision for liabilities and charges ⁽¹⁾	– 30 102 913	– 8 818 500
— Provision for major exposures ⁽²⁾	4 000 000	9 000 000
— Reserve for exchange differences ⁽³⁾	313 118	746 892
— Value adjustments in respect of loans and advances	31 629 008	36 826 654
Result of non-budgetary operations	69 568 435	143 270 750
Amount allocated to financing the operating budget ⁽⁴⁾	– 38 422 601	– 109 694 257
Result after deducting the net balance allocated to the operating budget	31 145 834	33 576 493

⁽¹⁾ See Note 14.

⁽²⁾ See Note 17.

⁽³⁾ During 1998, changes in exchange rates led to an exchange loss of ECU 2 735 343, which was offset by a withdrawal from the value adjustment reserve (ECU 313 118).

⁽⁴⁾ In accordance with the change of accounting method on 31 December 1992, income received during the 1998 financial year has been allocated to financing the 1998 operating budget (net balance as in Note 19.2).

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

	(ECU)	
	31.12.1998	31.12.1997
OUT-TURN OF THE BUDGET		
Expenditure		
— Administrative expenditure (Note 21)	5 000 000	5 000 000
— Legal commitments (Note 15)	153 992 955	180 869 553
— Financing of future operating budgets	26 000 000	274 000 000
Total	184 992 955	459 869 553
Revenue (net amounts)		
— Levy (Note 25)	0	101 640 567
— Fines (Note 25)	6 686 169	0
— Interest subsidies (Note 25)	4 808 477	4 168 145
— Miscellaneous (Note 25)	831 970	0
— Cancellations of legal commitments (Note 25)	134 243 738	195 235 395
— Surplus from the previous budget (Note 16)	0	49 131 189
— Net balance for the year (Note 19.1)	38 422 601	109 694 257
Total	184 992 955	459 869 553
BUDGET OUT-TURN	0	0

19.3. **Result for the financial year**

	(ECU)	
	31.12.1998	31.12.1997
Result from non-budgetary operations after deducting the net balance allocated to the operating budget (Note 19.1)		
Out-turn of the budget (Note 19.2)	31 145 834	33 576 493
Total	0	0
Allocation to provisions for financing the operating budget/budgetary contingencies (Note 16)	31 145 834	33 576 493
Allocation to the Guarantee Fund (Note 18)	0	0
	- 30 000 000	- 31 256 356
RESULT BEFORE ALLOCATION	1 145 834	2 320 137

20. **INTEREST AND SIMILAR CHARGES**

	(ECU)	
	31.12.1998	31.12.1997
Interest on loans and swaps	229 569 814	329 439 704
Bank interest	15 769	36 150
Issuing costs and redemption premiums	2 476 147	1 943 655
Total	232 061 730	331 419 509

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)	
	31.12.1998	31.12.1997
Borrowing costs	27 159	90 620
Swift/Reuters charges	205 013	173 665
Other	35 536	118 365
Total	267 708	382 650

23. INTEREST RECEIVED AND SIMILAR INCOME

	(ECU)	
	31.12.1998	31.12.1997
Interest on loans and swaps	242 206 441	305 580 385
Payment and redemption premiums	3 809 968	1 657 860
Bank interest	17 997 505	28 844 878
Interest on financial assets	82 066 045	84 157 839
Total	346 079 959	420 240 962

24. OTHER OPERATING INCOME

	(ECU)	
	31.12.1998	31.12.1997
Lapsed coupons and bonds	27 964	36 351
Other income from lending activities	1 744 517	22 124 702
Miscellaneous	956 810	346 632
Total	2 729 291	22 507 685

25. INCOME RELATING TO THE OPERATING BUDGET

	(ECU)	
	31.12.1998	31.12.1997
Levy ⁽¹⁾	0	101 650 532
Fines ⁽²⁾	6 686 169	0
Miscellaneous	831 970	0
Cancellation of legal commitments (Note 15)	134 243 738	195 235 395
Repayment of interest subsidies (Note 5.4 and 16) ⁽³⁾	4 808 477	4 168 145
Total	146 570 354	301 054 072

⁽¹⁾ 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 %.

⁽²⁾ 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.

⁽³⁾ 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

	(ECU)	
	31.12.1998	31.12.1997
Commitments arising from swaps		
— Notional capital commitments relating to interest-rate swaps	203 535 235	243 048 695
— Capital commitments relating to interest-rate and currency swaps	169 388 841	347 737 940
Total	372 924 076	590 786 635

26.2. Commitments given

	(ECU)	
	31.12.1998	31.12.1997
(a) Loans granted		
— Loans from borrowed funds signed but not yet disbursed	109 708 164	182 293 126
— Loans from own funds signed but not yet disbursed	—	19 039 158
(b) Commitments arising from swaps		
— Notional capital commitments relating to interest-rate swaps	203 535 235	243 048 695
— Capital commitments relating to interest-rate and currency swaps	184 334 156	268 027 585
(c) Receipts from lapsed coupons and bonds	27 964	36 351
Total	497 605 519	712 444 915

27. CHANGES IN THE FINANCIAL SITUATION FOR THE YEAR ENDING 31 DECEMBER 1998

	<i>(ECU million)</i>	
	1998	1997
Origin of funds		
Balance of profit-and-loss account	1,1	2,3
Items not involving a movement of funds		
— Amortisation of issuing costs and redemption premiums	2,3	0,4
— Value adjustments in respect of financial assets	43,8	11,7
— Value adjustments in respect of tangible assets	0,4	0,6
— Value adjustments in respect of loans and advances, net (withdrawal)	- 36,8	23,4
— Decrease in 'Provision for legal commitments'	- 158,1	- 206,1
— Increase in 'Provision for financing the ECSC operating budget'	34,3	234,1
— Increase (decrease) in accruals and deferred payments	- 27,3	- 38,6
— Decrease in accruals and deferred income and issuing costs/ redemption premiums	41,8	41,5
— Increase (decrease) in 'Other liabilities'	16,8	- 65,5
— Increase in 'Other assets'	178,5	- 109,0
— Allocation to the provisions for liabilities and charges	35,5	12,2
— Withdrawal from the provision for major exposures	- 4,0	- 9,0
— Withdrawal from the provision for changes in the ecu rate	- 0,3	- 0,7
— Exchange-rate adjustments in respect of borrowings and loans	- 17,5	- 26,9
— Allocation to the Guarantee Fund/Special Reserve	30,0	31,3
TOTAL FUNDS	140,5	- 98,3
Other resources		
— Proceeds from borrowings	0	473,8
— Loan repayments	690,6	1 661,0
— Disposals of buildings	0,9	0,2
— Decreases in bank balances and securities portfolio	—	116,3
TOTAL RESOURCES	832,0	2 153,0
Use of funds		
— Loan disbursements	23,2	546,9
— Redemption of borrowings	797,2	1 606,1
— Increase in bank balances and securities portfolio	11,6	—
TOTAL USES	832,0	2 153,0

OUT-TURN OF THE ECSC OPERATING BUDGET FOR 1998

(ECU million)

Requirements			Resources		
Operations to be financed from current resources (not reimbursable)	Forecast	Out-turn	Resources for the financial year	Forecast	Out-turn
1. Administrative expenditure	5,0	5,0	1. Current resources		
2. Aid for redeployment (Article 56)	70,0	43,1	1.1. Yield from levy at 0,00 %	0,0	0,0
3. Aid for research (Article 55)	84,0	84,0	1.2. Net balance	55,0	38,4
3.1. Steel research	56,0	56,0	1.3. Fines and surcharges for late payment	t.e.	6,7
3.2. Coal research	28,0	28,0	1.4. Miscellaneous	5,0	5,6
3.3. Social research	t.e.	0,0	2. Cancellation of commitments	84,0	134,2
4. Aid for conversion (Article 95)	30	0,0	3. Unused resources carried over from 1997	t.e.	0,0
5. Social measures (steel) (Article 56)	t.e.	0,0	4. Withdrawal from the provision for financing the ECSC operating budget	75	0,0
6. Social measures (coal) (Article 56)	30,0	26,8	5. Extraordinary resources	t.e.	0,0
7. Provision for financing future budgets	0,0	26,0			
TOTAL BUDGET	219,0	184,9	TOTAL BUDGET	219,0	184,9

REPORT OF THE EUROPEAN COURT OF AUDITORS

on the financial statements of the European Coal and Steel Community at 31 December 1998

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 1998 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 1998, 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 1998 and of the result of its operations for the year then ended.

Luxembourg, 30 June 1999.

Bernhard FRIEDMANN
Acting President

Armindo de SOUSA RIBEIRO
Member of the Court