

Finance and Corporate Controlling

Income and Expenditure

The Agency's overall budget for 2005 (including appropriations carried forward from 2004) for the financing of its programmes and other activities was:

- 3805.2 MEuro in Contract Authority (CA), and
- 2951.8 MEuro in Payment Appropriations (PA).

The Agency's Mandatory Activities represented approximately 23% of the total expenditure (667.3 MEuro), whereas 72% was allocated to the Optional Programmes (2137.9 MEuro) and 5% to Programmes for, and financed by, Third Parties (152.7 MEuro). The minor decrease in participation in Mandatory Activities in favour of Optional Programmes – almost 3 percentage points – was reversed compared with the trend in recent years. This was basically due to a substantial budgetary increase of more than 200 MEuro for the Optional Programmes. The Ministerial Council meeting in Berlin in December proved extremely positive, demonstrating a renewal of Member States' confidence in ESA's performance, which was reflected in their subscriptions to the financial envelopes of both the new and the ongoing programmes. In 2005, the Agency also continued its active role in the management of programmes financed by Third Parties, consolidating this steady trend as an additional source of income.

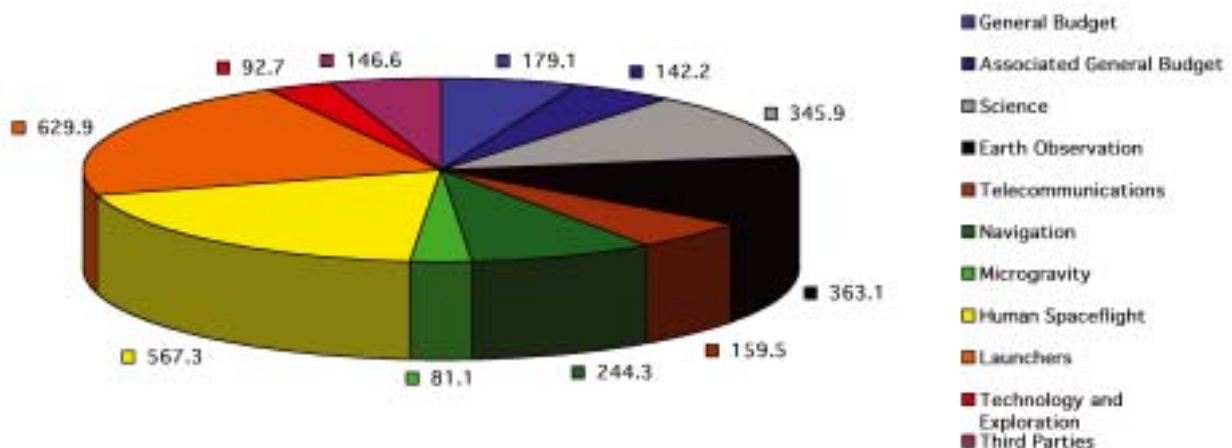
The core of the Agency's Mandatory Activities consists of the Science Programme, a Technological Research Programme, and the technical and managing infrastructure, which together enable ESA to fulfil its role as a scientific and technical organisation.

During 2005, the Science Programme's budget decreased by 4% (14 MEuro), to 345 MEuro. Taken together with the previous years' budgets, this means that the Science Programme has stabilised within the overall Level of Resources at approximately 370 MEuro per annum, and is entering a budget consolidation phase that will pick up in following years, with all projects progressing as planned. In line with the 2003 Council decision, a first 30 MEuro installment on the loan from the General Treasury was reimbursed.

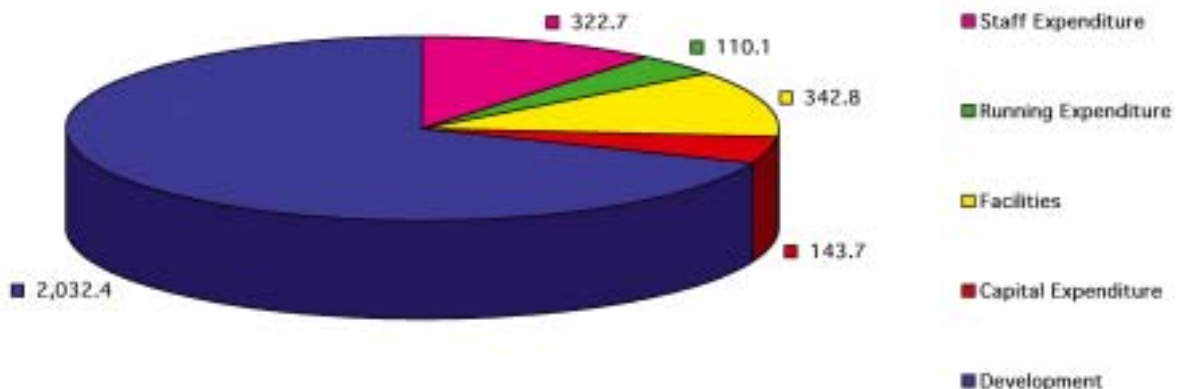
The funds for the development of applications are largely provided through the Agency's Optional Programmes, to which Participating States sign up through voluntary subscriptions.

In 2005, about 21% of the total ESA budget (629.9 MEuro) was allocated to the Launchers Programme. Events that had a significant impact on launcher-related budgets, and help to explain the 13% increase compared with 2004, included the heavy investment needed for the construction of the Soyuz launch facilities (ELS) at CSG in Kourou, and the increased funding involvement in Ariane-5 Slice 10 for the completion of Ariane-5 Recovery Plan endorsed by the Ministers at the May 2003 Council.

19% of ESA's 2005 budget (567.3 MEuro) was devoted to the Human Spaceflight, Microgravity and Exploration Programme. This amount remained constant in real terms compared to 2004, with the 2.4% nominal increase merely preserving the Programme's purchasing power.



Budgetary expenditure by programme (MEuro)



Budgetary expenditure by function (MEuro)

Nevertheless, a large number of significant milestones could be achieved thanks to the stable budgetary situation.

The Earth and Environment Monitoring from Space Programme represented 12% of the 2005 budget (363.1 MEuro). The strong increase of 42% compared with 2004 was due mainly to the positive evolution of the EOEP Period-1 and 2 development contracts.

The Telecommunications Programme accounted for 5% of the Agency's expenditure in 2005 (159.5 MEuro). The 21% increase compared to 2004 brought the ARTES family of programmes, i.e. extensions 3, 4 and 5, but especially 8, back up to their foreseen levels, reflecting the confidence and interest that the Participating States have in the ARTES concept.

The Navigation Programme represented 8% of ESA's total expenditure (244.3 MEuro), a 28% increase compared with 2004. The main cost drivers were the GalileoSat programmes co-funded with the European Union: the development contracts for the GIOVE satellite series, and the launch of GIOVE-A. The GNSS programmes also continued on their positive development path.

The Budgetary Management System, a financial tool that optimises the allocation of budgetary credits and Member States' funding for the Optional Programmes, was used to centrally manage budgetary risks in 2005. The main beneficiaries of this mechanism were the ISS, EGAS and EOEP-1 programmes. A more stable contribution profile for Participating States and more efficient allocation of budgetary resources to the relevant Optional Programmes were positive outcomes

of this mechanism for greater flexibility, as well as the improved control over budgetary risks.

Value-for-Money Actions: An On-going Reform Effort

As in 2004, around 85% of the Agency's 2005 budget was spent on contracts with Industry in the Member States for research or project-related activities, the running of technical or operational facilities, and the financing of capital expenditure and industrial development. The Member States also benefited at a national level from the investment multipliers and the job creation resulting from their industrial and scientific relationship with ESA.

The Agency is investing both time and resources to gradually align its procedures with European best-practices, in particular by introducing International Public Sector Accounting Standards, and to assess the possibility of making further progress in the area of analytical cost accounting and full-accrual compliance. The outcome of the latter analysis will be evaluated in 2006.

Some far-reaching reforms have already been carried out. One year after Council's request, the Resolution on the introduction of in-year flexibility and a new budgetary planning process into the Agency's financial system was adopted in June. This Resolution will lead to a new set of Financial Regulations coming into force on 1 January 2006, and to transitional measures for the 2006 budgets. The implementing principles of this reform are reinforcing sound decision-making for the Agency's finances based on improved corporate control, and the most efficient management of its financial resources. A new budgetary planning process with more transparent and more regular reporting to Member States will be also introduced.

Contributions to Mandatory Activities (%)		Contributions to Optional Programmes* (%)	
AUSTRIA	2.26	AUSTRIA	0.87
BELGIUM	2.83	BELGIUM	7.37
DENMARK	1.82	DENMARK	0.78
FINLAND	1.37	FINLAND	0.54
FRANCE	15.63	FRANCE	31.55
GERMANY	23.41	GERMANY	21.45
GREECE	1.50	GREECE	0.12
IRELAND	0.95	IRELAND	0.30
ITALY	12.88	ITALY	14.59
LUXEMBOURG	0.21	LUXEMBOURG	0.13
NETHERLANDS	4.43	NETHERLANDS	2.87
NORWAY	1.70	NORWAY	1.02
PORTUGAL	1.20	PORTUGAL	0.19
SPAIN	6.87	SPAIN	5.76
SWEDEN	2.61	SWEDEN	2.11
SWITZERLAND	3.40	SWITZERLAND	3.49
UNITED KINGDOM	16.93	UNITED KINGDOM	5.91
TOTAL MEMBER STATES	100.00	TOTAL MEMBER STATES	99.06
CANADA	3.43	CANADA	0.83
CZECH REPUBLIC	-	CZECH REPUBLIC	0.06
HUNGARY	-	HUNGARY	0.06
TOTAL Cooperating States **	3.43	TOTAL Cooperating States **	0.94
TOTAL ESA	-	TOTAL ESA	100.0

* Including contributions of national aviation agencies to ARTES-9 GNSS IP (ATMSP).

** Participating non-Member States linked to ESA by a Co-operation Agreement.

Calculation of the Contribution Scale for Mandatory Activities

The ESA Convention dictates that the Mandatory Programme be financed using a contribution scale for the period 2003-2005 based on the national incomes of the Member States over the last three years for which statistics are available. The calculations are based on national-income statistics expressed in national currency and converted into Euros at average annual conversion rates.

The entry of two new Member States, Greece and Luxembourg, into the Agency in 2005 required an adjustment to the said scale of contributions taking into account their relative national incomes.

The resulting total contributions from Member and Cooperating States to the Agency's Mandatory Activities and Optional Programmes in 2005 are shown in the above table.

Annual Accounts

In recent years, modernisation of the Agency's accounting methods has been initiated to better align them with International Public Sector Accounting Standards issued by the International Federation of Accountants (IPSAS), particularly through the introduction of full 'Accrual

Accounting' in a phased manner, as decided by Member States in order not to disrupt operations unduly.

The Agency's Financial Statements for 2005 are presented in the following pages.

Notes to the Financial Statements

The Agency's Annual Accounts are summarised in four financial statements presented herewith (in unaudited form at the time of this publication), including comparative information for the year 2004.

Among the assets, the 312 MEuro balance under Cash and Banks does not include the funds managed for the Pension Scheme. The latter represent the financed portion of the scheme, invested in the so-called 'Buffer Fund', and are presented as non-current assets. Since the total obligation of the Pension Scheme towards the active and retired staff of the Agency is valued at 761 MEuro, the not yet financed portion is shown as a receivable amount.

The main current asset represents 396 MEuro of advance payments to suppliers, made across the Agency's on-going programmes. Until the relevant services are tested and accepted, these payments are considered as a claim towards the contractor companies.

The 40 MEuro Investment in Associates represents the Agency's interest in the Galileo Joint Undertaking with the European Commission.

Among the liabilities, the Prepaid Contributions and the funds available in the Regulation Fund represent balances due to Member States, whereas Accrued Payables are obligations towards suppliers for invoices received but not yet paid, or costs incurred in 2005 but not yet invoiced.

The provision for Untaken Staff Leave represents the value of the number of days of leave accrued by staff members but not yet taken at year's end.

The net effect of provisions and accruals is reflected in the item 'Reserve for Accruals and Provisions'. The 111 MEuro debit balance in 2005 can be considered as the net accumulated excess of liabilities over assets recognised in the accounts.

Provisions and accruals are included in the Statement of Assets and Liabilities to provide a comprehensive picture of all claims, entitlements and obligations of the Agency, but at this stage of the transition to Accrual Accounting they are not financed. The net effect of reversed accruals of the previous year and new accruals is therefore identified in a separate line of the Statement of Income and Expenditure, which adjusts the year's expenditure to show the total cost incurred. In 2005, this balance amounted to a 263 MEuro net reversal in restated prior-year accruals.

The Statement of Changes in Net Assets/Equity illustrates the allocation of the Surplus in the following year, part of which is represented by the net effect of accruals and provisions. This part is consolidated in the Reserve for Accruals and Provisions.

The 2005 Surplus amounts to 606 MEuro, including 303 MEuro of underspending of the budget allocations, 40 MEuro of excess actual income over the budget, with other minor balances, and a 263 MEuro net reversal of restated prior-year accruals.

FINANCIAL STATEMENTS 2005

1. Income and Expenditure for the year ended 31 December (in Euro)

	2005		2004		Increase/ Decrease
OPERATING INCOME					
Contributions	2,854,432		2,636,209		218,223
Other Income	264,878		189,267		75,611
		3,119,310		2,825,476	293,834
Third Party Programmes Income	169,580		210,646		-41,066
Plan for European Cooperating States	3,845		2,181		1,664
Management Outputs/Estrange Income	486		16,975		-16,489
Suspense Output	2,794		0		2,794
Internal Tax Income	103,332		102,950		382
		280,037		332,752	-52,715
Total operating income		3,399,347		3,158,228	241,119
OPERATING EXPENDITURE					
General Budget	187,573		188,010		-437
Scientific Programme	345,723		360,038		-14,315
Earth Observation	362,810		320,963		41,847
Telecom	159,312		131,393		27,919
Navigation	244,051		216,197		27,854
Manned Spaceflight	574,396		553,940		20,456
Microgravity	81,036		69,118		11,918
Launchers	648,666		557,596		91,070
Technology	85,025		83,499		1,526
CSG Kourou and other activities	82,711		86,933		-4,222
Pensions	59,496		54,900		4,596
Total financed by contributions		2,830,799		2,622,587	208,212
Third Party Programmes	145,796		151,954		-6,158
Plan for European Cooperating States	1,196		533		663
Management Outputs Expenditure	-24,880		16,494		-41,374
Estrange/Andøya special project	193		189		4
Internal Tax	103,332		102,950		382
Variation of accruals/provisions	-242,582		220,012		-462,594
Restatement of expenditure to assets	-20,000		-10,000		-10,000
		-36,945		482,132	-519,077
Total operating expenditure		2,793,854		3,104,719	-310,865
NON-OPERATING CHARGES	0		0		0
Net Surplus for the Period		605,493		53,509	551,984

REPRESENTED BY			
Bank and Cash	311,779	345,591	
Other Assets	1,637,461	1,518,919	
Prepaid Contributions, Other Liabilities	-1,420,137	-1,673,681	
Loans on Outstanding contributions	0	-4,000	
Reserves	76,390	-133,320	
Net Surplus for the Period	605,493	53,509	

2. Assets and Liabilities on 31 December (in kEuro)

	2005		2004		Increase/ Decrease
ASSETS					
<i>Current assets :</i>					
BANKS AND CASH	311,779		345,591		-33,812
AMOUNTS RECEIVABLE :					
Outstanding contributions	353,270		251,557		101,713
Other customers (net)	20,615		54,230		-33,615
Other amounts receivable	66,280		68,767		-2,487
PREPAYMENTS	396,296		379,365		16,931
		1,148,240		1,099,510	48,730
<i>Non-current assets :</i>					
Investments in associates	40,000		20,000		20,000
PENSION SCHEME to be financed	569,152		557,161		11,991
PENSION SCHEME Buffer Fund	191,848		187,839		4,009
		801,000		765,000	36,000
Total assets		1,949,240		1,864,510	84,730
LIABILITIES					
<i>Current liabilities:</i>					
Prepaid Contributions and other payables to Member States	194,466		228,997		-34,531
Regulation Fund	72,574		81,214		-8,640
LOANS IN LIEU OF CONTRIBUTIONS	0		4,000		-4,000
ACCRUED PAYABLES	339,803		571,782		-231,979
OTHER AMOUNTS PAYABLE	9,279		7,061		2,218
UNTAKEN STAFF LEAVE	43,015		39,627		3,388
		659,137		932,681	-273,544
<i>Non-current liabilities:</i>					
PENSION SCHEME (*)	761,000		745,000		16,000
		761,000		745,000	16,000
Total liabilities		1,420,137		1,677,681	-257,544
NET ASSETS		529,103		186,829	342,274
NET ASSETS/ RESERVES					
RESERVES Telecom 3 bis, GNSS2, ARTES, PPF Envisat, Marecs, Exchange gains	34,635		34,333		302
Reserve for Accruals and Provisions	-111,025		98,987		-210,012
SURPLUS	605,493		53,509		551,984
		529,103		186,829	342,274
MEMORANDUM ACCOUNTS					
Property, plant and equipment	2,739,381		2,597,453		141,928
Fixed Assets in progress	217,945		513,373		-295,428
INVENTORY OF FIXED ASSETS		2,957,326		3,110,826	-153,500

3. Consolidated Cash Flow for year ended 31 December (in MEuro)

CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
2005 Contributions received (net of loans)	2,094.4		
Contributions received for Regulation Fund	216.0		
Previous years contributions cashed in 2005	142.8		
Prepaid contributions cashed	48.5		
			2,501.7
Proceeds of Third Party Programmes	110.2		
Proceeds of Plan for European Cooperating States	2.0		
Other proceeds of ESA Programmes	262.8		
Net movements of other receivables	2.5		
Net movements of other reserves	5.0		
			382.5
			2,884.2
Payments			
Payments for ESA Programmes	-2,759.4		
Payments for Third Party Programmes	-145.8		
Payments of Plan for European Cooperating States	-1.2		
Net movements of other amounts payable 2005/2004	2.2		
Reimbursement of contributions	-9.8		
			-2,914.0
Net cash flow from operating activities			-29.8
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of loans taken in lieu of contributions	0.0		
Reimbursement of bank loans in lieu of contributions	-4.0		
			-4.0
Net cash flow from financing activities			-4.0
Net increase (decrease) in cash			-33.8
CASH AND BANKS 31.12.2004			345.6
CASH AND BANKS 31.12.2005			311.8

4. Changes in Net Assets/Equity for years 2004-2005 (in MEuro)

	SURPLUS	RESERVES	RESERVE FOR ACCRUALS AND PROVISIONS	TOTAL NET ASSETS
	(A)	(B)	(C)	(A+B+C)
Balance at 31 December 2004 ESA/AF(2005)1	53.5	34.3	99.0	186.8
Allocation of Surplus 2004 to income 2005:				
- Programmes funded by contributions	-193.9			
- Plan for European Cooperating States	-1.6			
- Programmes funded by Third Parties	-57.0			
- Management and Suspense Outputs	-0.3			
Reimbursement to Participants	-7.5			
Allocation to exchange gains reserve	-1.7			
Allocation to Marecs reserve	-1.5			
Adjustments for accrued expenditure 2004	210.0		-210.0	-210.0
Sub-total Allocation of Surplus 2004	-53.5			-53.5
Surplus 2005	605.5			605.5
Net movements in reserves		0.3		0.3
Balance 31 December 2005	605.5	34.6	-111.0	529.1