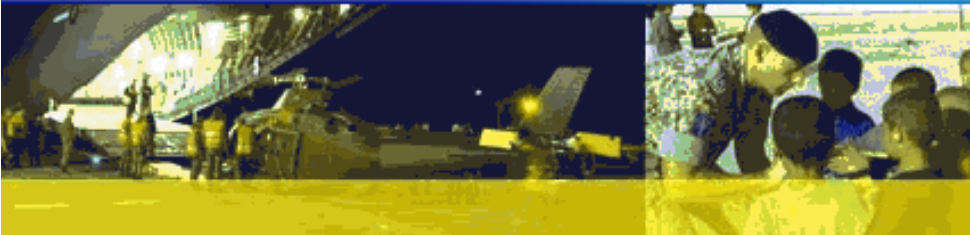




European Defence Agency



EUROPEAN DEFENCE AGENCY 2006 FINANCIAL REPORT

June 2007

EUROPEAN DEFENCE AGENCY

2006 FINANCIAL REPORT

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Building Capabilities for a Secure Europe

The European Defence Agency ('EDA' or 'The Agency') has been created to help EU Member States to develop their defence capabilities for crisis-management operations under the European Security and Defence Policy. The Agency will achieve its goal by encouraging EU Governments to spend defence budgets on meeting tomorrow's challenges, not yesterday's threats, and by increasingly pooling their efforts and resources. The Agency's success will mean:

- Better military capabilities
- Stronger European defence industry
- Better value for European taxpayers

RESULT OF THE YEAR

- In 2006, EDA spent € 18.8 million or approx. 88 % of the available € 21.3 million budget ⁽¹⁾.
- In the course of the year, the Agency's Staff increased by 19 %, from 79 to 94 ⁽²⁾.
- Major achievements in 2006 include the establishment of a *Code of Conduct* on Defence procurement, the generation of a *Long Term Vision* and the successful launch of the first European Defence Research & Technology *Joint Investment Programme* for € 55 million, managed by the Agency.
- In 2006, 30 operational projects were engaged for a total amount of approx. € 3.9 million.

FINANCIAL HIGHLIGHTS (in € k)	2006 Budget	2006 Actual	2005 Actual	2004 Actual
EXPENSES				
TITLE I : PERSONNEL EXPENSES	11,218	10,847	7,453	299
TITLE II : FUNCTIONING EXPENSES	5,582	4,076	2,829	114
TITLE X : PROVISIONAL APPROPRIATIONS	500	0	0	0
SUBTOTAL PERSONNEL & FUNCTIONING	17,300	14,923	10,282	413
TITLE III : OPERATIONAL BUDGET ⁽¹⁾	5,000	3,887	2,495	0
TOTAL EXPENSES	22,300	18,810	12,777	413
REVENUES				
TITLE IV : DEDUCTIONS FROM STAFF REMUNERATION	701	837	612	39
TITLE V : INCOME FROM OPERATING ACTIVITIES	99	390	148	11
TITLE VI : MEMBER STATE CONTRIBUTIONS	21,500	21,500	19,910	1,786
TOTAL REVENUES	22,300	22,727	20,670	1,836
ACCOUNTING SURPLUS		3,917	7,893	1,422
CAPITAL EXPENDITURE & DEPRECIATION ADJUSTMENTS		328	(3,462)	0
BUDGETARY SURPLUS REPAYABLE TO pMS		4,245	4,431	1,422

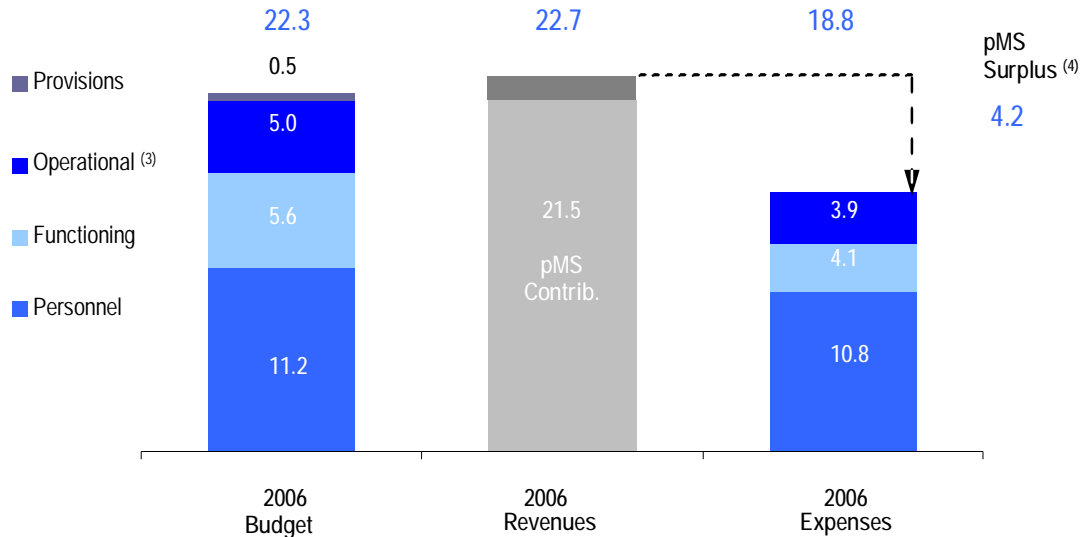
⁽¹⁾ One million remained "frozen" on the Agency's 2006 Operational Budget.

⁽²⁾ Staff increase excluding Contract Staff: 17% (from 75 to 88).

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2006 Budget vs. Actual

Figures in € million



Expenses

2006 budget amounts to €22.3 million⁽³⁾.

Actual expenses amount to €18.8 million and consist of :

- Personnel expenses (57%)
- Functioning expenses (22%)
- Operational projects and studies (21%).

Revenues

2006 budget amounts to €22.3 million.

Actual revenues amount to €22.7 million and consist of :

- pMS contributions (95%)
- Miscellaneous taxes, levies and duties (4%)
- Financial income (1%).

Budgetary surplus repayable to pMS

In 2006, the Agency received revenues of €22.7 million, of which pMS contributed €21.5 million. EDA used these funds to pay expenses for both its functioning and operational activities. At the end of the year, a budgetary surplus of €4.2 million remained and will be returned to pMS.

Nick Witney
EDA Chief Executive

June 2007

⁽³⁾ One million remained "frozen" on the Agency's 2006 Operational Budget.

⁽⁴⁾ €4.2 m pMS surplus is based on €3.9 m accounting surplus, adjusted by annual capital expenditure and corresponding depreciation charge of €0.3 m.

EDA STRUCTURE AND FUNCTIONS

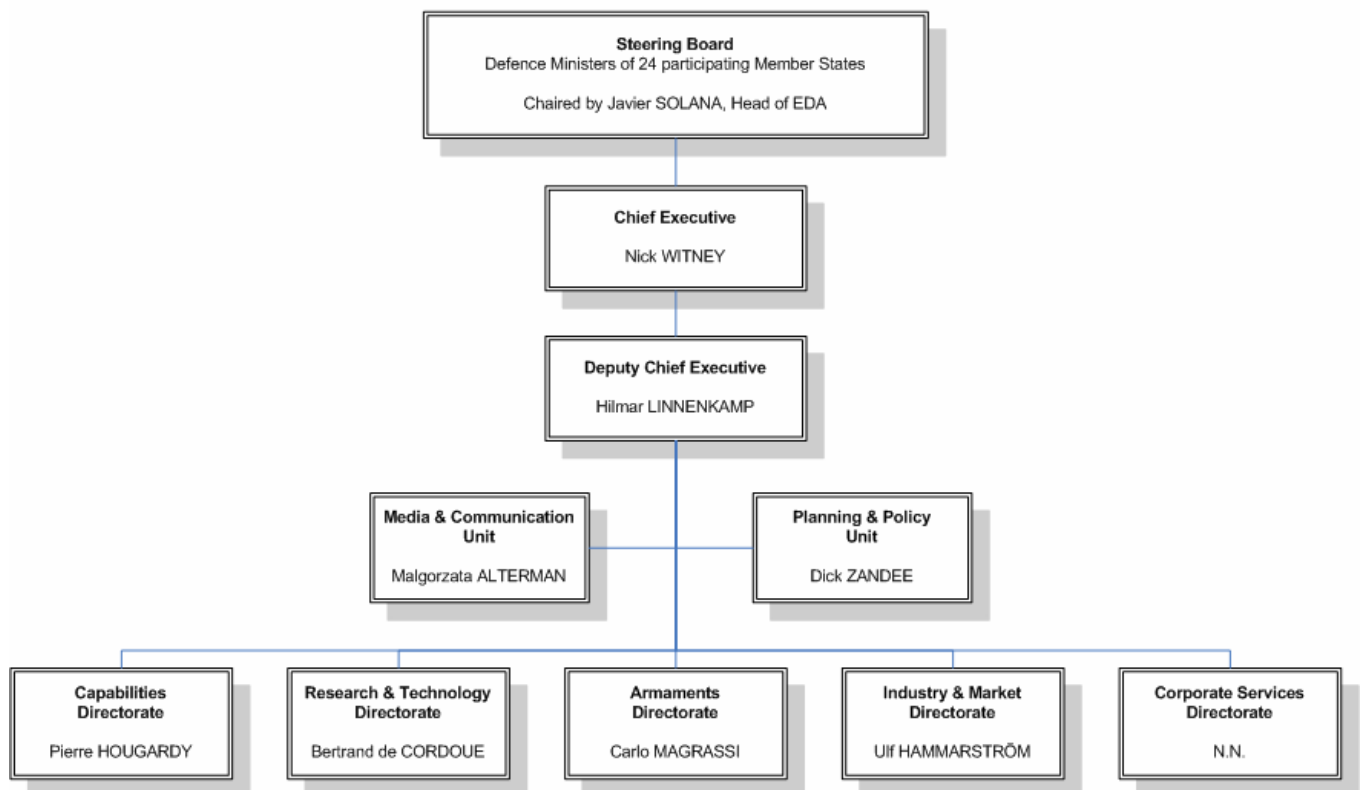
EDA'S STRUCTURE

The European Defence Agency is an agency of the European Union ⁽⁵⁾, falling under the direction and authority of the Council, which issues guidelines to and receives reports from High Representative Javier Solana as Head of the Agency. Detailed control and guidance, however, is the job of the Steering Board.

Javier Solana chairs the Steering Board, the principal decision-making body of the Agency, made up of Defence Ministers from 24 participating Member States (all EU members except Denmark; 26 after the accession of Bulgaria and Romania) and a member of the European Commission. In addition to ministerial meetings at least twice a year, the Steering Board also meets at the sub-ministerial level: National Armaments Directors, Research and Technology Directors and in Capabilities formation.

The Chief Executive, his Deputy and the five Directors together form the Agency Management Board (AMB), supported by the Planning & Policy and Media & Communication Units. *

European Defence Agency



⁽⁵⁾ EDA was established under the Council Joint Action 2004/551/CFSP on 12 July 2004.

* Jacques BAYET until 31 October 2006, vacant thereafter.

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The Agency is designed "to support the Member States in their effort to improve European defence capabilities in the field of crisis management and to sustain the ESDP as it stands now and develops in the future". More specifically, the Agency is ascribed four functions, relating to:

- Defence capabilities development
- Armaments co-operation
- The European defence, technological and industrial base and defence equipment market
- Research and technology

EDA'S DIRECTORATES AND OPERATING UNITS

Capabilities Directorate

- Leads the Agency's work, with Member States, to meet the defence capability needs of ESDP
- Works with Member States to maximise the collective output achieved from defence resources
- Strives to expand and deepen the interoperability of EU forces

Research & Technology Directorate

- Seeks to catalyse more European R&T collaborations, focussed on improving Europe's defence capabilities
- Develops policies and strategies to strengthen defence technology in Europe
- Manages joint R&T projects

Armaments Directorate

- Promotes and enhances European armaments cooperation
- Works with Member States on new multilateral collaborative projects
- Develops common standards and procedures

Industry and Market Directorate

- Works to create an internationally competitive European Defence Equipment Market
- Supports the restructuring and strengthening of the European Defence Industrial and Technological Base
- Maintains dialogue with Industry, Commission and other key stakeholders on European defence industrial and defence market related activities

Corporate Services Directorate

- Responsible for Finance, Human Resources, IT, Security and Logistics
- Provides expertise for procurement and contracts through its Legal & Contracting Unit
- Manages the Agency's budgets, including the ad hoc JIP through its Finance Unit
- Supports the activities of the Agency and its functional directorates

Media & Communications Unit

- Responsible for external communication with key stakeholders
- Manages contacts with media, think tanks and public affairs institutions
- Produces print, online and other information material

Policy & Planning Unit

- Acts as Secretariat to the AMB, coordinates plans and policies
- Prepares Steering Board meetings
- Liaises with EU bodies and external parties

Internal Audit Function

- During the year 2006, following the Auditor's recommendations, the Chief Executive established an Internal Audit Function
- Mr. Dick ZANDEE was formally appointed Internal Auditor of the EDA on 13 March 2007.

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2006 ACTIVITY REPORT

REPORT TO THE COUNCIL BY JAVIER SOLANA ⁽⁶⁾

In its second year, the Agency has begun to deliver substantial results from an agenda addressing concurrently the immediate and the longer-term. Notable results include a fledgling Defence Equipment Market; a well-received Long Term Vision; and a new programme for joint investment in R&T. But progress in filling capability gaps depends on Member States' readiness to adjust and converge their defence spending plans.

1. The Agency's work in 2006, its second year of operation, has been framed by the guidelines adopted by the Council on 21 November 2005 (ref. doc. 14804/05); by the 2006 Work Programme agreed by the Agency's Steering Board on the same date; and by the "Hampton Court agenda" flowing from the informal EU summit of 27 October 2005. The year has seen delivery of the Agency's first substantial results, most noticeably in relation to the European Defence Equipment Market; to the generation of a Long-Term Vision for ESDP Capability and Capacity Needs; and to preparation of the first European Defence Research & Technology Joint Investment Programme.

European Defence Equipment Market

2. In November last year the Steering Board agreed a Code of Conduct on Defence Procurement, intended to introduce intra-European competition, on a voluntary and reciprocal basis, into most of those areas of defence procurement which traditionally have been handled on a national basis under Article 296 of the Treaty establishing the European Community. Bringing the new regime into operation on 1 July required: development and agreement of an associated Code of Best Practice in the Supply Chain (intended to drive the benefits of competition down to sub-contractors, including small- and medium-sized enterprises); agreement on the necessary reporting and monitoring regime; and establishment on the Agency's website of an Electronic Bulletin Board through which all new relevant contracting opportunities can be notified to suppliers across Europe.

3. All these steps were accomplished in time to allow the regime to come into operation as scheduled, with 22 of the 24 participating Member States (pMS) subscribing to the regime. The Electronic Bulletin Board now carries details of over 60 contracting opportunities, with an aggregate value which we estimate at over €3 billion.

4. Subsequently, the 22 subscribing Member States arrived at mutual agreements on Security of Information, and Security of Supply in circumstances of operational urgency. These two agreements are important steps to facilitate the fair operation of a competitive market within Europe, by addressing concerns which might have prompted discrimination against non-national suppliers. The agreement on Security of Supply is additionally an important step forward in terms of solidarity between the Member States involved, and supports the consensus on the need for less duplication, more specialisation and more interdependence in the European Defence Technological and Industrial base (EDTIB), as well as less dependence on non-European sources for key technologies. This consensus was captured in Steering Board agreement on a description of the characteristics of a strong EDTIB.

The Long-Term Vision

5. This 25-page document, endorsed by the Ministerial Steering Board on 3 October, is the distillation of a year-long effort by the Agency to identify and analyse the key trends shaping the future, and particularly the future nature of ESDP operations, for which we must prepare. The work

⁽⁶⁾ 'Report to the Council' by Javier Solana, Head of the Agency. Document 14788/06, 8 Nov. 2006

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was carried out in particularly close collaboration with the EU Military Committee and the Institute for Security Studies – but with help and assistance from a wide range of other experts and organisations from across Europe. The analysis has been widely praised – but its real value will be as a foundation upon which to build the Agency’s future agendas, and particularly an ESDP Capability Development Plan, as described below.

Defence Research & Technology

6. The Hampton Court impulse, the EDA’s first major conference, and two Ministerial Steering Board discussions in March and May, all helped forge the consensus that we are under-investing in Defence R&T in Europe, and need to find ways to “spend more, spend better, and spend more together”. Defence Ministers agreed that current levels of R&T investment, at less than 1.3% of overall EU defence spending, are simply inadequate if we are serious about maintaining a globally competitive defence technological and industrial base in Europe.

7. Intensive efforts have accordingly been made with pMS to develop a new “Joint Investment Programme” initiative, intended to provide a more efficient alternative to the traditional project-by-project approach to R&T collaboration in Europe. The work has involved the design of the necessary “vehicle” (the administrative, financial and managerial arrangements) and definition of the first “cargo” to be carried in this vehicle (a programme of joint R&T work in the force protection area, systematically derived from analysis of agreed capability challenges).

8. I expect the Steering Board meeting of 13 November to launch this enterprise, with a majority of the Agency’s pMS contributing, and a pooled budget of over €50 million.

Other positives

9. Beyond these three major developments, a series of other advances are worth noting:

- promising capability development work in the Command, Control and Communication area, primarily concerning Software-Defined Radio and in theatre exploitation of imagery for EU Battle groups;
- development of an interesting agenda in maritime surveillance;
- launch of the first two feasibility studies into key technologies for future Armoured Fighting Vehicles;
- emergence of a “cooperative mechanism” to assist the pMS and industry in taking forward joint armament-related projects;
- agreement of a Standardisation Policy to increase the transparency and commonality of standards used in defence;
- conclusion of the Agency’s first Administrative Arrangement, with Norway;
- final transfer of the portfolio of collaborative projects from the WEAO Research Cell, allowing that organisation to close (with savings to pMS concerned of over €2 million per annum);
- development in the Agency’s new CapTech networks of a further 20 new R&T ad hoc collaborations;
- agreement of Agency standard framework conditions for such collaborations; and
- collection, for the first time, of a comprehensive set of data on defence input and output of the pMS.

Some negatives

10. There have also been disappointments to set against these encouraging developments. Principally, we still lack evidence of real readiness on the part of pMS to take significant steps towards repairing the now familiar capability gaps in any early time-frame. Thus the Hampton

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Court-inspired efforts to progress Air-to-Air Refuelling and Strategic Lift made no real progress, in the absence of any sign of Member States' preparedness to find ways to fund the significant investments that these capabilities will require.

11. Though the Agency will try to generate ideas and proposals in such areas, serious progress on repairing Europe's capability shortfalls will require that pMS themselves bring their own inventiveness and energy to the endeavour. Certainly, realisation of the Agency's full potential will require a degree of commitment and engagement by national staffs that is not yet always apparent. It may also require a shift of focus towards the medium-term, when convergence of national defence planning may be more easily achieved. The Capability Development Plan will be an important vehicle for that.

Looking ahead

12. As noted above, the Long-Term Vision now provides a foundation upon which more detailed work across the Agency's different agendas can be taken forward. In particular, we can now address an ESDP Capability Development Plan (CDP). The CDP will provide a framework of agreed capability priorities well beyond the Headline Goal 2010 horizon, so that guidance is available for those who wish to use it. It must provide a way in which Ministers collectively can achieve a proper understanding of collective progress to providing ESDP with the tools it needs. It should facilitate continuation of pMS' dialogue on defence planning and investment. And it must be a vehicle for providing mutual transparency amongst the Member States of what their medium- to long-term defence planning looks like, so that opportunities can be identified and pursued for joint investment and collaborative projects; for pooled acquisition of capabilities; for coherent role specialisation; or for anything else where the pooling of efforts and resources promises better value for money from constrained defence budgets. The Capabilities Steering Board will take this forward in December.

13. The EDTIB looks set to be another major theme for the year ahead. Building on the initial consensus achieved (para. 4 above) on the characteristics of a strong future EDTIB, we need to focus also on what it should contain (initially, through an analysis of what key technologies should be prioritised at the European level) – and to develop the strategies and policies needed to help the DTIB evolve in the right direction.

14. Linked to this will be work to define a European Defence R&T Strategy, covering both prioritisation of technologies and also systemic issues such as the role of competition, the exploitation of synergies with dual-use R&T, etc.

Conclusion

15. The Agency is now showing its worth, in relation both to short- and longer-term agendas. At this stage of the enterprise, it is perhaps not surprising that it seems easier for pMS to agree on policies and strategies than on pooling their efforts and resources. But the challenge now – and work on the CDP should help – is for pMS to follow through the logic of agreed assessments into how they actually choose to spend their national defence budgets. This will not happen overnight. But it is the only way in which our capability deficiencies will be met.

Javier Solana
High Representative and Head of European Defence Agency

As per end-2006

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FINANCIAL STATEMENTS

AUDIT OPINION

OPINION AUDIT AND REPORT OF THE COLLEGE OF AUDITORS FOR THE EUROPEAN DEFENCE AGENCY TO THE STEERING BOARD FOR THE EUROPEAN DEFENCE AGENCY

Report on the financial Statements

In accordance of Art. 43 of the Financial Rules of the European Defence Agency the College has audited the financial statements of the European Defence Agency for the year ended 31 December 2006. These comprise the income and expenditure account ("Management Accounts"), the Balance Sheet, and the Cash Flow Statement, and include a summary of significant accounting policies under which they have been prepared and other explanatory notes. The financial statements have been prepared in accordance with the provisions and regulations set out in the financial rules.

The 2006 fiscal year surplus repayable to the PMS totalled € 4,245,010, whereas the assets amounted € 17,855,569.

The Accounting Officer's Responsibility for the Financial Statements and Financial Report

The Steering Board, on a proposal from the Head of the Agency, appointed an Accounting Officer, who is also the Chief Executive, responsible for the preparation and fair presentation of the financial statements. This responsibility includes: proper implementation of payments, collection of revenue and recovery of amounts established as being receivable, preparing and presenting the accounts, keeping the accounts, laying down the accounting rules and methods and the chart of accounts, laying down and validating the accounting systems and where appropriate validating systems laid down by the authorising officer to supply or justify accounting information, and treasury management. The Accounting Officer is also responsible for providing a report on the financial aspects of the operation conducted and forwarding the financial statements and the Financial Report to the independent external audit team for the European Defence Agency.

External Audit Board's Responsibility

The Board's responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with international Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the preparation and fair presentation of the financial statements as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates, if any, made by the Accounting Officer, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. We have also read the Financial Report on the activities of the Agency and the implementation of the budget, to identify any material inconsistencies with the audited financial statements.

Unqualified opinion

In our opinion the financial statements present fairly, in accordance with the provisions and regulations set out in note 1 to the financial statements, and in all material aspects, the financial position of the European Defence Agency as at 31 December 2006 and the financial results of operations for the year then ended.

In our long form report we cover the scope of the audit: whether the financial statements are presented fairly, whether the financial statements are fully supported and comply with Financial Regulations, and key issues to follow up.

Signed on behalf of the College of Auditors by the Chairman, M. REMOND



F. WASCOTTE

Member of the College of Auditors on behalf of the Chairman

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2006 MANAGEMENT ACCOUNTS (1/3)

MANAGEMENT ACCOUNTS

	Notes	2006	2006	2005	2004
<i>Figures in €</i>	1	Budget ⁽⁷⁾	Actual	Actual	Actual
EXPENSES					
Title I : PERSONNEL EXPENSES	2				
Chapter 11: OFFICIALS & TEMPORARY STAFF					
BASIC SALARIES		5,958,200	5,847,884	3,947,043	131,535
STAFF STATUTORY ALLOWANCES		1,478,924	1,452,065	875,975	29,647
STAFF SOCIAL PROTECTION		1,638,727	1,511,150	1,029,039	43,324
NAP BANK TRANSFERS (7SI)		350	309	308	0
OVERTIME		10,000	2,693	7,424	0
STAFF ALLOWANCES ON ENTERING & LEAVING SERVICE		144,164	121,438	571,296	79,391
Subtotal		9,230,365	8,935,539	6,431,085	283,896
Chapter 12: SNE, CONTRACT STAFF & TRAINEES					
CONTRACT STAFF		161,000	231,331	62,621	0
SECONDED NATIONAL EXPERTS		1,140,096	1,106,517	650,328	0
TRAINEES		70,000	63,227	11,486	0
PROVISIONAL APPROPRIATIONS		2,540	0	0	0
Subtotal		1,373,636	1,401,075	724,435	0
Chapter 13: STAFF RELATED					
RECRUITING EXPENSES		18,000	17,959	38,113	9,677
STAFF TRAINING & CONFERENCE FEES		76,000	37,030	16,708	0
MEDICAL EXPENSES		20,000	4,608	5,599	0
MISSION EXPENSES		500,000	450,411	237,536	5,236
Subtotal		614,000	510,008	297,956	14,912
TOTAL PERSONNEL EXPENSES		11,218,000	10,846,622	7,453,476	298,809
Title II : FUNCTIONING EXPENSES	3				
Chapter 20: BUILDING & BUILDING RELATED					
FITTING-OUT OF PREMISES			312,489	113,319	0
<i>EXP. FITTING-OUT OF PREMISES</i>		205,000	41,077	1,544	0
<i>DPR. FITTING-OUT OF PREMISES</i>			271,412	111,775	0
SECURITY EQUIPMENT			50,701	9,784	0
<i>EXP. SECURITY EQUIPMENT</i>		150,000	17,835	3,979	0
<i>DPR. SECURITY EQUIPMENT</i>			32,866	5,805	0
OFFICE RENT		1,440,000	1,323,279	911,459	69,995
CLEANING & MAINTENANCE		425,000	226,646	119,760	0
UTILITY SERVICES		200,000	126,196	30,118	0
BUILDING SURVEILLANCE SERVICES		1,000,000	991,274	404,488	0
INSURANCES		35,000	15,389	7,507	0
OTHER BUILDING RELATED EXPENSES		150,000	20,477	20,377	40,404
Subtotal		3,605,000	3,066,451	1,616,812	110,399

⁽⁷⁾ Revised Budget as per EDA COM 16/125.

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2006 MANAGEMENT ACCOUNTS (2/3)

MANAGEMENT ACCOUNTS (CONT'D)

	Notes	2006	2006	2005	2004
<i>Figures in €</i>		Budget ⁽⁷⁾	Actual	Actual	Actual
Chapter 21: IT EQUIPMENT, FURNITURE & OTHER					
IT EQUIPMENT & SOFTWARE			172,698	237,588	0
<i>EXP. IT EQUIPMENT & SOFTWARE</i>		160,000	69,976	214,898	0
<i>DPR. IT EQUIPMENT & SOFTWARE</i>			102,722	22,690	0
OFFICE FURNITURE			72,202	357,247	0
<i>EXP. OFFICE FURNITURE</i>		150,000	56,642	351,706	0
<i>DPR. OFFICE FURNITURE</i>			15,560	5,541	0
OFFICE TECHNICAL EQUIPM. & SUPPLIES			28,213	10,389	0
<i>EXP. OFFICE TECHNICAL EQUIPM. & SUPPLIES</i>		100,000	27,520	10,389	0
<i>DPR. OFFICE TECHN. EQUIPMENT</i>			692	0	0
IT PROJECTS & DEVELOPMENT OF SYSTEMS		100,000	75,767	46,148	0
IT SUPPORT & MAINTENANCE OF COPIERS		200,000	20,337	72,762	0
TELECOM EXPENSES		230,000	176,383	126,991	0
OUTSIDE ASSIST. FOR OPERATION OF TECHN. INSTALLATIONS		100,000	19,208	3,361	0
MAINTENANCE & REPAIR OF TECHNICAL INSTALLATIONS		100,000	97,193	69,598	0
OFFICE VEHICLES		30,000	8,822	5,421	0
Subtotal		1,170,000	670,823	929,505	0
Chapter 22: OTHER FUNCTIONING					
TRANSLATION SERVICES		22,000	0	0	0
RECEPTION & REPRESENTATION EXPENSES		50,000	30,715	26,132	0
INTERNAL MEETINGS		100,000	50,375	16,834	0
CONFERENCES & SEMINARS		100,000	71,606	10,387	0
INFORMATION, SUBSCRIPTIONS & DOCUMENTATION EXPENSES		200,000	56,267	120,483	0
OFFICIAL JOURNAL		50,000	484	1,605	0
PUBLIC RELATIONS		70,000	38,364	8,760	0
OFFICE SUPPLIES		80,000	75,044	82,639	0
POSTAL & DELIVERY EXPENSES		20,000	13,826	3,127	0
AUDIT EXPENSES		10,000	0	10,000	4,000
FINANCIAL CHARGES, INCL. FOREIGN EXCHANGE DIFF.		5,000	2,001	2,278	63
PROVISIONAL APPROPRIATIONS		100,000	0	0	0
Subtotal		807,000	338,682	282,245	4,063
TOTAL FUNCTIONING EXPENSES		5,582,000	4,075,956	2,828,562	114,462
Title III : OPERATIONAL BUDGET	4				
OPERATIONAL PROJECTS & STUDIES		4,000,000	3,886,956	2,494,941	0
TOTAL OPERATIONAL BUDGET		4,000,000	3,886,956	2,494,941	0
Title X : PROVISIONAL APPROPRIATIONS					
PROVISIONAL APPROPRIATIONS		500,000	0	0	0
TOTAL PROVISIONAL APPROPRIATIONS		500,000	0	0	0
TOTAL EXPENSES		21,300,000	18,809,534	12,776,979	413,270

⁽⁷⁾ Revised Budget as per EDA COM 16/125.

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2006 MANAGEMENT ACCOUNTS (3/3)

MANAGEMENT ACCOUNTS (CONT'D)

	Notes	2006 Budget ⁽⁷⁾	2006 Actual	2005 Actual	2004 Actual
<i>Figures in €</i>					
REVENUES	5				
Title IV: MISC. COMMUNITY TAXES, LEVIES & DUES					
Chapter 40: DEDUCTIONS FROM STAFF REMUNERATION					
TAXATION ON STAFF SALARIES & ALLOWANCES (8IM)		750,035	756,752	563,812	24,874
EU SPECIAL LEVY (PSP)		80,342	79,985	49,022	1,395
NAP CLOSING ADJUSTMENTS		0	0	(390)	0
Subtotal		830,377	836,737	612,444	26,270
Chapter 41: PENSION CONTRIBUTIONS					
2004 STAFF PENSION CONTRIBUTIONS ⁽⁸⁾		0	0	0	12,409
Subtotal		0	0	0	12,409
Title V: INCOME FROM OPERATING ACTIVITIES					
Chapter 52: FINANCIAL INCOME					
INTERESTS - BANK		379,611	375,465	148,216	10,523
INTERESTS - PMS		14,512	14,512	0	0
Subtotal		394,123	389,977	148,216	10,523
Title VI: pMS CONTRIBUTIONS					
Chaptre 61 : MEMBER STATE CONTRIBUTIONS					
PMS CONTRIBUTIONS		20,075,500	21,500,000	19,909,793	1,786,483
TOTAL REVENUES		21,300,000	22,726,714	20,670,453	1,835,684
ACCOUNTING SURPLUS			3,917,180	7,893,474	1,422,414
CAPITAL EXPENDITURE			(95,422)	(3,608,240)	0
DEPRECIATION ADJUSTMENT			423,252	145,811	0
CAPITAL EXPENDITURE & DEPRECIATION ADJUSTMENTS			327,830	(3,462,429)	0
BUDGETARY SURPLUS REPAYABLE TO pMS	6		4,245,010	4,431,045	1,422,414

⁽⁷⁾ Revised Budget as per EDA COM 16/125.

⁽⁸⁾ Since 2005, in compliance with the Auditors' recommendations, Staff pension contributions are excluded from revenues and accrued on the Agency's balance sheet.

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2006 BALANCE SHEET (1/2)

BALANCE SHEET

<i>Figures in €</i>	Notes	For the year ending		
		31.12.2006	31.12.2005	31.12.2004
ASSETS				
FIXED ASSETS				
ACQ. FITTING-OUT OF PREMISES		3,017,659	3,024,631	0
ACCUML. DPR. FITTING-OUT OF PREMISES		(383,187)	(111,775)	0
FITTING-OUT OF PREMISES		2,634,472	2,912,856	0
ACQ. SECURITY EQUIPMENT		134,978	122,623	0
ACCUML. DPR. SECURITY EQUIPMENT		(38,671)	(5,805)	0
SECURITY EQUIPMENT		96,307	116,818	0
ACQ. IT EQUIPMENT & SOFTWARE		427,087	383,453	0
ACCUML. DPR. IT EQUIPMENT & SOFTWARE		(125,412)	(22,690)	0
IT EQUIPMENT		301,675	360,763	0
ACQ. OFFICE FURNITURE		97,649	77,533	0
ACCUML. DPR. OFFICE FURNITURE		(21,101)	(5,541)	0
OFFICE FURNITURE		76,548	71,992	0
ACQ. OFFICE TECHN. EQUIPMENT		26,289	0	0
ACCUML. DPR. OFFICE TECHN. EQUIPM.		(692)	0	0
OFFICE TECHNICAL EQUIPMENT		25,597	0	0
NET FIXED ASSETS	7	3,134,599	3,462,429	0
SUPPLIER RECEIVABLES				
INTERESTS RECEIVABLE		126,492	49,517	10,523
ADVANCE PAYMENTS ON SUPPLIERS		316,414	203,790	30,781
SUPPLIER RECEIVABLES	8	442,906	253,307	41,303
STAFF RECEIVABLES				
STAFF RECEIVABLES		0	11,744	11,747
RECEIVABLES		0	11,744	11,747
CASH				
EDA BANK ACCOUNTS		14,277,564	10,389,816	1,545,583
EDA PETTY CASH		500	0	0
CASH	9	14,278,064	10,389,816	1,545,583
TOTAL ASSETS		17,855,569	14,117,296	1,598,633

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2006 BALANCE SHEET (2/2)

BALANCE SHEET (CONT'D)

	Notes	For the year ending		
Figures in €		31.12.2006	31.12.2005	31.12.2004
LIABILITIES				
STAKEHOLDERS				
ADVANCES ON pMS CONTRIBUTIONS		2,132,594	1,677,000	0
OUTSTANDING pMS CONTRIBUTIONS		0	(241,501)	0
CAPEX & DEPRECIATION ADJ. (YEAR N-1)		3,462,429	0	0
ACCOUNTING SURPLUS		3,917,180	7,893,474	1,422,414
STAKEHOLDERS	10	9,512,203	9,328,973	1,422,414
SUPPLIER PAYABLES				
ACCRUED EXPENSES		4,701,578	2,699,841	0
PENDING INVOICES		517,286	799,134	124,890
SUPPLIER PAYABLES	11	5,218,864	3,498,975	124,890
STAFF PAYABLES				
STAFF PENSION ACCRUAL (RCN)		2,921,421	1,199,964	37,226
STAFF STATUTORY INSURANCE CONTRIBUTIONS		0	(1,117)	3,243
MISC. STAFF PAYABLES		203,081	90,501	10,860
STAFF PAYABLES	12	3,124,502	1,289,348	51,329
TOTAL LIABILITIES		17,855,569	14,117,296	1,598,633



Nick Witney, Chief Executive

June 2007

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2006 CASH FLOW

CASH FLOW

<i>Figures in €</i>	For the year ending		
	31.12.2006	31.12.2005	31.12.2004
<i>OPENING BANK ACCOUNT BALANCE</i>	10,389,816	1,545,583	0
CASH RECEIVED FROM PMS			
PMS CONTRIBUTIONS	21,500,000	19,909,793	1,786,483
REIMBURSEMENT OF YEAR N-1 SURPLUS	(4,431,045)	(1,422,414)	0
ADVANCE & LATE PAYMENTS	711,607	1,435,499	0
Subtotal	17,780,562	19,922,878	1,786,483
CASH RECEIVED FROM BANK			
INTERESTS CREDITED DURING THE YEAR	298,490	109,222	0
Subtotal	298,490	109,222	0
TOTAL CASH INFLOWS	18,079,052	20,032,100	1,786,483
CASH SPENT FOR FUNCTIONING & OPERATIONAL EXPENSES			
PAYMENTS FOR FUNCTIONING EXPENSES	12,933,869	10,592,913	240,900
PAYMENTS FOR OPERATIONAL EXPENSES	1,257,435	594,953	0
TOTAL CASH OUTFLOWS	14,191,304	11,187,866	240,900
<i>CLOSING BANK ACCOUNT BALANCE</i>	14,277,564	10,389,816	1,545,583

Note 1: Basis of Presentation and Specific Accounting Policies

BASIS OF PRESENTATION

EDA's financial accounts have been established in full conformity with:

- Council Joint Action 2004/551/CFSP of 12 July 2004 on the establishment of the European Defence Agency and
- EDA Steering Board Decision No. 2006/29 (Cor.) on the Financial Rules of the European Defence Agency ('the EDA Financial Rules' or 'FR'),
- EDA Finance Manual (or 'FM'), as well as with respect to :
 - Council Regulation N° 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities ('EU Financial Regulation'),
 - Commission Regulation N° 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation ('EU Implementing Provisions') and
 - "Final rules adopted by the Accountant of the European Communities after formal consultation of accountants of institutions and agencies based on the Art. 133 of the EU Financial Regulation".

SPECIFIC ACCOUNTING POLICIES

pMS Contributions

Contributions from participating Member States ('pMS') are calculated in accordance with the principles of the EU budget proportional share of the pMS's GNI in the total GNI aggregate. Contributions are requested in three instalments, by 15 February, 15 June and 15 October (Art. 16, Council Joint Action 2004/551/CFSP). In 2006, 24 pMS are EDA-members ⁽⁹⁾.

2006 Budget and 2006 Revised Budget

The budget for 2006 was established in November 2005. On 28 November 2006, to properly reflect its financial situation, the Agency issued a revised budget 2006, showing minor intra-chapter transfers and theoretic pMS contributions based on forecasted expenses and revenues (EDA COM 06/125).

Carry-overs

In general, appropriations which have not been committed at the end of the financial year are cancelled. However, appropriations may be committed until 31 March of the following year, if "most of the preparatory stages of the commitment procedure, namely the selection of potential contractors, have been completed by 31 December" (Art. 11, FR ⁽¹⁰⁾). Each year, by 15 February, the Chief Executive submits to the Steering Board ('SB') a proposal on carry-overs. The Steering Board takes a decision by 15 March.

⁽⁹⁾ EURO-25, excluding Denmark.

⁽¹⁰⁾ This article of the Financial Rules based on Commission Regulations 2342 will be revised in 2007 in order to address pMS' request for additional precision regarding carry-overs provisions (SBD 2007/10).

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Budgetary Surplus repayable to pMS

The budgetary surplus repayable to pMS is the difference between revenues and expenses of the financial year, including capital expenditure and depreciation adjustment. The surplus is returned to pMS as a deduction of the third contribution in the following financial year (for details, please see Note 5).

Fixed Asset Policy

Items acquired by the Agency whose purchase price is € 420 or more, with a period of use greater than one year, and which are not consumables are recorded in the fixed assets accounts (Art. 222, 'EU Implementing Provisions' and part 5.1, FM). The Agency performs an annual inventory of its fixed assets, where all qualifying assets are individually monitored and recorded in the fixed asset database.

The cost of fixed assets comprises the purchase price, including any directly attributable costs of bringing the asset into working condition for its intended use. Routine maintenance and repairs, however, are not capitalised but charged to expenses as incurred (part 5.1, FM).

In line with the Council's policy, asset-invoices are booked as expenses during the year and transferred to the balance sheet at year-end. The annual depreciation charge is then also added to expenses. In budgetary terms, however, assets and depreciation are budget neutral, as the acquisition cost is charged 100% to the current year's budget and depreciation charge is adjusted.

Depreciation

Depreciation is computed on a straight-line basis, from the date of the purchase, over the estimated useful life of the assets:

- 9 years for fitting-out of premises (building related investments),
- 5 years for office furniture (i.e. desks, chairs, filing cabinets, etc.) and office technical equipment (projectors, transcribers, bicycles etc),
- 3 years for IT equipment and software (computers, telecommunications, audiovisual, other equipment and software) and security equipment (scanner, surveillance equipment).

Provisional Appropriations

Each budgetary title may include a chapter entitled 'provisional appropriations'. These appropriations are entered where there is uncertainty, based on serious grounds, about the amount of appropriations needed or the scope for implementing the appropriations entered (Art. 4 of FR). Provisional appropriations of Title X can only be released after a Steering Board decision.

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Note 2: Personnel Expenses

REGULATORY BASIS

Human resources parameters ⁽¹¹⁾ and calculations are based on:

- Staff Regulations applicable to Officials and other Servants of the European Communities ⁽¹²⁾;
- Council Regulation (EC, EURATOM) No 1895/2006 of 19 December 2006 adjusting with effect from 1 July 2006 the remuneration and pensions of Officials and other Servants of the European Communities and the correction coefficients applied thereto.
- Council Decision 2003/479/EC concerning the rules applicable to National Experts and Military Staff on secondment to the General Secretariat of the Council ⁽¹³⁾, as well as
- Council Decision 2004/676/EC of 24 September 2004 concerning the Staff Regulations of the European Defence Agency ('EDA Staff Regulations') and
- Council Decision 2004/677/EC of 24 September 2004 concerning the rules applicable to National Experts and Military Staff on secondment to the European Defence Agency.

PERSONNEL EXPENSES

Personnel expenses amount to € 10.8 million. The increase in personnel expenses reflect the growth of EDA's personnel (from 79 to 94), regulatory step changes after 2 years of service, annual salary grid adjustments and increase in the Agency's mission activity.

During 2006, 59 % of personnel were employed as Temporary Staff, 26 % as Seconded National Experts, 6 % as Contract Staff and 4 % as Officials on Secondment, and 5 % as Trainees.

STAFF CATEGORIES AT THE AGENCY

EDA employs five different categories of personnel:

1. Temporary Staff

Staff engaged to fill temporarily a post included in the list of posts appended to the budget of the Agency. They are classified in an administrators' function group (AD) and assistants' function group (AST). Function group AD comprises twelve grades, corresponding to administrative, advisory, linguistic and scientific duties. Function group AST comprises eleven grades, corresponding to executive, technical and clerical duties.

2. Officials on Secondment

Established Officials who, by decision of the appointing authority, have been directed in the interests of the service, or have been engaged at their own request, to fill temporarily a post included in the list of posts appended to the budget of the Agency. They are classified and graded as temporary Staff.

⁽¹¹⁾ Acronyms in the brackets refer to *Paymasters Office of the European Institutions* ('PMO') definitions.

⁽¹²⁾ As last amended by Council Regulation (EC, Euratom) No 1066/2006 of 27 June 2006, OJ L 194, 14.7.2006 p. 1.

⁽¹³⁾ As last amended by Council Decision 2006/471/EC of 27 June 2006.

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3. Contract Staff

Staff not assigned to a post included in the list of posts appended to the budget of the Agency and engaged for the performance of full-time or part-time duties. Contract Staff are subdivided into four function groups corresponding to the duties performed. Each function group is subdivided into grades and steps.

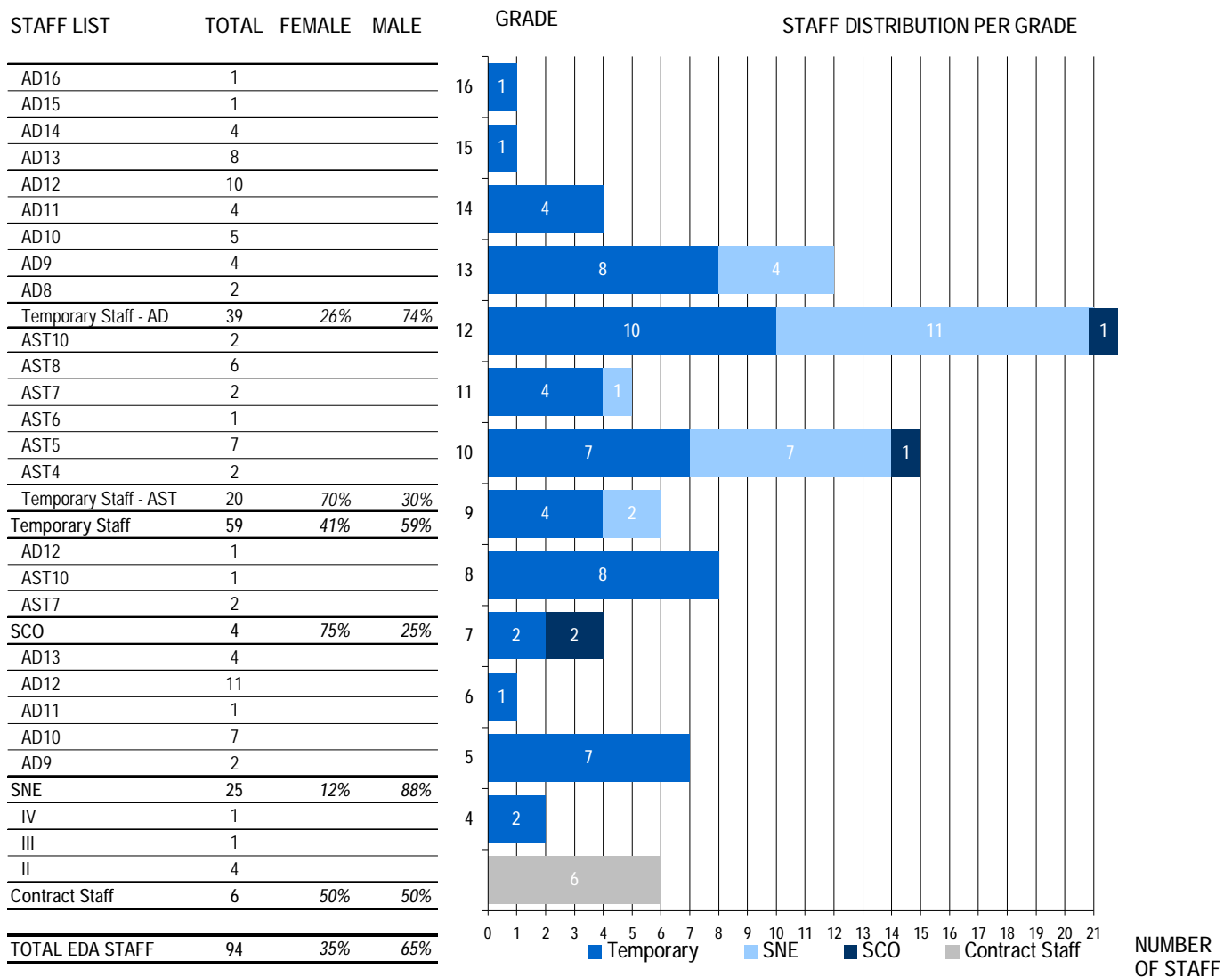
4. Seconded National Experts

Temporarily assigned experts from the Member States' administrations in accordance with EDA's requirements and budgetary possibilities.

5. Trainees

Temporarily assigned experts from the Member States' administrations in accordance with EDA's requirements and budgetary possibilities for a period not longer than 6 months.

Data as per 31/12/2006



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Basic Salaries

Staff basic salaries (TBA) are processed through the *EU Paymasters Office's (PMO)*, using the NAP system. Grades and salary parameters are updated annually by the Council.

Staff Statutory Allowances

Staff statutory allowances ⁽¹⁴⁾ relate to:

- Expatriation status (IDE)
- Dependent child allowances (AEA and AEN)
- Household allowance (AFO)
- School allowance (APF)
- Education allowances (ISF and ISN)
- Birth grant (ANA)

Staff Social Protection

Staff social protection is financed both from the Agency (*Staff Social Protection*) and from Staff ⁽¹⁵⁾ (*Deductions from Staff Remuneration*). The following statutory contributions were paid in 2006:

Social contribution (as % of TBA)	Institution (budget)	Staff (off-budget)
Sickness (CAI)	3.40 %	1.70 %
Accident (CAB)	0.87 %	0.10 %
Unemployment (CCI) ⁽¹⁶⁾	1.62 %	0.81 %
Pension	20.5 %	10.25 %

Source: *Staff Regulations applicable to Officials and other Servants of the European Communities* ⁽¹⁷⁾ and *Council Regulation (EC, EURATOM) No 1972/2005 of 29 November 2005 adjusting, from 1 July 2005, the rate of contribution to the pension scheme of officials and other servants of the European Communities* ⁽¹⁸⁾.

NAP Bank Transfers / Coefficient Correcteur

NAP Bank Transfers (7S1) correspond to the “*NAP Coefficient Correcteur*” applied to the portion of salaries paid in the Countries of Origin.

Overtime

Statutory overtime expenses (HSU) are paid to Staff members of grade 4 and below.

Staff Allowances on Entering & Leaving Service

Staff allowances on entering & leaving service related to:

- Travel expenses on termination (FVC)
- Transfer (FVS)
- Appointment (FVY)
- Installation allowance (INS)
- Removal expenses (FDE)
- Removal costs on transfer (FDF)
- Resettlement allowance (IRI)
- Termination (FDG)
- Daily subsistence allowance (IJO)

⁽¹⁴⁾ For details calculations, please refer to *Staff Regulations applicable to Officials and other Servants of the European Communities* as last amended by Council Regulation (EC, Euratom) N° 1066/2006 of 27/06/06, OJ L 194, 14/07/06 p.1.

⁽¹⁵⁾ SCO and Temporary Staff.

⁽¹⁶⁾ After deduction of a standard allowance of € 1,096.07.

⁽¹⁷⁾ As last amended by Council Regulation (EC, Euratom) No 1066/2006 of 27 June 2006, OJ L 194, 14.7.2006 p. 1.

⁽¹⁸⁾ OJ L 317, 3.12.2005, p.1.

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Contract Staff

In 2006, in compliance with the revised EDA Staff Regulations (Art. 100), all expenses and revenues related to Contract Staff members are now booked under one single account. In the 2006 Revised Budget, due to this change in the treatment of Contract Staff expenses, the Chapter 12 budget line "Contract Staff" was underestimated by €68,860 and, similarly the budget lines in Chapter 11 were overestimated by the same amount.

Seconded National Experts (SNEs)

In 2006, allowances were paid to 25 SNEs:

- Daily allowance (€ 112.61 per calendar day for the period January – June 2006, € 115.09 per calendar day for the period July – December 2006),
- Distance allowance (adjusted in July),
- Salary adjustment (adjusted in July),
- SNEs who re-located to Brussels are entitled to reimbursement of annual travel expenses to the place of origin. SNE allowances are paid on a monthly basis, together with Staff salaries.

Source: *Council Decision 2003/479/EC concerning the rules applicable to national experts and military staff on secondment to the General Secretariat of the Council, as last amended by Council Decision 2006/471/EC of 27 June 2006.*

Trainees

Internships are paid based on SNE daily allowances. In 2006, 5 trainees worked at the Agency.

Recruiting Expenses

Miscellaneous recruiting expenses related to candidates' interviews, travel and accommodation of recruiting experts, organisation of selection process.

Staff Training & Conference Fees

Staff training expenses: languages classes, security training and EDA participant fees for seminars or conferences.

Medical Expenses

Relate to recruiting expenses, annual health examinations and the purchase of standard medical supplies for the infirmary.

Mission Expenses

Expenses related to Staff missions: travel expenses, meals and accommodation (according to the EDA Mission Guide). In 2006, 696 missions were accomplished for an average mission cost of € 638 per mission.

Note 3: Functioning Expenses

Fitting-out of Premises

Investments related to the fitting-out of office premises, notably: set-up of new meeting rooms, office partitioning to accommodate new Staff members, floor reinforcement, building air-conditioning and other building transformation expenses. Expenses include annual depreciation charge (also see note on Fixed assets and depreciation).

Security Equipment

Surveillance cameras and other equipment to ensure security of EDA premises. Expenses include annual depreciation charge (also see note on fixed assets and depreciation).

Office Rent

The Agency signed a standard Belgian nine year lease for the office building in Rue des Drapiers in Brussels. Rent is settled on a quarterly basis and includes related taxation. The rental contract qualifies as an operating lease as it does not stipulate the transfer of risk and rewards incidental to ownership of the leased property.

Cleaning and Maintenance

Building cleaning and maintenance contracts, including cleaning supplies.

Utility Services

Building utility expenses related to water, electricity and heating.

Building Surveillance Services

Expenses related to 24-hour building surveillance, notably security services and guards.

Insurances

Selected insurance policies related to EDA premises and Staff.

Other Building related Expenses

Expenses related to waste removal, recycling services, office plants and fire protection.

IT Equipment and Software

All expenses related to the Agency's IT systems: servers, desktops, laptops and other IT equipment and software. Expenses include annual depreciation charge (also see note on Fixed assets and depreciation).

Office Furniture

Desks, tables, chairs, conference room equipment, filing cabinets, cupboards and all miscellaneous office furniture. Expenses include annual depreciation charge (also see note on Fixed assets and depreciation).

IT Projects & Development of Systems

Expenses related to installation of software, banking software, accounting information system.

IT Support & Maintenance of Copiers

Rental and maintenance of photocopiers, including GSC Services contract.

Telecom Expenses

Telecommunication expenses: PSTN, mobile, internet and dedicated lines.

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Office Technical Supplies

Technical supplies for electrical systems and other technical installations.

Outside Assistance for Operation of Technical Installation

Outside assistance for the operation of electrical systems and other building related technical installations.

Maintenance & Repair of Technical Installations

Services for maintenance and repair of technical equipment and installations: electrical systems, air conditioning, elevators and other technical installations.

Office Vehicles

Rental fee for two office vehicles (contract signed in July 2006).

Reception & Representation Expenses

Expenses related to official receptions held in EDA premises: catering, event organisation.

Internal Meetings

Meeting supplies such as: water, coffee, soft drinks and sandwiches.

Organisation of Conferences & Seminars

Expenses related to EDA conferences and seminars, including the payment of hotel accommodation for selected conference speakers.

Information, Subscriptions & Documentation Expenses

Expenses related to specialised information sources and press subscriptions.

Official Journal

Publication expenses for EDA's regulatory documents in *the Official Journal of the European Union*.

Public Relations

Expenses related to EDA's image, Public Relation campaigns, media coaching, conference posters and other communication materials.

Office Supplies

Standard office supplies, including: paper, stationary and office consumables.

Postal & Delivery Expenses

Postage, express mail, P.O. Box.

Financial Charges, including Foreign Exchange Rate Differences

Expenses corresponding to bank transfers outside EU and bank services subject to specific charges. Net expenses on foreign exchange transactions amount to approx. € 2,000.

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Note 4: 2006 Operational Projects and Studies

Expenses related to EDA's operational contracts: 30 studies & projects for approx. € 3.9 million.

List of Contracts signed under the 2006 Operational Budget

Contract ID	Contract Title	Value (in €)	Award Notice	Contract Signature	Final Delivery
OPS 06 CAP 009	A study on options for the future acquisition of an Air to Air refuelling capability.	30,000	13-Mar-06	16-Mar-06	15-May-06
OPS 06 ARM 013	European Soldier System programmes.	4,950	23-Mar-06	23-Mar-06	7-Apr-06
OPS 06 CAP 010	Functional Support for the EDA network enabled capability seminar 2006.	4,500	3-Apr-06	3-Apr-06	18-May-06
OPS 06 ARM 008	Cooperative lessons learned and best practices*.	148,581	15-May-06	24-May-06	18-Feb-07
OPS 06 CAP 024	Support to development of a definition of an Intel. Functional Area Service.	4,999	19-May-06	19-May-06	2-Jun-06
OPS 06 CAP 025	Support to development of a definition of an Intel. Functional Area Service - Rev.	1,500	19-May-06	19-May-06	2-Jun-06
OPS 06 CAP 030	Intelligence understanding of the mission environment. Preparation of detailed curriculum.	4,999	23-May-06	30-May-06	30-Jun-06
OPS 06 CAP 035	Intelligence understanding of the mission environment. Preparation of detailed curriculum for a pilot project.	2,000	26-Jun-06	26-Jul-06	26-Jul-06
OPS 06 CAP 026	Additional services in the framework of the LTV Global Context Study.*	9,000	30-Jun-06	30-Jun-06	13-Sep-06
OPS 06 CAP 037	Open Source Search engines for defence intelligence: survey and assessment.	14,800	20-Jul-06	26-Jul-06	21-Sep-06
OPS 06 CAP 039	Support to develop a possible set of civil/military requirements for UAVs.	4,999	26-Jul-06	26-Jul-06	1-Nov-06
OPS 06 CAP 042	Design a schedule and plan of the production of an EU NEC Feasibility Study.	4,999	28-Jul-06	28-Jul-06	4-Aug-06
OPS 06 CAP 023	A Study on SATCOM procurement.	49,999	1-Aug-06	7-Aug-06	22-Nov-06
OPS 06 CAP 001	Evaluation of the current EU/MN logistic support practices.*	75,000	22-Sep-06	19-Oct-06	19-Feb-07
OPS 06 CAP 003	Utilisation of Civilian Transportation Capabilities and Resources for EU Crisis Management Operation.*	99,836	29-Sep-06	26-Oct-06	28-Feb-07
OPS 06 R&T 034	Energy Generation and Storage for the Land Warrior.*	49,000	24-Oct-06	17-Nov-06	6-Jun-07
OPS 06 R&T 040	Consultancy support to review lessons learned on Force Protection pilot exercise and to initiate deployment of the related process and practices.*	74,600	25-Oct-06	6-Nov-06	9-Feb-07
OPS 06 ARM 053	European Soldier Blue-Force tracker Programmes	4,996	27-Nov-06	27-Nov-06	26-Jan-07
OPS 06 CAP 043	Non/Less Lethal Weapons and constraints of their use within ESDP.*	75,000	8-Dec-06	17-Jan-07	17-May-07
OPS 06 CAP 041	Initial Information Exchange Requirements (IER's).*	74,940	13-Dec-06	10-Jan-07	10-May-07
OPS 06 I&M 022	Study on the effects of offsets on the development of a European Defence Industry and Market.*	115,000	21-Dec-06	12-Jan-07	12-Jun-07
OPS 06 CAP 045	Fast Ships Technology study.*	49,750	22-Jan-07	13-Feb-07	13-Apr-07
OPS 06 R&T 033	Survey on the maturity of diesel compatible fuel cell technology for military applications.*	45,000	23-Jan-07	12-Feb-07	31-Jul-07
OPS 06 R&T 049	UAV Simulation Testbed (Phase I).*	295,000	6-Feb-07	16-Mar-07	16-Sep-07
OPS 06 CAP 036	Balance of Cost and effectiveness study: Satellite, UAV & manned aircraft intelligence collection platform.*	189,756	8-Feb-07	1-Mar-07	11-Jul-07
OPS 06 CAP 052	Universal Intelligence Analyst's Tool (Study 1).*	99,436	8-Feb-07	1-Mar-07	2-Jul-07
OPS 06 CAP 047	Development of an Integrated Biological defence System Architecture (IBDS).*	97,000	12-Feb-07	26-Feb-07	22-Nov-07
OPS 06 CAP 015	Tactical Imagery Exploitation Station (TIES).*	410,000	13-Feb-07	19-Mar-07	30-Sep-08
OPS 06 CAP 053	Universal Intelligence Analyst's Tool (Study 2).*	100,000	14-Feb-07	9-Mar-07	2-Jul-07
OPS 06 CAP 038	Military software-defined radio capabilities including applying cognitive radio-based spectrum management to the security and defence domains.*	1,747,316	13-Feb-07	27-Mar-07	30-Apr-09
TOTAL		3,886,956			

* Contracts included in the 2006 provision for carry-overs.

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Note 5: Revenues

EU Taxation

Taxation on Staff salaries (temporary and SCO) and allowances collected by the Agency for income tax (8IM) and EU special levy (PSP).

Financial Income

In 2006, the Agency's bank accounts generated interests of € 375 k.

According to the Article 29 of the Financial Rules, € 15 k interests were paid by pMS for the late payments of contributions. Bank interests and interests for the late payments of contributions are included in the year-end surplus, which flows back to pMS.

pMS Contributions

In 2006, pMS contributions amounted to € 21.5 million; taking into account the surplus reimbursement, the actual cost to pMS was € 17.3 million.

Figures in €

2006 Contributions	% GNI ⁽¹⁹⁾	Budgetary Contributions	Actual Cost to pMS	Budgetary Surplus ⁽²⁰⁾
Germany (DE)	20.9727%	4,509,125	3,618,833	890,292
United Kingdom (UK)	17.5723%	3,778,052	3,032,105	745,947
France (FR)	16.1937%	3,481,656	2,794,229	687,426
Italy (IT)	13.2900%	2,857,359	2,293,196	564,164
Spain (ES)	8.2780%	1,779,771	1,428,369	351,402
Netherlands (NL)	4.4732%	961,732	771,845	189,887
Belgium (BE)	2.8769%	618,533	496,409	122,125
Sweden (SE)	2.8306%	608,578	488,419	120,159
Austria (AT)	2.2801%	490,223	393,432	96,791
Poland (PL)	2.2051%	474,090	380,485	93,605
Greece (EL)	1.7414%	374,393	300,472	73,921
Finland (FI)	1.4836%	318,968	255,990	62,978
Portugal (PT)	1.3139%	282,494	226,718	55,776
Ireland (IE)	1.3026%	280,060	224,764	55,296
Czech Republic (CZ)	0.9147%	196,664	157,834	38,830
Hungary (HU)	0.8335%	179,196	143,815	35,381
Slovakia (SK)	0.3623%	77,886	62,508	15,378
Slovenia (SI)	0.2693%	57,909	46,475	11,434
Luxembourg (LU)	0.2358%	50,693	40,684	10,009
Lithuania (LT)	0.1932%	41,539	33,338	8,202
Cyprus (CY)	0.1249%	26,848	21,547	5,301
Latvia (LV)	0.1195%	25,686	20,615	5,072
Estonia (EE)	0.0906%	19,482	15,636	3,847
Malta (MT)	0.0421%	9,062	7,273	1,789
Total 24 pMS	100%	21,500,000	17,254,990	4,245,010

⁽¹⁹⁾ 2005 GNI "Own Resources, excl. reserves", OJ n° L 60 of 08/03/05; percentages rounded to 4 decimals.

⁽²⁰⁾ The Budgetary Surplus is returned to pMS as a deduction from the 3rd contribution in year N+1 (15 October 2007).

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Note 6: Budgetary Surplus repayable to pMS

The budgetary surplus repayable to pMS is the difference between revenues received and expenses incurred during the financial year, including capital expenditure and corresponding depreciation adjustment. The 2006 surplus is returned to pMS as a deduction from the third budgetary contribution on 15 October 2007 (also see Note 5 above).

Note 7: Fixed Assets and Depreciation

Figures in €

Assets Classes	2005 Net Asset Value	2006 Acquisitions	2006 Accumulated Depreciation	2006 Net Asset Value
Fitting-Out of Premises ⁽²¹⁾	2,912,856	-6,972	271,412	2,634,472
Security Equipment	116,818	12,355	32,866	96,307
IT Equipment	360,763	43,634	102,722	301,675
Office Furniture	71,992	20,116	15,560	76,548
Office Technical Equipment	0	26,289	692	25,597
Total	3,462,429	95,422	423,252	3,134,599

Fixed assets are monitored in an asset database. A physical asset inventory is performed at the end of each year.

Note 8: Supplier receivables

Includes advance payment for office rent (January – March 2007).

Note 9: Cash

EDA's Bank Accounts

As at 31/12/2006, the global balance on the Agency's bank accounts totalled € 14,277,564.

Figures in €

EDA Bank Accounts	2004	2005	2006
Opening balance	0	1,545,583	10,389,816
Closing balance	1,545,583	10,389,816	14,277,564

In order to optimize the return on financial assets, the Agency placed its funds in term accounts to achieve a higher remuneration. Employee pension rights are managed in a separate interest bearing bank account.

⁽²¹⁾ The value of selected 2005 assets was adjusted in 2006, when the final purchase price was established.

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EDA's Petty Cash

As at 31 December 2006, the Agency had a petty cash balance of € 500.

Note 10: Stakeholders

Advances on pMS contributions

At Year-end 2006, selected pMS paid their first contribution for 2007 in advance of the 15 February payment date.

Capital expenditure Year N-1

In accounting terms, capital expenditure and corresponding depreciation charges are shown under liabilities. In budgetary terms, 100% of acquisition cost of fixed assets is expensed in the year of acquisition.

Accounting Surplus

For the year 2006, the accounting surplus amounts to € 3,917 k, down 50% from last year.

Note 11: Supplier Payables

Supplier payables include accrued expenses and pending invoices.

Variation of Supplier Payables

The underneath table shows the variations of the Agency's balance sheet provisions for supplier payables:

Figures in € k	2005 Balance Sheet			2006 Balance Sheet		
	Accrued Expenses	Pending Invoices	Total	Accrued Expenses	Pending Invoices	Total
Functioning expenses						
Payables related to 2005	800	799	1,599	12	0	12
Payables related to 2006				160	517	677
Total Functioning	800	799	1,599	172	517	689
Operational expenses						
Payables related to 2005	1,900	0	1,900	775	0	775
Payables related to 2006				3,754	0	3,754
Total Operational	1,900	0	1,900	4,530	0	4,530
Total	2,700	799	3,499	4,702	517	5,219

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Details on Accrued Expenses

The underneath table shows the composition of the 2006 provision for accrued expenses:

Provision for Accrued Expenses (in € k)	2006 ⁽²²⁾	2006 Adj. ⁽²³⁾	2005 Adj. ⁽²⁴⁾	Comments
TITLE II : FUNCTIONING EXPENSES				
Chapter 20: BUILDING & BUILDING RELATED	158	158	0	
<i>thereof : FITTING-OUT OF PREMISES</i>	83	83	0	<i>Building works: staircases, building a/c.</i>
<i>thereof : SECURITY EQUIPMENT</i>	13	13	0	<i>Safes, security badges.</i>
<i>thereof : CLEANING & MAINTENANCE</i>	45	45	0	<i>Fixing of hydrants, parquet maintenance.</i>
<i>thereof : UTILITY SERVICES</i>	17	17	0	<i>Building electricity.</i>
Chapter 21: IT EQUIPMENT, FURNITURE & OTHER	4	2	0	
<i>thereof : OFFICE FURNITURE</i>	2	0	0	<i>Filing cabinets.</i>
<i>thereof : OFFICE TECHNICAL SUPPLIES</i>	2	2	0	<i>Microphones for meeting rooms.</i>
Chapter 22: OTHER FUNCTIONING	0	0	12	
<i>thereof : AUDIT EXPENSES</i>	0	0	12	<i>Remaining provision for audit expenses.</i>
SUBTOTAL	162	160	12	
TITLE III : OPERATIONAL BUDGET				
OPERATIONAL PROJECTS & STUDIES	3,757	3,754	775	<i>Operational projects & studies.</i>
SUBTOTAL	3,757	3,754	775	
TOTAL	3,919	3,914	788	4,702

Details on Pending Invoices

Supplier accruals include € 517 k creditors for goods delivered and services rendered in 2006, paid by EDA in 2007, such as: Security and cleaning services, mission expenses, selected IT supplies, maintenance of technical installations and various building related expenses.

⁽²²⁾ Carry-overs as per EDA Steering Board Decision N° 2007/05 of 16 March 2007.

⁽²³⁾ Carry-overs including adjustments for final contract amounts.

⁽²⁴⁾ Remaining provision for 2005 operational contracts and audit expenses.

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Note 12: Staff Payables

Pensions

Staff (temporary and SCO) pension rights, including corresponding interests, are capitalised on the Agency's balance sheet to cover future pension obligations.

Staff pension rights are composed of:

- 2/3 Agency contribution, booked as expenses and capitalised on the balance sheet ⁽²⁵⁾;
- 1/3 Staff contribution, deducted from Staff remuneration and capitalised on the balance sheet.

Total Statutory Staff pension rights accumulated on the Agency's balance sheet as per 31/12/2006 amount to €2,921 k.

Pension provision for 2006 amounts to € 1,726 k and is composed of the following items:

– Agency contribution for Temporary / SCO Staff	€ 1,183 k
– Agency contribution for Contract Staff	€ 29 k
– Staff contribution Temporary / SCO Staff	€ 592 k
– Staff contribution Contract Staff	€ 14 k
– Less 2006 payments for severance grants	€ - 69 k
– Less payments for maintenance of rights ⁽²⁶⁾	€ - 40 k
– Financial interests	€ 17 k

Staff Statutory Insurance Contributions

Staff statutory insurance contributions relate to social contributions for sickness (CAM), unemployment (CCA) and accident (CAA). Balances on these accounts are settled at the end of the financial year with the Council, the Commission and other EU institutions.

Miscellaneous Staff Payables

Miscellaneous Staff Payables include € 203 k of 2006 expenses paid in early 2007, such as: School and child allowances, severance grants, December mission expenses, other.

⁽²⁵⁾ Pension rights of EDA Staff members (Temporary, SCO and Contract) are capitalised on the balance sheet account "Staff Pension Accruals".

⁽²⁶⁾ Pension rights of EDA Staff members (Temporary, SCO and Contract) are capitalised on the balance sheet account "Staff Pension Accruals". Maintenance of Staff pension rights in accordance with Article 90 of the EDA Staff Regulations.

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APPENDIX

SELECTED EDA ACRONYMS

AA	Administrative Arrangement
AFV	Armoured Fighting Vehicle
AMB	Agency Management Board
C3	Command, Control & Communication
CapTechs	Capability Technology Areas
CDP	Capability Development Plan
CoC	Code of Conduct
COTS	Commercial Off-the-Shelf products
DTEB	Defence Test and Evaluation Base
DTIB	Defence Technological and Industrial Base
EBB	Electronic Bulletin Board
EDEM	European Defence Equipment Market
EMP	Electronic Market Place
ESDP	European Security and Defence Policy
EUMC	European Union Military Committee
FM	EDA Finance Manual
FR	EDA Financial Rules
GSC	General Secretariat of the Council
IDT	Integrated Development Teams
IPR	Intellectual Property Rights
JIP	Joint Investment Programme
LoI	Letter of Intent
LTV	Long Term Vision
MOTS	Military Off-the-Shelf products
NAD	National Armaments Directors
NAP	Salary payment system used by PMO - <i>“Nouvelle Application de Paie”</i>
OCCAR	Organisme Conjoint de Coopération en matière d’Armement
pMS	Participating Member States
PMO	Paymasters Office of the European Institutions
PoC	pMS Central Point of Contact
PrepCom	Preparatory Committee
PSC	Political and Security Committee
R&T	Research and Technology
SB	Steering Board
SDR	Software Defined Radio
SNE	Seconded National Experts
SoI / SoS	Security of Information / Security of Supply
UAV	Unmanned Aerial Vehicle
WEAO	Western European Armaments Organisation