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REPORT BY THE EUROPEAN COURT OF AUDITORS ON THE FINANCIAL STATEMENTS
OF THE EUROPEAN COAL AND STEEL COMMUNITY AS AT 31 DECEMBER 2001
DRAWN UP IN ACCORDANCE WITH ARTICLE 45 c(5)
OF THE ECSC TREATY

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REPORT BY THE EUROPEAN COURT OF AUDITORS

on the financial statements of the European Coal and Steel Community
as at 31 December 2001

1. This report concerns the reliability of the accounts drawn up by the Commission in accordance with Article 45c(5) 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 2001 in accordance with generally accepted auditing standards and carried out such checks as it considered necessary. By means of this audit the Court has obtained a reasonable basis for the opinion expressed below.
3. In the Court's opinion, the attached financial statements (balance sheet at 31 December 2001, profit and loss account, statement of the allocation of the surplus for the financial year then ended 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 2001 and of the results of its operations for the year then ended.

Luxembourg, 6 June 2002

Juan Manuel Fabra Vallés
President of the Court of Auditors

Ioannis Sarmas
Member of the Court of Auditors

ECSC financial statements

ECSC financial statements

The ECSC's balance sheet, profit-and-loss account and statement of the allocation of profit for the year ending 31 December 2001 were submitted to the Commission for approval under written procedure N° E/947/2002 of 05/06/2002 and are shown in this financial report as approved by the Commission.

Balance sheet at 31 December 2001

(Amounts in euros) - Before allocation of surplus

Assets

	31 December 2001	31 December 2000
Balances with central banks (Note C1)	63 130	84 650
Loans and advances		
- repayable on demand	8 553 937	8 331 435
- with agreed maturity dates or periods of notice (Note C2 1)	133 272 729	25 381 261
- loans (Note C2 2)	355 368 358	611 297 253
Total	497 195 024	645 009 949
Loans and advances to customers		
- loans (Note C3.1)	1 045 139 605	1 459 488 702
- levy (Note C3.2)	66 213	61 041
- fines (Note C3.3)	39 806 715	38 950 716
- interest subsidies repayable (Note C3.4)	2 579 066	3 304 216
Total	1 087 591 599	1 501 804 675
Bonds and other fixed-income securities (Note C4)		
- issued by public bodies	1 090 184 127	973 765 678
- issued by other borrowers	478 711 875	705 940 156
Shares and other variable-income securities (Note C5)	44 205 202	44 040 538
Total	1 613 101 204	1 723 746 372
Other assets (Note C6)	7 092 794	5 170 347
Prepayments and accrued income (Note C7)	82 534 005	96 173 610
Total assets	3 287 577 756	3 971 989 603
Off-balance-sheet commitments (Note C23)	310 674 984	430 881 628

Balance sheet at 31 December 2001

(Amounts in euros) - Before allocation of surplus

Liabilities

	31 December 2001	31 December 2000
<u>Liabilities vis-à-vis third parties</u>		
Amounts owed to credit institutions (Note C8)		
- repayable on demand	-	352 822
- with agreed maturity dates or periods of notice	604 294 572	981 277 746
Total	604 294 572	981 630 568
Debts evidenced by certificates (Note C9)	836 250 262	1 062 076 396
Other liabilities (Note C10)	301 104	7 494 034
Accruals and deferred income (Note C11)	78 061 265	91 947 305
Liabilities vis-à-vis third parties	1 518 907 203	2 143 148 303
<u>ECSC operating budget (Note C12)</u>	530 720 948	835 516 282
<u>Provisions for liabilities and charges</u>		
Guarantee Fund (Note C14.1)	580 000 000	565 000 000
Provisions for major exposures (Note C14.2)	6 000 000	17 000 000
Other provisions (Note C14.3)	150 699 271	158 663 347
Total provisions	736 699 271	740 663 347
Budget for financing coal and steel research (Note C13)	240 000 000	-
<u>Reserves and surplus (Note C15)</u>		
Special Reserve	118 000 000	176 055 284
Former Pension Fund	40 000 000	74 577 321
Assets of the Coal and Steel Research Fund	92 632 605	-
Surplus brought forward	2 029 066	213 454
Surplus for the financial year (Note C16)	8 588 663	1 815 612
Total reserves and surplus	261 250 334	252 661 671
Total liabilities	3 287 577 756	3 971 989 603
Off-balance-sheet commitments (Note C23)	300 196 287	426 626 265

Profit-and-loss account for the year ending 31 December 2001

(Amounts in euros)

Charges

	Financial year 2001	Financial year 2000
Interest payable and similar charges (Note C17)	141 299 615	170 536 669
Commission paid	379 849	439 219
Net losses on financial operations		
- exchange difference (Note B2)	268 248	862 006
- losses on bonds and other fixed-income securities	2 248 893	6 703 555
- value adjustments for bonds and other fixed-income securities (Note C4)	6 760 668	2 960 265
- value adjustments for shares and other variable-income securities (Note C5)	3 072 877	13 920 110
Total	12 350 686	24 445 936
Administrative overheads (Note C18)	5 000 000	5 000 000
Value adjustments for land and buildings	-	166 180
Other operating charges (Note C19)	1 711 089	315 884
Value adjustments for loans and advances and provisions for liabilities and commitments:		
- value adjustment for loans and advances	4 743 980	12 590 342
- allocation to the Guarantee Fund (Note C14.1)	15 000 000	12 000 000
- allocation to other provisions for liabilities and charges (Notes C13 and C14.3)	2 057 973	17 134 135
Total	21 801 953	41 724 477
Extraordinary charges	31 139	270 668
Legal commitments for the financial year (Note C12)	184 554 560	129 942 347
Allocation to the budget for financing coal and steel research (Note C13)	240 000 000	-
Total charges	607 128 891	372 841 380
Surplus for the financial year (Note C16)	8 588 663	1 815 612
Total	615 717 554	374 656 992

Profit-and-loss account for the year ending 31 December 2001

(Amounts in euros)

Income

	Financial year 2001	Financial year 2000
Interest receivable and similar income (Note C20) (including interest on fixed-income securities: EUR 69 658 619 in 2001 and EUR 73 603 257 in 2000)	214 741 377	248 795 316
Commission received	253 300	93 400
Net profit on financial operations		
- profit on bonds and other fixed-income securities	696 145	2 158 217
- withdrawal of value adjustments for bonds and other fixed-income securities (Note C4)	17 200 348	16 334 306
- withdrawal of value adjustments for shares and other variable-income securities (Note C5)	1 179 177	7 951 984
Total	19 075 670	26 444 507
Withdrawals of value adjustments for loans and advances and from the provisions for liabilities and commitments:		
- withdrawal of value adjustments for loans and advances	49 478 703	13 155 711
- withdrawal from the provision for major exposures (Note C14 2)	11 000 000	1 000 000
- withdrawal from other provisions for liabilities and charges (Note C14 3)	3 477 090	0
Total	63 955 793	14 155 711
Other operating income (Note C21)	83 387	2 122 461
Extraordinary income	1 879 316	2 427 191
Income relating to the ECSC operating budget (Note C22)	64 523 231	74 618 406
Withdrawal from the provision for financing the ECSC operating budget (Note 12)	251 205 480	6 000 000
Total income	615 717 554	374 656 992

**Allocation of the surplus for the year
ending 31 December 2001**
(Amounts in euros)

	Financial year 2001	Financial year 2000
Surplus brought forward at 1 January	2 029 066	213 454
Surplus for the year to be allocated	8 588 663	1 815 612
Total	10 617 729	2 029 066
Allocation to the assets of the Coal and Steel Research Fund (Note C15)	7 367 395	0
Surplus brought forward at 31 December	3 250 334	2 029 066

NOTES RELATING TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2001

(Amounts in euros)

A. THE ECSC

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 was to contribute to the economic expansion of the Member States through the establishment of a common market for coal and steel.

The ECSC Treaty is due to expire on 23 July 2002. The Nice European Council decided to annex to the Nice Treaty a protocol on the financial consequences of the expiry of the ECSC Treaty and on the creation and management of the Coal and Steel Research Fund. It was decided that all ECSC assets at the time of the expiry of the Treaty will be transferred to the European Community with effect from 24 July 2002. The net value of these assets is considered to be earmarked for research in the sectors associated with the coal and steel industry. The income generated by these assets will be allocated exclusively to research in these sectors.

Since the Nice Treaty will probably not be ratified before the expiry of the ECSC Treaty, the Member States have temporarily entrusted to the European Commission¹ the task of managing the assets of the ECSC in liquidation by applying the same rules.

In view of the expiry of the ECSC Treaty, the rate of the ECSC levy was reduced to zero in 1998, and the ECSC's lending activity has been discontinued since July 1997 (Commission Decision of 22 June 1994). Thus most of the ECSC's funds now come from the net balance obtained in the management of the various reserves and provisions.

B. ACCOUNTING PRINCIPLES AND METHODS

1. Presentation of the financial statements

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

The accounting principles and evaluation methods used for the items in the financial statements take account of the constraints imposed on and resolutions applicable to the ECSC under the Treaties and other ECSC-related decisions adopted by the institutions of the European Communities.

The accounting methods used also take account of the fact that the ECSC will not operate after 23 July 2002, when the ECSC Treaty expires.

They are presented in accordance with Council Directives 78/660/EEC and 86/635/EEC² on the annual accounts and consolidated accounts of banks and other financial institutions wherever these are applicable and subject to the above-mentioned necessary adjustments. Directive 2001/65/EC³ amending the above-mentioned Directives concerning the valuation rules and in particular fair value is not yet applicable to the ECSC financial statements. This Directive must be applied by 31 December 2003.

2. Conversion of foreign currency

The currency used by the ECSC for its annual accounts is the euro ("EUR")

¹ Decision of the Representatives of the ECSC Member States, meeting within the Council, of 27 February 2002 (OJ L 79, 22.03.2002, page 42)

² OJ L 222, 14.08.1978; OJ L 372, 31.12.1986.

³ OJ L 283, 27.10.2001

All foreign currency transactions carried out by the ECSC are converted into euros at the monthly rate communicated by the European Central Bank.

The value of non-financial assets/liabilities is converted into euros at the monthly rate applicable on the date on which they were acquired or on which their value was last adjusted. On the balance sheet date, financial assets/liabilities are converted into euros at the monthly rate applicable on that date. Negative differences are entered under "charges" in the profit-and-loss account, while positive differences are deferred and entered under "accruals and deferred income" on the liabilities side.

2.1 Conversion rates

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

Euro zone	
Belgian and Luxembourg francs	40.3399
German mark	1.95583
Greek drachma	340.75
Portuguese escudo	200.482
French franc	6.55957
Finnish markka	5.94573
Dutch guilder	2.20371
Irish pound	0.787564
Italian lira	1936.27
Austrian schilling	13.76030
Spanish peseta	166.386

Non-euro zone 2001	31 December	
	2001	2000
Danish krone	7.43650	7.46310
Swedish krone	9.30120	8.83130
Pound sterling	0.60850	0.62410
Swiss franc	1.48290	1.52320
United States dollar	0.88130	0.93050
Japanese yen	115.330	106.920

2.2 *At 31 December 2001, the various currencies listed above, together with the euro, made up the ECSC's balance sheet as follows (in euros):*

CURRENCY	ASSETS	LIABILITIES
Euro	2 583 240 668	2 638 980 434
Danish krone	779 613	11 794
Swedish krone	294 980	0
Pound sterling	570 597 241	514 241 928
Swiss franc	205 598	212 386
United States dollar	132 459 656	134 131 214
Total	3 287 577 756	3 287 577 756

3. Treasury investment and valuation of bonds and other securities

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

Bonds and other fixed-income securities and shares and other variable-income 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, which are valued at the average purchase price or the redemption value, whichever is the lower.

4. Special features of the ECSC financial statements

a) ECSC operating budget

Part of the ECSC's funds are made available to the ECSC operating budget, which is adopted annually by the Commission after informing the Council and consulting the European Parliament.

The commitments entered into by the operating budget vis-à-vis third parties and the provisions for financing the operating budget are shown under the heading "ECSC operating budget" (see Note C12).

b) Budget for financing coal and steel research

The Member States of the European Union have decided that the income from the management of ECSC assets after 23 July 2002 should be allocated to the general budget of the European Communities⁴. This income is earmarked for a research programme relating to the coal and steel industries, as stated in Note A to this report.

The ECSC has already constituted provisions at 31 December in order to prepare the ground for this mechanism for financing coal and steel research. These provisions are entered under the heading "Budget for financing coal and steel research" (see Note C13).

c) Fines and interest subsidies

Fines and interest subsidies whose repayment has been requested are not regarded as ECSC resources until they have actually been received. Fines imposed but not yet paid and interest subsidies whose repayment has been requested are therefore allocated to provisions (see Note C14.3.a).

⁴ Decision of the Representatives of the ECSC Member States, meeting within the Council, of 27 February 2002 (OJ L 79, 22.03.2002, page 42)

C. EXPLANATORY NOTES TO THE HEADINGS IN THE BALANCE SHEET AND THE PROFIT-AND-LOSS ACCOUNTS

1. Balances with central banks

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

2. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

2.1. With agreed maturity dates or periods of notice

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

	31 December	
	2001	2000
Up to three months	133 272 729	25 381 261
Three months to one year	-	-
Total	133 272 729	25 381 261

(EUR)

2.2. Loans

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

	31 December	
	2001	2000
Up to three months	33 692 382	40 095 286
Three months to one year	218 222 375	215 609 298
One to five years	39 999 682	284 383 600
Over five years	63 453 919	71 209 069
Total	355 368 358	611 297 253

(EUR)

3. Loans and advances to customers

3.1. Loans

The loans granted to credit institutions are shown under "Loans and advances to credit institutions" (see Note C2).

The other loans break down as follows:

		(EUR)	
		31 December	
		2001	2000
1. Loans disbursed from borrowed funds			
• amounts outstanding		1 091 388 811	1 546 451 118
• value adjustments		-99 348 028	- 143 192 092
Sub-total		992 040 783	1 403 259 026
2. Loans from the special reserve for financing subsidised housing			
Interim total		17 483 206	19 509 794
The breakdown of these loans by time remaining to maturity at 31 December is as follows			
		2001	2000
• Up to three months		170 535 047	131 767 190
• Three months to one year		166 153 710	315 397 548
• One to five years		240 749 165	593 899 440
• Over five years		531 434 095	524 896 734
3. Loans paid from the former Pension Fund to officials of the European Communities for housing construction		34 817 280	36 087 234
4. Loan repayments overdue and interest on arrears		798 336	632 648
Grand total		1 045 139 605	1 459 488 702

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

3.2. Levy

The levy rate for 1998-2001 was 0%, so the claims at 31 December 2001 relate to previous years.

This item breaks down as follows:

	31 December	
	2001	2000
Gross amount	5 455 706	5 621 065
Value adjustments	-5 389 493	- 5 560 024
Net amount	66 213	61 041

It includes in particular EUR 5.377.782 subject to legal proceedings (EUR 5.551.715 at 31 December 2000).

3.3. 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 EUR 39 806 715 (EUR 38 950 716 at 31 December 2000).

This item has two main components.

A fine totalling EUR 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/ECSC5 of 16 February 1994). In its judgement of 11 March 1999, the Court of First Instance reduced the total fines by EUR 24 774 000 to EUR 79 590 350. Seven companies have lodged appeals against the judgement of the Court of First Instance. Pending the decision of the European Court of Justice, a total (without interest) of EUR 28 959 000 remained outstanding at 31 December 2001.

A fine totalling EUR 27 380 000 was imposed by the Commission (Decision 98/247/ECSC6 of 21 January 1998) under Article 65 of the Treaty on steel companies for concerted agreement on the formula for calculating the alloy surcharge. In its judgment of 13 December 2001, the Court of First Instance reduced the total amount of fines by EUR 4 970 000 to EUR 22 410 000. A total (without interest) of EUR 8 064 000 had not yet been paid at 31 December 2001.

3.4. Interest subsidies to be recovered

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

4. Bonds and other fixed-income securities

4.1. Composition

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

	Value adjustments on bonds and other fixed-income securities Allocation (withdrawal)	31 December	
		2001	2000
Issued by public bodies:			
Gross value		1 102 728 104	995 016 008
Value adjustments	-8 706 353	-12 543 977	-21 250 330
Net value		1 090 184 127	973 765 678

⁵ OJ L 116, 06.05.1994.

⁶ OJ L 100, 01.04.1998.

Issued by other borrowers:			
Gross value		481 525 476	710 521 782
Value adjustments	-1 768 025	-2 813 601	-4 581 626
Net value		478 711 875	705 940 156
Total bonds:			
Gross value		1 584 253 580	1 705 537 790
Value adjustments	-10 474 378	-15 357 578	-25 831 956
Net value		1 568 896 002	1 679 705 834

4.2. *Maturities in 2002*

Securities in the portfolio reaching final maturity during 2002 represent the following amounts (in euros):

- Issued by public bodies:	309 802 520
- Issued by other borrowers:	142 525 164
Total:	452 327 684

4.3. *Financial fixed assets (see Note B.3)*

Financial fixed assets are defined as securities that will remain in the portfolio until their final maturity. They comprise mainly short- or medium-term paper and own-debt securities repurchased for servicing ECSC borrowings.

At 31 December 2001, financial fixed assets totalled EUR 48 519 675.

The redemption value of these securities is EUR 1 548 471 less than the average acquisition price.

4.4. *Return on investment*

Treasury investments take account of the maturity dates and liquidity requirements applicable to ECSC financial operations. They are subject to strict criteria with regard to the financial standing of the counterparty.

The return on investment, including the variation in the market value of bonds (calculated by the Modified Dietz Method) was 5.6 % for the year ending 31 December 2001.

5. SHARES AND OTHER VARIABLE-INCOME SECURITIES

Shares and other variable-income securities break down as follows:

	Value adjustments on shares and other variable-income securities Allocation (withdrawal)	31 December	
		2001	2000
Gross value		100 198 015	98 139 651
Value adjustments	1 893 700	-55 992 813	- 54 099 113
Net value		44 205 202	44 040 538

(EUR)

These shares and other variable-income securities were received by the ECSC as part of the restructuring plan of a defaulting debtor (see Note B.3).

A portion of one of these securities, representing a net value of EUR 17 070 666, was the subject of a loan contract with a credit institution (maturity date 1 July 2004 with call option 1 July 2002).

6. Other assets

Other assets break down as follows:

	31 December	
	2001	2000
• Current account, ECSC operating budget	724 633	-
• Withholding taxes and VAT to be reclaimed	2 446 873	2 374 098
• Loans to officials	3 900 732	2 763 544
• Miscellaneous	20 556	32 705
Total	7 092 794	5 170 347

(EUR)

7. Prepayments and accrued income

Prepayments and accrued income break down as follows:

	31 December	
	2001	2000
• Interest on loans and swaps	65 111 062	74 306 162
• Interest on deposits and securities portfolio	25 205 627	25 819 166
• Issuing costs and redemption premiums	868 748	2 750 794
	91 185 437	102 876 122
• Cumulative value adjustments	-8 651 432	- 6 702 512
Total	82 534 005	96 173 610

(EUR)

8. Amounts owed to credit institutions

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

(EUR)

	31 December	
	2001	2000
Repayable on demand	-	352 822
With agreed maturity dates or periods of notice:		
• Borrowings		
Up to three months	211 944 169	59 539 460
Three months to one year	371 209 437	374 269 101
One to five years	18 846 752	543 151 231
Over five years	2 294 214	4 317 954
Total	604 294 572	981 277 746

9. Debts evidenced by certificates

This item comprises loan securities.

EUR 104 115 280 of the borrowings outstanding at 31 December 2001 is due to reach maturity during the 2002 financial year.

10. Other liabilities

Other liabilities break down as follows:

(EUR)

	31 December	
	2001	2000
Current account, ECSC operating budget	0	7 431 189
Other	301 104	62 845
Total	301 104	7 494 034

11. Accruals and deferred income

Accruals and deferred income break down as follows:

(EUR)

	31 December	
	2001	2000
Interest on borrowings and credit lines	65 877 350	76 202 004
Commissions on loans	86 307	132 307
Issuing premiums	1 700 611	3 684 239
Deferred positive exchange differences	10 396 997	11 928 755
Total	78 061 265	91 947 305

12. ECSC operating budget

This item comprises commitments for the operating budget totalling EUR 380 926 428 (EUR 434 516 282 at 31 December 2000) and provisions associated with financing the operating budget totalling EUR 149 794 520 (EUR 401 000 000 at 31 December 2000).

In 2001, commitments for the ECSC operating budget were as follows:

	(EUR)				
	Amount at 31.12.2000	New legal commitments	Payments	Cancellations	Amount at 31.12.2001
Redeployment	130 901 577	79 963 352	58 718 224	23 185 896	128 960 809
Research	184 602 943	77 186 200	78 703 941	9 061 207	174 023 995
Interest sub- sidies Article 54	137 545	0	137 545	0	0
Interest sub- sidies Article 56	40 515 789	0	5 221 149	10 285 961	25 008 679
Social measures steel industry	19 916 641	0	10 787 499	9 129 142	0
Social measures coal industry (RECHAR)	58 441 787	27 405 008	26 577 715	6 336 135	52 932 945
Total	434 516 282	184 554 560	180 146 073	57 998 341	380 926 428

The provision for financing future operating budgets⁽¹⁾ and the provision for budgetary contingencies⁽²⁾ were as follows:

	(EUR)			
	Amount at 31.12.2000	Allocation	Withdrawal 2001	Amount at 31.12.2001
Provision for financing future operating budgets:				
- provision for the 2001 operating budget	108 000 000		108 000 000	0
- provision for the 2002 operating budget ⁽³⁾	220 000 000		101 205 480	118 794 520
Provision for budgetary contingencies	73 000 000		42 000 000	31 000 000
Total	401 000 000	-	251 205 480	149 794 520

- (1) This provision was constituted 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.
- (2) This provision is intended to guarantee the planned ECSC commitments on the resources of the 2002 operating budget (1.1.-23.7.).
- (3) Commission Decision No 2537/2001 of 21 December 2001 (2002 operating budget). – Part of these provisions freed by the expiry of the ECSC Treaty is earmarked for the mechanism to finance the Coal and Steel Research Fund (see Notes B4b+C13).

13. Budget for financing coal and steel research

This item breaks down as follows:

	31 December	
	2001	2000
Provision for research in 2003	60 000 000	0
Provision for research in 2004	60 000 000	0
Provision for smoothing	120 000 000	0
Total	240 000 000	0

(EUR)

In view of the expiry of the ECSC Treaty on 23 July 2002 and the winding-up of the ECSC, it has been decided that all ECSC assets at the time of the expiry of the Treaty will be transferred to the European Community with effect from 24 July 2002⁷. The net value of these assets is considered to be earmarked for research in the sectors associated with the coal and steel industries. The income generated by these assets will be allocated exclusively to research in these sectors.

In practice, the net profit from the management of the assets (invested mainly in the portfolio of securities and term deposits) in year n will be transferred to the general budget of the European Community and will be used for research in year $n+2$. On the basis of simulations of the net profit from the management of the assets, it was decided to set the initial funding at EUR 60 million.

In order to reduce fluctuations in research funding resulting from movements on the financial markets, a smoothing formula will be applied in accordance with the procedures approved by the Member States. This smoothing formula will be applied for the first time to the results for the 2003 financial year and will be used to determine the allocation for research in 2005. In order to launch this mechanism, the ECSC constituted a provision at 31 December 2001 of EUR 120 million.

14. Provision for liabilities and charges

14.1. Guarantee Fund

The Guarantee Fund is intended to cover lending and borrowing operations. After allocation of EUR 15 million, the Guarantee Fund totalled EUR 580 million at 31 December 2001. 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 EUR 580 million (calculated at the conversion rate applicable on 31 December 2001). At 31 December 2001, this coverage was 100% on condition that there is no default on the loans due to mature before 23 July 2002. However, since some of the loans are denominated in GBP, the 100% coverage may change as a result of fluctuation in the GBP/EUR exchange rate.

The Guarantee Fund increased as follows:

31.12.2000	Allocation 2001	31.12.2001
565 000 000	15 000 000	580 000 000

(EUR)

⁷ Decision of the Representatives of the ECSC Member States, meeting within the Council, of 27 February 2002 (OJ L 79, 22.03.2002, page 42)

14.2. Provision 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 major 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 to enable the ECSC to weather any major default.

The provision, calculated on the basis of outstanding major exposures at 31 December 2001 according to a procedure recommended by a firm of international experts, totals EUR 6 million (EUR 17 million at 31 December 2000).

14.3. Other provisions

This item comprises provisions for fines and interest subsidies repayable totalling EUR 42 385 781 (EUR 42 272 249 at 31 December 2000) and other provisions totalling EUR 108 313 490 (EUR 116 391 098 at 31 December 2000).

a) Provisions for fines and interest subsidies repayable (see Note B.5):

	31 December 2000	Change in 2001 balance sheet	31 December 2001
Provision for fines and surcharges for late payment to be paid	38 950 716	855 999	39 806 715
Provision for interest subsidies repayable	3 321 533	-742 467	2 579 066
Total	42 272 249	113 532	42 385 781

(EUR)

b) Other provisions:

(EUR)

	31 December 2000	Operations in 2001			31 December 2001
		Allocation	Withdrawal	Exchange-rate movement and balance-sheet movement	
Provision for interest-rate risk ⁽¹⁾	53 437 191		2 848 997	1 369 959	51 958 153
Provision for special costs relating to banking activities ⁽²⁾	200 000		-		200 000
Provision for appeal against Decision 94/215/ECSC ⁽³⁾	53 940 614	1 865 039	209 704	-3 488 450	52 107 499
Provision for appeal against Decision 98/247/ECSC ⁽⁴⁾	8 813 293	192 934	418 389	-4 540 000	4 047 838
Total	116 391 098	2 057 973	3 477 090	-	108 313 490

- (1) 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.
- (2) 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.
- (3) 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 Justice rule in favour of the companies which have appealed against the judgement of the Court of First Instance of 11 March 1999 (Note C3.3).
- (4) 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. The ECSC was informed during December 2001 that one of the appeals had been lodged with the Court of First Instance after the time limit and had subsequently been withdrawn by the appellant. The Court also reduced the amount of one fine on 13 December 2001, and the ECSC has repaid the excess in 2002 (Note C3.3).

15. RESERVES

(EUR)

	Reserves at 31.12.2000 after allocation	Changes 2001	Reserves at 31.12.2001 before allocation	Allocation at 31.12.2001	Reserves at 31.12.2001 after allocation
Special reserve	176 055 284	-58 055 284	118 000 000	0	118 000 000
Former Pension Fund	74 577 321	-34 577 321	40 000 000	0	40 000 000
Assets of the Coal and Steel Research Fund	0	92 632 605	92 632 605	7 367 395	100 000 000
Total	250 632 605	0	250 632 605	7 367 395	258 000 000

The Special Reserve is used to grant loans from ECSC own funds to finance subsidised housing. At 31 December 2001, loans outstanding totalled approximately EUR 118 million. Consequently, it proved possible to release EUR 58 055 284, which was transferred to free reserves.

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. At 31 December 2001, the amount outstanding on these loans was approximately EUR 40 million. Consequently, it proved possible to release EUR 34 577 321, which was transferred to free reserves.

The "Assets of the Coal and Steel Research Fund" reserve, constituted in the context of the winding-up of the ECSC (see Note 13), comprises free reserves. The freeing of the above-mentioned reserves means that EUR 92 632 605 can already be allocated to the assets of the Coal and Steel Research Fund. The allocation of the surplus recorded at 31 December 2001 will further increase these assets to a total of EUR 100 million.

16. Analysis of the result for the financial year

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

16.1. *Non-budgetary operations*

Result	31 December (EUR)	
	2001	2000
Gross operating margin before changes in provisions		
• Lending/borrowing operations	1 485 339	2 179 046
• Interest on bank accounts	1 919 600	2 604 998
• Transactions concerning portfolio securities	78 473 087	78 095 255
• Loss on loans and advances	-1 376 363	-
• Exchange-rate difference	-268 248	-862 006
• Miscellaneous	27 257	1 691 025
Total	80 260 672	83 708 318
Net changes in provisions		
• Provision for liabilities and charges ⁽¹⁾	1 419 117	-3 134 135
• Provision for major exposures ⁽²⁾	11 000 000	1 000 000
• Value adjustments in respect of loans and advances	44 734 723	565 369
• Provision for financing the operating budget/budgetary contingencies (Note C14.3a)	174 205 480	-14 000 000
• Budget for financing coal and steel research	-240 000 000	-
• Guarantee Fund (Note C14.1)	-15 000 000	-12 000 000
Result after changes in provisions	56 619 992	56 139 552
Amount allocated to financing the operating budget ⁽³⁾ (= net balance)	-48 031 329	-54 323 940
Result after deducting the net balance but before allocation of the surplus	8 588 663	1 815 612

(1) Note C14.3b.

(2) Note C14.2.

(3) In accordance with the change of accounting method on 31 December 1992, income received during the 2001 financial year has been allocated to financing the 2001 operating budget (net balance as in Note C16.2).

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

	31 December (EUR)	
	2001	2000
Out-turn of the budget		
Expenditure		
• Administrative expenditure (Note C18)	5 000 000	5 000 000
• Legal commitments (Note C12)	184 554 560	129 942 347
• Financing of future operating budgets	0	0
Total	189 554 560	134 942 347
Revenue (net amounts)		
• Levy (Note C22)	-	-
• Fines (Note C22)	4 540 000	-
• Repayment of interest subsidies (Note C22)	826 462	1 955 203
• Miscellaneous (Note C22)	1 158 428	1 035 599
• Cancellations of legal commitments (Note C22)	57 998 341	71 627 605
• Financing of future operating budgets	77 000 000	6 000 000
• Net balance for the year (Note C16.1)	48 031 329	54 323 940
Total	189 554 560	134 942 347
Budget out-turn	0	0

17. Interest and similar charges

(EUR)

	31 December	
	2001	2000
Interest on loans and swaps	139 407 674	168 492 330
Bank interest	9 895	51 772
Issuing costs and redemption premiums	1 882 046	1 992 567
Total	141 299 615	170 536 669

18. Administrative overheads

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

19. Other operating charges

(EUR)

	31 December	
	2001	2000
Borrowing costs	133 559	128 969
SWIFT/Reuters charges	192 668	158 354
Loss on loans and advances	1 376 363	-
Other	8 499	28 561
Total	1 711 089	315 884

The loss on loans and advances is offset by a withdrawal from the corresponding value adjustment.

20. Interest received and other income

(EUR)

	31 December	
	2001	2000
Interest on loans and swaps	138 793 019	168 699 496
Payment and redemption premiums	2 339 954	2 072 568
Bank interest	2 196 563	2 696 044
Interest on bonds and other fixed-income securities	69 658 619	73 603 257
Income from shares and other variable-income securities	1 753 222	1 723 951
Total	214 741 377	248 795 316

21. Other operating income

(EUR)

	31 December	
	2001	2000
Lapsed coupons and bonds	39 383	5 456
Other income from lending activities	-	1 961
Miscellaneous	44 004	2 115 044
Total	83 387	2 122 461

22. Income relating to the operating budget

(EUR)

	31 December	
	2001	2000
Levy ⁽¹⁾	-	-
Fines ⁽²⁾	4 540 000	-
Miscellaneous	1 158 428	1 035 598
Cancellation of legal commitments (Note C12)	57 998 341	71 627 605
Repayment of interest subsidies (Note B4c and C3.4) ⁽³⁾	826 462	1 955 203
Total	64 523 231	74 618 406

- (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 European Commission decided to set the levy rate for the years 1998-2001 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.

23. Off-balance-sheet commitments

23.1. Commitments received

(EUR)

	31 December	
	2001	2000
Commitments arising from swaps		
• Notional capital commitments relating to interest-rate swaps	212.071.862	229.991.973
• Capital commitments relating to interest-rate and currency swaps	98.603.122	200.889.655
Total	310.674.984	430.881.628

23.2. Commitments given

(EUR)

	31 December	
	2001	2000
a) Commitments arising from swaps		
Notional capital commitments relating to interest-rate swaps	212 071 862	229 991 973
b) Capital commitments relating to interest-rate and currency swaps	88 085 042	196 628 836
c) Receipts from lapsed coupons and bonds	39 383	5 456
Total	300 196 287	426 626 265

The ECSC has always been keen to meet the commitments it has entered into and therefore has traditionally honoured coupons even after they have lapsed. The winding-up of the ECSC will see the end of this practice.

24. Changes in the financial situation for the year ending 31 December 2001

(EUR million)

	2001	2000
Origin of funds		
Balance of profit-and-loss account	8.5	1.8
Items not involving a movement of funds		
• Amortisation of issuing costs and redemption premiums	1.9	2.0
• Value adjustments in respect of financial assets (withdrawals)	- 8.5	- 7.4
• Value adjustments in respect of tangible assets	0.0	0.2
• Value adjustments in respect of loans and advances, net	- 40.2	0.7
• Decrease in "ECSC operating budget"	- 304.7	- 113.1
• Increase (decrease) in "Budget for financing coal and steel research"	240.0	0
• Increase (decrease) in accruals and deferred payments	- 7.6	- 5.2
• Decrease in accruals and deferred income and issuing costs/redemption premiums	9.8	7.0
• Increase (decrease) in other liabilities	- 28.5	- 12.1
• Increase in other assets	12.8	7.4
• Allocation to (withdrawal from) the provisions for liabilities and charges	- 8.1	2.9
• Allocation to (withdrawal from) the provision for major exposures	- 11.0	- 1.0
• Exchange-rate adjustments in respect of borrowings and loans	- 12.4	- 12.6
• Allocation to the Guarantee Fund/ Special Reserve	15.0	12.0
Total funds	- 133.0	- 117.4
Other resources		
• Proceeds from borrowings	-	-
• Loan repayments	745.8	425.4
• Disposals of buildings	-	0.5
• Decreases in bank balances and securities portfolio	10.8	94.8
Total resources	623.6	403.3
Use of funds		
• Loan disbursements/increase in loans and advances	5.4	3.8
• Redemption of borrowings	618.2	399.5
Total uses	623.6	403.3