European Railway Agency

ERA Financial Statements 2006

Annex 1

Valenciennes, 29 June 2007

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1. PRESENTATION OF THE ANNUAL ACCOUNTS

The annual accounts of the European Railway Agency include the financial statements, the report on implementation of the budget, and the report on budget and financial management during the year.

The financial statements include the balance sheet and the economic outturn account at 31 December, the cash-flow table and the statement of change in capital.

The objectives of financial statements are to provide information about the financial position, performance and cash flows of an entity. For a public sector entity such as the European Railway Agency, the objectives are more specifically to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.

If they are to present a true and fair view, financial statements must not only supply relevant information to describe the nature and range of the activities, explain how it is financed and supply definitive information on its operations, but also do so in a clear and comprehensible manner which allows comparisons between financial years. The present document has been drawn up with these goals in mind.

The accounting system of the European Railway Agency consists of the budget accounts and the general-ledger accounts. These accounts are kept in € on the basis of the calendar year. The budget accounts give a detailed picture of the implementation of the budget. They are based on the modified cash accounting principle.1 The general-ledger accounts allow the preparation of the financial statements as they show all revenues and expenses for the financial year and are designed to establish the balance sheet and the P&L at 31 December.

The annual accounts are drawn up in accordance with Article 76 of the Financial Regulation of the European Railway Agency adopted by the Management Board on 15 July 2004.

According to Article 83 of the Financial Regulation, the Agency's accounting officer shall send to the Commission's accounting officer by no later than 1 March of the following year its provisional accounts, together with the report on budgetary and financial management during the year. The Executive Director shall send the final accounts, together with the opinion of the management board, to the Commission's accounting officer, the Court of Auditors, the European Parliament and the Council, by 1 July of the following year at the latest.

The final annual accounts will be published in the Official Journal of the European Communities together with the statement of assurance given by the Court of Auditors by 31 October of the following year in accordance with Article 83 of the Financial Regulation.

[1] This differs from cash-based accounting because of elements such as carryovers.

2. FINANCIAL STATEMENTS OF THE EUROPEAN RAILWAY AGENCY

2.1. Balance sheet – Assets

		31.12.2006
ASSETS		
A. NON CURRENT ASSETS		
Intangible fixed assets		**505 446,67**
Tangible fixed assets		**378 431,56**
	Land and buildings	0,00
	Plant and equipment	50 489,76
	Computer hardware	309 159,02
	Furniture and vehicles	18 782,78
	Other fixtures and fittings	0,00
	Leasing	0,00
	Tangible fixed assets under construction	0,00
Long-term pre-financing		0,00
	Long-term pre-financing	0,00
	LT pre-financing with consolidated EC entities	0,00
Long-term receivables		0,00
	Long-term receivables	0,00
	LT receivables with consolidated EC entities	0,00
TOTAL NON CURRENT ASSETS		883 878,23

B. CURRENT ASSETS	
Stocks	**0,00**
Short-term pre-financing	**18 277,44**
Short-term pre-financing	18 277,44
ST pre-financing with consolidated EC entities	0,00
Short-term receivables	**188 122,18**
Current receivables	178 273,43
Long term receivables falling due within a year	0,00
Sundry receivables	5 198,99
Other	0,00
Accrued income	0,00
Deferred charges	
Deferrals and Accruals with consolidated EC entities	0,00
Short-term receivables with consolidated EC entities	4 649,76
Cash and cash equivalents	**3 298 688,06**
TOTAL CURRENT ASSETS	**3 505 087,68**

TOTAL	**4 388 965,91**

2.2. Balance sheet – Liabilities

		31.12.2006
LIABILITIES		
A. CAPITAL		**2 771 425,11**
Accumulated surplus/deficit		**0,00**
Economic result of the year - profit+/loss-		**2 771 425,11**
C. NON CURRENT LIABILITIES		**0,00**
Employee benefits		**0,00**
Provisions for risks and charges		**0,00**
Other long-term liabilities		**0,00**
	Other long-term liabilities	0,00
	Other LT liabilities with consolidated Ec entities	0,00
	Pre-financing received from consolidated EC entities	0,00
	Other LT liabilities from consolidated EC entities	0,00
TOTAL NON CURRENT LIABILITIES		**2 771 425,11**

D. CURRENT LIABILITIES		**1 617 540,80**
Provisions for risks and charges		**90 000,00**
Accounts payable		**1 527 540,80**
	Current payables	192 862,58
	Long-term liabilities falling due within the year	0,00
	Sundry payables	0,00
	Other	818 385,40
	Accrued charges	818 385,40
	Deferred income	0,00
	Deferrals and accruals with consolidated EC entities	0,00
	Accounts payable with consolidated EC entities	516 292,82
	Pre-financing received from consolidated EC entities	485 383,73
	Other accounts payable against consolidated EC entities	30 909,09
TOTAL CURRENT LIABILITIES		**1 617 540,80**

TOTAL		4 388 965,91

As drawn up by the Executive Director on 19 June 2007

2.3. Economic outturn account

Revenues from administrative operations	363 479,21
Other operating revenue	11 920 479,19
TOTAL OPERATING REVENUE	12 283 958,40
Administrative expenses	-8 183 793,41
Staff expenses	-6 693 991,61
Fixed asset related expenses	-167 815,96
Other administrative expenses	-1 321 985,84
Operational expenses	-1 329 795,02
Other operational expenses	-1 329 795,02
TOTAL OPERATING EXPENSES	-9 513 588,43
SURPLUS/(DEFICIT) FROM OPERATING ACTIVITIES	**2 770 369,97**
Financial revenues	2 669,42
Financial expenses	-1 614,28
Movement in pensions (- expense, + revenue)	0,00
SURPLUS/ (DEFICIT) FROM NON OPERATING ACTIVITIES	**1 055,14**
SURPLUS/(DEFICIT) FROM ORDINARY ACTIVITIES	**2 771 425,11**
Extraordinary gains (+)	
Extraordinary losses (-)	
SURPLUS/(DEFICIT) FROM EXTRAORDINARY ITEMS	**0,00**
ECONOMIC RESULT OF THE YEAR	**2 771 425,11**

As drawn up by the Executive Director on 19 June 2007

2.4. Cash flow statement

Cash Flows from ordinary activities	**2 771 425.11**
Surplus/(deficit) from ordinary activities	
Operating activities	
Amortization (intangible fixed assets) +	34 280.26
Depreciation (tangible fixed assets) +	133 535.70
Increase/(decrease) in Provisions for risks and liabilities	90 000.00
Increase/(decrease) in Value reduction for doubtful debts	0.00
(Increase)/decrease in Stock	0.00
(Increase)/decrease in Long term Pre-financing	0.00
(Increase)/decrease in Short term Pre-financing	-18 277.44
(Increase)/decrease in Long term Receivables	0.00
(Increase)/decrease in Short term Receivables	-183 472.42
(Increase)/decrease in Receivables related to consolidated EC entities	-4 649.76
Increase/(decrease) in Other Long term liabilities	0.00
Increase/(decrease) in Accounts payable	1 011 247.98
Increase/(decrease) in Liabilities related to consolidated EC entities	516 292.82
(Gains)/losses on sale of Property, plant and equipment	
Net cash flow from operating activities	**4 350 382.25**
Cash flow from investing activities	
Purchase of tangible and intangible fixed assets (-)	-1 051 694.19
Proceeds from tangible and intangible fixed assets (+)	
Net increase/(decrease) in cash and cash equivalents	3 298 688.06
Cash and cash equivalents at the beginning of the period	
Cash and cash equivalents at the end of the period	**3 298 688.06**

As drawn up by the Executive Director on 19 June 2007

2.5. Statement of change in capital

Capital	Economic result of the year	Capital (total)
Balance as of 31 December 2005	**0,00**	**0,00**
Changes in accounting policies 1)		0,00
Balance as of 1 January 2006 (if restated)	**0,00**	**0,00**
Other	0,00	0,00
Fair value movements		
Movement in Guarantee Fund reserve		0,00
Allocation of the Economic Result of Previous Year	0,00	0,00
Amounts credited to Member States		0,00
Economic result of the year	2 771 425.11	2 771 425.11
Balance as of 31 December 2006	**2 771 425.11**	**2 771 425.11**

2.6. Annex to the financial statements

2.6.1. Explanatory notes to the balance sheet

2.6.1.1. Fixed assets

Items acquired whose purchase price or production cost is EUR 420 or more, with using period greater than one year, and which are not consumables are recorded in the fixed assets accounts valued at their acquisition price. These thresholds also apply to software that are internally developed, acquired from a third party, or covered by a license.

Intangible fixed assets consist of computer software.

Tangible fixed assets are divided in three categories:

- Equipment
- Computer hardware
- Furniture

2.6.1.2. Short-term pre-financing

After 31/12/2006, one of our contractors entitled to receive pre-financing send us a pre-financing invoice for 18277.74 euros.

The fixed assets as of 31 December 2006 are set out in the following table:

		Computer Software
Gross carrying amounts 1.1.2006	+	
Additions	+	539 726,93
Disposals	-	
Transfer between headings	+/-	
Other changes	+/-	
Gross carrying amounts 31.12.2006		**539 726,93**
Accumulated depreciation and impairment 1.1.2006	-	
Depreciation	-	-34 280,26
Write-back of depreciation	+	
Disposals	+	
Impairment	-	
Write-back of impairment	+	
Transfer between headings	+/-	
Other changes	+/-	
Accumulated amortization and impairment 31.12.2006		**-34 280,26**
Net carrying amounts 31.12.2006		**505 446,67**

		Plant and Equipment	Computer hardware	Furniture and vehicles
Gross carrying amounts 1.1.2006	+			
Additions	+	64 401,30	426 143,16	21 422,80
Disposals	-			
Transfer between headings	+/-			
Other changes	+/-			
Gross carrying amounts 31.12.2006		**64 401,30**	**426 143,16**	**21 422,80**
Accumulated depreciation and impairment 1.1.2006	-			
Depreciation	-	-13 911,54	-116 984,14	-2 640,02
Write-back of depreciation	+			
Disposals	+			
Impairment	-			
Write-back of impairment	+			
Transfer between headings	+/-			
Other changes	+/-			
Accumulated depreciation and impairment 31.12.2006		**-13 911,54**	**-116 984,14**	**-2 640,02**
Net carrying amounts 31.12.2006		**50 489,76**	**309 159,02**	**18 782,78**

2.6.1.3. Current receivables

This amounts come mostly from the French VAT we have to recover. The files have been introduced to the French Tax Administration and the French Ministry of Foreign Affairs for reimbursement.

2.6.1.4. Sundry receivables

France Telecom has to pay back one invoice we pay twice by mistake. The mother DG seems owned us some money (cross delegation PMO-DG TREN in 2005).

2.6.1.5. Cash and cash equivalent

		EUR
Crédit du Nord en EUR	3 245 929,85	3 245 929,85
Dexia en EUR	44 872,42	44 872,42
Dexia en PLN	25 871,05	1 062,91
Dexia en GBP	796,35	6 822,73
		3 298 688,06

2.6.1.6. Provisions

The provision consists of 90 000 euros for the cost of annual leave incurred but not taken during the year.

2.6.1.7. Current payables

This amount consists of Invoices registered in Exact but not yet paid.

2.6.1.8. Accrued charges

The total amount consists of 818385.40 € and was an estimate by the accounting officer of the cost incurred for services and goods delivered in the year 2006 but not paid for by the end of the year.

2.6.1.9. Pre-financing received from consolidated EC entities

The outstanding amount refers to pre-financing received in relation to subsidies.

2.6.2. Explanatory notes to the economic outturn account

2.6.2.1. Operating revenues

Revenue from administrative operations	363 479,21
Staff	0,00
Fixed assets related revenue	363 479,21
Other administrative revenue	0,00
Other	
Adm revenue with consolidated EC entities	0,00
Other operating revenues	11 920 479,19
Adjustments of provisions	0,00
Exchange rate gains	147,03
Other	11 920 332,16
Other	0,00
Operating revenue with consolidated EC entities	11 920 332,16
EC Subsidy	11 920 332,16
Other operating revenue with consolidated EC entities	0,00
Total	**12 283 958,40**

ERA is financially autonomous since 01/01/2006 and received on the 6/01/2006 RAL (Outstanding Amounts) for 1 883 012.32 euros. Furthermore, the assets bought in 2005 were considered as in kind DG TREN contribution to ERA (363 479.71 euros).

2.6.2.2. Operating expenses

	2006
Administrative Expenses	8 183 793,41
Staff expenses	6 693 991,61
Fixed Assets Expenses	167 815,96
Other Administrative Expenses	1 321 985,84
Other	1 222 919,58
Administrative expenses with consolidated entities	99 066,26
Operational Expenses	1 329 795,02
Other operational expenses	1 329 795,02
Provisions for risks and liabilities	0,00
Exchange rate losses	735,16
Other operational expenses	1 329 059,86
Other	1 329 059,86
Other - Consolidated EC entities	0,00
Total	**9 513 588,43**

2.6.3. Accounting principles, rules and methods

Article 78 of the Financial Regulation sets out the accounting principles to be applied in drawing up the financial statements:

- going concern basis;
- prudence;
- consistent accounting methods;
- comparability of information;
- materiality;
- no netting;
- reality over appearance;
- “accrual-based accounting”.

Transactions and balances

Foreign currency transactions are converted into € using the exchange rates prevailing at the dates of the transactions.

Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into € on the basis of the exchange rates applying on 31 December 2006.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the economic outturn account.

Fixed assets

Intangible fixed assets are valued at their acquisition price converted into € at the rate applying when they were purchased, less depreciation and impairment. The exception is assets acquired free of charge that are valued at their market value. See depreciation rates below.

Tangible fixed assets are stated at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Agency and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the economic outturn account during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate depreciation cost to the assets’ residual values over their estimated useful lives, as follows:

Type of asset	Straight line depreciation rate
Intangible assets	25%
Plant, machinery and equipment	25%
Furniture	10%
Computer hardware	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, on a regular basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the economic outturn account.

Assets that have an indefinite useful life are not subject to depreciation and are tested regularly for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Pre-financing amounts

Pre-financing is a payment intended to provide the beneficiary with a cash advance, i.e. a float. It may be split into a number of payments over a period defined in the particular pre-financing agreement. The float or advance is repaid or used for the purpose for which it was provided during the period defined in the agreement. If the beneficiary does not incur eligible expenditures, the beneficiary has the obligation to return the pre-financing advance to the Agency. The amount of the pre-financing is reduced (wholly or partially) by the acceptance of eligible costs and amounts returned.

At year-end outstanding pre-financing amounts are valued at the original amount(s) paid less: amounts returned, eligible amounts cleared, estimated eligible amounts not yet cleared at year-end, and value reductions.

Interest on pre-financing is recognised as it is earned in accordance with the provisions of the relevant agreement.

Receivables

Receivables are carried at original invoice amount less write-down for impairment. A write-down for impairment of receivables is established when there is objective evidence that the Agency will not be able to collect all amounts due according to the original terms of receivables.

Cash & cash equivalents

Cash and cash equivalents include all the bank accounts.

Use of estimates

In accordance with generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management. Significant estimates include, but are not limited to, accrued income and charges, contingent assets and liabilities, and degree of impairment of fixed assets. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

3. REPORT ON IMPLEMENTATION OF THE BUDGET

3.1. Budget outturn account

INCOME			
Commission subsidy	12 405 715,89	income	12 405 715,89
Miscellaneous income	0,00		
TOTAL INCOME	**12 405 715,89**		
EXPENSES		**payments**	
		C1	-7 741 552,50
Personnel expenses - Budget title I		C3	-789 121,00
Payments	6 691 821,23	C8	-709 052,38
Carryovers	128 630,79	**total**	**-9 239 725,88**
Miscellaneous operative expenses - Budget title II		**Carryovers**	
Payments	1 000 883,79	C1	-2 680 034,30
Carryovers	398 481,07	**total**	**-2 680 034,30**
Operative expenses - Budget title III			
Payments	1 547 020,86	**result**	**485 955,71**
Carryovers	2 152 922,44		
TOTAL EXPENSES	**11 919 760,18**	other items: exch loss	-571,98
Total appropriations not utilised	485 955,71		
REVENUE OUTTURN BEFORE SPECIAL ITEMS	**485 955,71**	**revenue outturn**	**485 383,73**
Cancelled carryovers	0,00		
Exchange rate differences	-571,98		
REVENUE OUTTURN	**485 383,73**		
	3 165 418,03		

3.2. Annex to the budget outturn account

3.2.1. Explanatory note to the budget outturn account

3.2.1.1. Budgetary revenues

RAL 2005 (C8 2005)	1 883 012,32
C3 + EFTA contribution	1 015 203,07
SUBSIDY 2006	6 407 500,00
SUBSIDY 2006	3 100 000,00
TOTAL REVENUES	**12 405 715,39**

3.2.1.2. Budgetary expenditure

The total payments can be specified as follows:

Payments	
C1	-7 741 552,50
C3	-789 121,00
C8	-709 052,38
TOTAL	**-9 239 725,88**

The total of carried over amounts can be specified as follows:

Carryovers	
C1	-2 680 034,30
Total	**-2 680 034,30**

3.2.1.3. Bank interest

During 2006, the Agency incurred EUR 2669.42 in bank interest –only for the Dexia bank account. Crédit du Nord is not giving any remuneration on the Bank account.

3.2.2. Budgetary principals

The establishment and implementation of the budget of the European Railway Agency are governed by the following basic principles:

a) unity and budget accuracy;

all expenditure and revenue must be incorporated in a single budget document, must be booked on a budget line and expenditure must not exceed authorized appropriations;

b) universality:

this principle comprises two rules:
- the rule of non-assignment, meaning that budget revenue must not be earmarked for specific items of expenditure (total revenue must cover total expenditure);
- the gross budget rule, meaning that revenue and expenditure are entered in full in the budget without any adjustment against each other;

c) annuality:

the appropriations entered are authorized for a single year and must therefore be used during that year;

d) equilibrium:

the revenue and expenditure shown in the budget must be in balance (estimated revenue must equal payment appropriations);

e) specification:

each appropriation is assigned to a specific purpose and a specific objective;

f) unit of account:

the budget is drawn up and implemented in euros and the accounts are presented in euros;

g) sound financial management:

budget appropriations are used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness;

h) transparency:

the budget is established and implemented and the accounts presented in compliance with the principle of transparency - the budget and amending budgets are published in the Official Journal of the European Communities.

4. REPORT ON BUDGET AND FINANCIAL MANAGEMENT DURING THE YEAR

4.1. Cash flow

Agencies are not supposed to build up cash reserves and therefore can only request cash from the Commission equivalent to its cash payments.

In the Commission's budget, the subsidy to the Agency is a differentiated appropriation. Differentiated appropriations are appropriations where a distinction is made between commitment appropriations and payment appropriations; this makes it possible to comply with the budget principle of annuality, while allowing the management of operations extending over several financial years.

a) <u>Commitment appropriations are intended to cover the total cost of legal commitments entered into in principle during the current financial year.</u>
b) <u>Payment appropriations cover expenditure arising through the execution of commitments contracted during the current and/or previous financial years.</u>

Hence, when differentiated appropriations are used, the amount of commitment appropriations is often different from the amount of payment appropriations.

Beginning of 2006, the budget authority has provided ERA with less payment appropriation than commitment appropriations. This was presumably because the budget authority, correctly, anticipated that the execution of payments would be slower than the execution of commitments.

ERA decided to follow at first the Commission differentiated appropriations in order to be able to propose multi-annual budget and planning but finally, in January 2006 ERA moved retroactively to not differentiated appropriations with multi annual strategy.

4.2. Execution of the budget

During the year 2006, of the available C1 appropriations were committed.

Cancellation of unused payment appropriations carried over from previous year (C8 funds) does not exist this year because financial autonomy is starting 01/01/2006.

4.3. Developments in the area of human resources

ESTABLISHMENT PLAN 2006						
	Posts					
Categories and grades	2005		2006			
	Authorised in the general Community budget		Occupied on 16.12.2006		Authorised in the general Community budget	
	Perm.	Temp.	Perm.	Temp.	Perm.	Temp.
A*16						
A*15		1				
A*14				1		1
A*13						
A*12						6
A*11						
A*10						2
A*9		21		13		11
A*8				25		27
A*7		29				25
A*6						
A*5				18		
Total grade A	0	51	0	57	0	72
B*11						
B*10						
B*9						
B*8						
B*7				1		
B*6						
B*5						2
B*4		5		8		6
B*3		7		4		5
Total grade B	0	12	0	13	0	13
C*7						
C*6						
C*5						
C*4						
C*3						
C*2		4				5
C*1		5		10		5
Total grade C	0	9		10	0	10
Total grade D	0	0	0	0	0	0
TOTAL		72		80		95
Total authorised staff	72		80		95	

As drawn up by the Executive Director on 19 June 2007