



# EUROPEAN DEFENCE AGENCY 2007 FINANCIAL REPORT

June 2008

# EUROPEAN DEFENCE AGENCY 2007 FINANCIAL REPORT

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MANAGEMENT REPORT

## 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 each of the Agency's areas of responsibilities there was one major point of emphasis in 2007:
  - Establish an ESDP Capability Development Plan, involving more precise analysis of future capability needs as well as mutual disclosure of mid-to-long term planning;
  - Develop a European Defence Research & Technology Strategy;
  - Work towards a Strategy for European Defence and Technological Industrial Base;
  - Identify practical opportunities for collaboration by exploiting the "cooperative armaments process".
  - However, beyond these major focus points there is a broad agenda of work which is - for most of it - a continuation of Agency's activities already under way.
- 2007 financial achievements include:
  - the launch of 34 operational projects for a combined value of € 4.5 million;
  - the launch of the JIP Force Protection in May 2007<sup>(1)</sup>, including the commitment for the first 4 contracts for a combined value of € 10.3 million out of the € 54.9 million 3-year budget;
  - the launch of 9 Ad hoc Category B projects signed in 2007 for a total value of € 50.8 million.

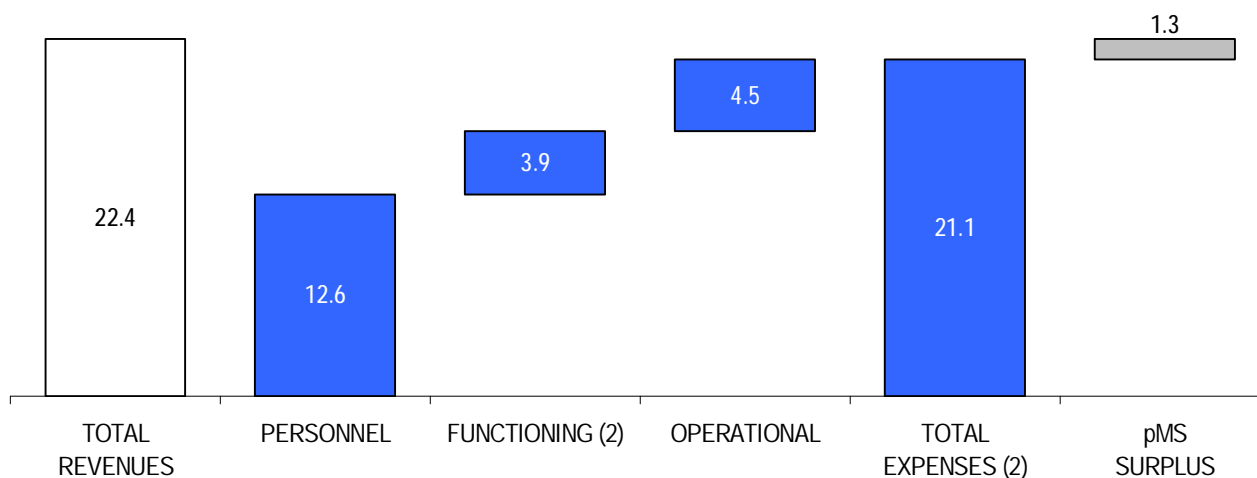
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<sup>(1)</sup> For all JIP-FP related information please refer to the separate '2007 JIP-FP Financial Report'.

# EUROPEAN DEFENCE AGENCY 2007 FINANCIAL REPORT

## 2007 Financial Highlights

Figures in € million



- 2007 revenues amount to € 22.4 million and comprise pMS contributions (93%), deductions from Staff remuneration (5%) and financial income (2%).
- 2007 expenses <sup>(2)</sup> amount to € 21.1 million and consist of personnel (59%), functioning <sup>(2)</sup> (20%) and operational expenses (21%).
- At year-end, a budgetary surplus of € 1.3 million remained and will be returned to pMS.

## EDA Historical Financials

Figures in € k	2007	2006	2005	2004
<b>REVENUES</b>				
MEMBER STATE CONTRIBUTIONS	20,818	21,500	19,910	1,786
DEDUCTIONS FROM STAFF REMUNERATION	1,037	837	612	39
INCOME FROM OPERATING ACTIVITIES	520	390	148	11
<b>TOTAL REVENUES</b>	<b>22,374</b>	<b>22,727</b>	<b>20,670</b>	<b>1,836</b>
<b>EXPENSES</b>				
PERSONNEL EXPENSES	12,626	10,847	7,453	299
FUNCTIONING EXPENSES	4,387	4,076	2,829	114
OPERATIONAL PROJECTS & STUDIES	4,485	3,887	2,495	0
<b>TOTAL EXPENSES</b>	<b>21,498</b>	<b>18,810</b>	<b>12,777</b>	<b>413</b>
ACCOUNTING SURPLUS	876	3,917	7,893	1,422
CAPITAL EXPENDITURE & DEPRECIATION ADJUSTMENTS	440	328	(3,462)	0
<b>BUDGETARY SURPLUS REPAYABLE TO pMS</b>	<b>1,317</b>	<b>4,245</b>	<b>4,431</b>	<b>1,422</b>

<sup>(2)</sup> Including capital expenditure and depreciation adjustments.

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### EDA STRUCTURE AND FUNCTIONS

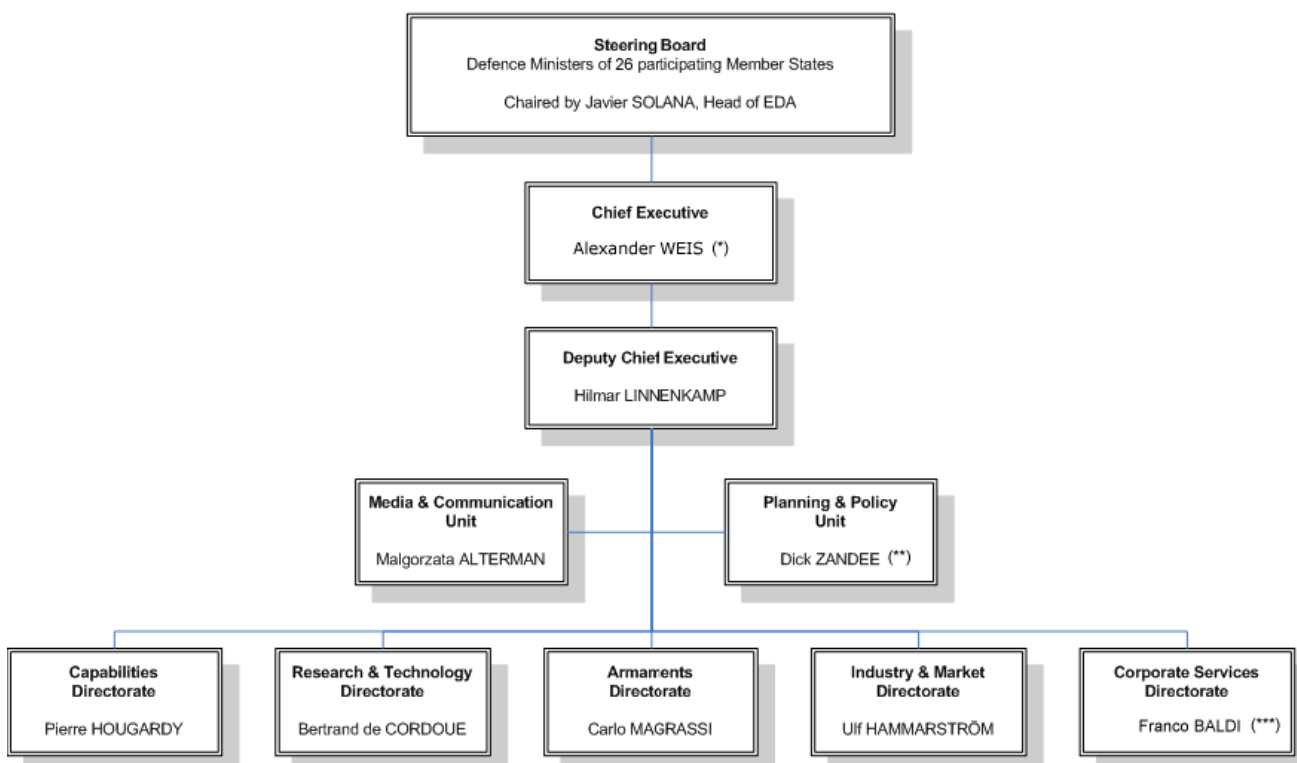
#### EDA'S STRUCTURE

The European Defence Agency is an agency of the European Union <sup>(3)</sup>, 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 26 participating Member States (all EU members except Denmark) 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



\*: Until 30/09/2007 Nick WITNEY.

\*\* : From 13/03/2007 also EDA's Internal Auditor.

\*\*\* : Post vacant until 31/03/2007.

<sup>(3)</sup> EDA was established under the Council Joint Action 2004/551/CFSP on 12 July 2004.

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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 (JIP-Force Protection)

#### **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
- Through its Finance Unit, manages the Agency's accounting, budgets and reporting
- 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**

- Following the Auditor's recommendations, the Chief Executive established an Internal Audit Function: Mr. Dick ZANDEE was appointed Internal Auditor of the EDA on 13 March 2007.

REPORT TO THE COUNCIL BY JAVIER SOLANA, HEAD OF THE AGENCY<sup>(4)</sup>

**Towards the end of its third year of operation, the Agency continues to deliver substantial results from an agenda addressing the immediate and the long-term. Notably, the progress achieved in the Joint Investment Programme on Force Protection, but also the clear road maps for the Capability Development Plan (CDP) and for the implementation of the European Defence Technological and Industrial Base (EDTIB) Strategy provide examples of the continued delivery of results.**

The Agency's work in the second semester of 2007 has been framed by the guidelines adopted by the Council on 13 November 2006 and the Agency's Work Programme for 2007 agreed by the Agency's Steering Board on the same date.

### Capability Development Plan

The Agency has continued to make substantial progress, together with participating Member States (pMS) and in cooperation with the European Union Military Committee (EUMC). Two important milestone documents have been agreed, the Methodology for the development of the CDP and the Road Map.

- In Strand A the Headline Goal Progress Catalogue will be submitted to the GAERC for endorsement by Defence Ministers. This document provides the basis for the implications and risks associated with the shortfalls in the short-to-medium term.
- Work in Strand B to identify longer-term trends in capability characteristics – beyond the Headline Goal 2010 - has made decisive progress, with the active participation of EUMS, EUMC and pMS.
- In Strand C, the trial phase to collect pMS national plans and programmes in one common database has been successfully completed. 18 pMS have already provided information for 74 programmes. On 1 November the database has gone "active" and pMS are requested to put relevant information directly into it. This work will allow us to identify opportunities for future co-operation.
- The Military Committee's work in Strand D is progressing.

### Capabilities

In parallel to the on-going CDP activities, the Agency has continued to identify together with pMS in the Integrated Development Teams not only capability gaps but also common military staff targets and requirements, the source base for R&T and development activities aiming to close these gaps.

- In the "Command" area, a Wise Pen has been selected to deliver a draft of a European Network Enabled Capabilities (NEC) Concept.
- In the field of Software Defined Radio (SDR) work is progressing positively towards a collective European approach for developing a next-generation SDR system – including through ensuring coordination with the ESSOR Category B (opt-in) project (with six pMS and a value of € 125 million) and complementarity with the WINTSEC Programme of the European Commission.

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<sup>(4)</sup> 'Report to the Council' by Javier Solana, Head of the Agency.

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- In the “Inform” area, a Tactical Imagery Exploitation Station (TIES) demonstrator has been delivered and installed at the EU Satellite Centre in Torrejon on 20 September 2007.
- With regard to the “Engagement” area, the Steering Board in Capability Directors’ formation has agreed on 28 June on a new Category B programme for Combat Equipment for Dismounted Soldier.
- The shortage of European strategic airlift capabilities continues to be painfully visible, both in crisis management operations as well as for disaster relief. The Agency has initiated a comprehensive study to identify innovative solutions to improve the future strategic transportation capability of the EU, in support of the full spectrum of EU civil and military operations, including disaster relief and humanitarian operations.

#### Research & Technology

- The Joint Investment Programme on Force Protection, whose Programme Arrangement was signed in May 2007 by the Defence Ministers of 20 contributing Members, has made further progress. After a first call for proposals directed to a list of about 270 entities, the Agency received bids from consortia with all in all 150 members. Small and medium enterprises, academic institutions and independent laboratories represent approximately 50% of all bidders. After evaluation, five proposals were selected by contributing Members for contracting. Contract negotiations have already started in October 2007 and we expect the first contract to be signed in December 2007. Furthermore, the Agency initiated work on future possible new JIPs.
- Progress has been made towards the development of a European Defence Research & Technology (EDRT) Strategy covering both ends. As a result of active exchanges and collective exercises with pMS, the Agency is now able to propose a Framework for such Strategy for Steering Board approval on 19 November. This will be complemented in 2008 by the establishment of a list of key technologies, in view of developing a full EDRT strategy.
- The generation of category B R&T projects has not been fully satisfactory, and efforts are being made with pMS to improve this generation process (more projects faster).

#### Armaments

- The EDA initiative on Inserting UAV in General Air Traffic gained speed and support from pMS. First results of the Roadmap Study to be contracted soon are expected by spring 2008. On 25 September, the Steering Board in NADs formation noted that Agency may need additional funds through the use of “Earmarked Revenue” as foreseen in Article 15 of the Joint Action to be able to invest in this crucial area in the course of next year. EDA will pursue financial and technical discussions with pMS in view of presenting a clear business case in the first semester of 2008.
- To improve cooperation among pMS’ test facilities and reduce over-capacities in Europe, a Code of Conduct for coordinating future investments in the area of Test and Evaluation has been adopted on 25 September 2007 by the Steering Board at NADs’ formation. This Code will be operational from 1 January 2008.
- Best use will be made of the study on Cooperative Lessons Learned. In particular, the Agency is working on the definition of a model for converting an agreed Capability need into a cooperative programme.



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### Industry & Market

- In view of developing a truly European Defence Technological and Industrial Base, the Steering Board at Defence Ministers' level approved in May a European DTIB Strategy, which is about key policy implications and key enablers to achieve it (including clarifying priorities - military capabilities, key technologies and key industrial capabilities, consolidating demand, increasing cooperative investment and competition, and ensuring Security of Supply). Its implementation is underway, with the recent agreement, by the NADs Steering Board, of a number of road maps setting clear milestones and a first review of progress on the EDTIB strategy by the Steering Board in Defence Ministers' formation in May 2008.
- The Agency's tools for creating a European Defence Equipment Market are functioning well – in particular, the implementation of the Code of Conduct on defence procurement, operationalised by the Electronic Bulletin Board, is generally successful. However there are still too few cross border awards, and we will need to encourage a common endeavour by pMS and Industry to ensure that the situation improves as it is a fundamental aspect of the Code's success. Work also started to establish a level playing field and to mitigate the adverse impact of offsets. With constant monitoring by EDA and improvement of its tools, the objective of a more transparent and competitive market can be reached.

Overall, I believe that the Agency has already demonstrated and continues to demonstrate that it is a highly effective instrument, which will be as productive as it is ambitious to serve its shareholders' collective interest.

Javier Solana  
*High Representative and Head of European Defence Agency*

*As per end-2007*

# EUROPEAN DEFENCE AGENCY

## 2007 FINANCIAL REPORT

### FINANCIAL STATEMENTS

#### AUDIT OPINION

#### AUDIT OPINION OF THE EDA COLLEGE OF AUDITORS TO THE STEERING BOARD OF THE EUROPEAN DEFENCE AGENCY

In accordance with 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 2007. These comprise the 2007 Management Accounts, the 2007 Balance Sheet, and the 2007 Cash Flow Statement, and notes to the 2007 Financial Statements. The financial statements have been prepared in accordance with the provisions and regulations set out in the financial rules. The 2007 fiscal year surplus repayable to the pMS totalled € 1,316,640, whereas the assets amounted € 18,696,494.

#### 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 examined 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 notes to the financial statements, and in all material aspects, the financial position of the European Defence Agency as at 31 December 2007 and the financial results of operations for the year then ended.*

Audit findings and comments of the Audit Board without impact on the audit opinion will be included in a separate audit report.

Signed on behalf of the College of Auditors by the Chairman,



F. WASCOTTE

Chairman of the EDA College of Auditors

The 16<sup>th</sup> June 2008.

# EUROPEAN DEFENCE AGENCY

## 2007 FINANCIAL REPORT

### 2007 MANAGEMENT ACCOUNTS (1/3)

#### MANAGEMENT ACCOUNTS

	Notes	2007	2007	2006	2005
<i>Figures in €</i>	1	Budget <sup>(5)</sup>	Actual	Actual	Actual
<b>EXPENSES</b>					
Title I : PERSONNEL EXPENSES	2				
<b>Chapter 11: OFFICIALS &amp; TEMPORARY STAFF</b>					
BASIC SALARIES		7,014,389	6,991,619	5,847,884	3,947,043
STAFF STATUTORY ALLOWANCES		1,746,726	1,698,380	1,452,065	875,975
STAFF SOCIAL PROTECTION		1,838,337	1,806,168	1,511,150	1,029,039
NAP BANK TRANSFERS (7SI)		0	0	309	308
OVERTIME		10,000	0	2,693	7,424
STAFF ALLOWANCES ON ENTERING & LEAVING SERVICE		283,548	240,103	121,438	571,296
<b>Subtotal</b>		<b>10,893,000</b>	<b>10,736,270</b>	<b>8,935,539</b>	<b>6,431,085</b>
<b>Chapter 12: SNE, CONTRACT STAFF &amp; TRAINEES</b>					
CONTRACT STAFF		269,000	256,069	231,331	62,621
SECONDED NATIONAL EXPERTS		1,094,000	1,065,324	1,106,517	650,328
TRAINEES		65,000	50,965	63,227	11,486
<b>Subtotal</b>		<b>1,428,000</b>	<b>1,372,358</b>	<b>1,401,075</b>	<b>724,435</b>
<b>Chapter 13: STAFF RELATED</b>					
RECRUITING EXPENSES		35,000	33,061	17,959	38,113
STAFF TRAINING		35,000	34,999	37,030	16,708
MEDICAL EXPENSES		10,000	2,782	4,608	5,599
MISSION EXPENSES		450,000	446,430	450,411	237,536
<b>Subtotal</b>		<b>530,000</b>	<b>517,272</b>	<b>510,008</b>	<b>297,956</b>
<b>TOTAL PERSONNEL EXPENSES</b>		<b>12,851,000</b>	<b>12,625,900</b>	<b>10,846,622</b>	<b>7,453,476</b>
Title II : FUNCTIONING EXPENSES	3				
<b>Chapter 20: BUILDING &amp; BUILDING RELATED</b>					
FITTING-OUT OF PREMISES			364,606	312,489	113,319
<i>EXP. FITTING-OUT OF PREMISES</i>		60,000	43,412	41,077	1,544
<i>DPR. FITTING-OUT OF PREMISES</i>			321,195	271,412	111,775
SECURITY EQUIPMENT			74,263	50,701	9,784
<i>EXP. SECURITY EQUIPMENT</i>		50,000	32,740	17,835	3,979
<i>DPR. SECURITY EQUIPMENT</i>			41,523	32,866	5,805
OFFICE RENT		1,343,000	1,342,755	1,323,279	911,459
CLEANING & MAINTENANCE		157,000	142,809	226,646	119,760
UTILITY SERVICES		108,000	97,430	126,196	30,118
BUILDING SURVEILLANCE SERVICES		1,043,000	1,042,622	991,274	404,488
INSURANCES		6,000	4,398	15,389	7,507
OTHER BUILDING RELATED EXPENSES		30,000	26,488	20,477	20,377
<b>Subtotal</b>		<b>2,797,000</b>	<b>3,095,371</b>	<b>3,066,451</b>	<b>1,616,812</b>

<sup>(5)</sup> Revised Budget as per EDA COM 07110.

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## 2007 FINANCIAL REPORT

### 2007 MANAGEMENT ACCOUNTS (2/3)

#### MANAGEMENT ACCOUNTS (CONT'D)

	Notes	2007	2007	2006	2005
<i>Figures in €</i>	1	Budget <sup>(6)</sup>	Actual	Actual	Actual
<b>Chapter 21: IT EQUIPMENT, FURNITURE &amp; OTHER</b>					
IT EQUIPMENT & SOFTWARE			171,630	172,698	237,588
<i>EXP. IT EQUIPMENT &amp; SOFTWARE</i>		117,000	43,344	69,976	214,898
<i>DPR. IT EQUIPMENT &amp; SOFTWARE</i>			128,286	102,722	22,690
OFFICE FURNITURE			42,632	72,202	357,247
<i>EXP. OFFICE FURNITURE</i>		45,000	23,841	56,642	351,706
<i>DPR. OFFICE FURNITURE</i>			18,791	15,560	5,541
OFFICE TECHNICAL EQUIPM. & SUPPLIES			260,575	28,213	357,247
<i>EXP. OFFICE TECHNICAL EQUIPM. &amp; SUPPLIES</i>		260,000	255,179	27,520	10,389
<i>DPR. OFFICE TECHN. EQUIPMENT</i>			5,396	692	0
IT PROJECTS & DEVELOPMENT OF SYSTEMS		52,000	25,599	75,767	46,148
IT SUPPORT & MAINTENANCE OF COPIERS		30,000	25,386	20,337	72,762
TELECOM EXPENSES		160,000	150,339	176,383	126,991
OUTSIDE ASSIST. FOR OPERATION OF TECHN. INSTALLATIONS		30,000	25,930	19,208	3,361
MAINTENANCE & REPAIR OF TECHNICAL INSTALLATIONS		207,000	142,062	97,193	69,598
OFFICE VEHICLES		20,000	14,024	8,822	5,421
<b>Subtotal</b>		<b>921,000</b>	<b>858,177</b>	<b>670,823</b>	<b>929,505</b>
<b>Chapter 22: OTHER FUNCTIONING</b>					
TRANSLATION SERVICES		5,000	2,881	0	0
RECEPTION & REPRESENTATION EXPENSES		53,000	23,436	30,715	26,132
INTERNAL MEETINGS		75,000	70,518	50,375	16,834
CONFERENCES & SEMINARS		40,000	39,553	71,606	10,387
INFORMATION, SUBSCRIPTIONS & DOCUMENTATION EXPENSES		180,000	170,374	56,267	120,483
OFFICIAL JOURNAL		5,000	783	484	1,605
PUBLIC RELATIONS		38,000	15,768	38,364	8,760
OFFICE SUPPLIES		100,000	90,204	75,044	82,639
POSTAL & DELIVERY EXPENSES		20,000	19,524	13,826	3,127
AUDIT EXPENSES		10,000	0	0	10,000
FINANCIAL CHARGES, INCL. FOREIGN EXCHANGE DIFF.		5,000	368	2,001	2,278
<b>Subtotal</b>		<b>531,000</b>	<b>433,409</b>	<b>338,682</b>	<b>282,245</b>
<b>TOTAL FUNCTIONING EXPENSES</b>		<b>4,249,000</b>	<b>4,386,957</b>	<b>4,075,956</b>	<b>2,828,562</b>
<b>Title III : OPERATIONAL BUDGET</b>	<b>4</b>				
OPERATIONAL PROJECTS & STUDIES		5,000,000	4,484,830	3,886,956	2,494,941
<b>TOTAL OPERATIONAL BUDGET</b>		<b>5,000,000</b>	<b>4,484,830</b>	<b>3,886,956</b>	<b>2,494,941</b>
<b>TOTAL EXPENSES</b>		<b>22,100,000</b>	<b>21,497,687</b>	<b>18,809,534</b>	<b>12,776,979</b>

<sup>(6)</sup> Revised Budget as per EDA COM 07110.

# EUROPEAN DEFENCE AGENCY

## 2007 FINANCIAL REPORT

### 2007 MANAGEMENT ACCOUNTS (3/3)

#### MANAGEMENT ACCOUNTS (CONT'D)

	Notes	2007	2007	2006	2005
<i>Figures in €</i>	1	Budget <sup>(7)</sup>	Actual	Actual	Actual
<b>REVENUES <sup>(8)</sup></b>	5				
Title IV: MISC. COMMUNITY TAXES, LEVIES & DUES					
Chapter 40: DEDUCTIONS FROM STAFF REMUNERATION					
TAXATION ON STAFF SALARIES & ALLOWANCES (8IM)		930,070	925,507	756,752	563,812
EU SPECIAL LEVY (PSP)		111,360	111,066	79,985	49,022
NAP CLOSING ADJUSTMENTS		0	0	0	(390)
Subtotal		1,041,430	1,036,573	836,737	612,444
Title V: INCOME FROM OPERATING ACTIVITIES					
Chapter 52: FINANCIAL INCOME					
INTERESTS - BANK		595,000	475,581	375,465	148,216
INTERESTS - PMS		44,029	44,029	14,512	0
Subtotal		639,029	519,610	389,977	148,216
Title VI: pMS CONTRIBUTIONS					
Chapitre 61 : MEMBER STATE CONTRIBUTIONS					
PMS CONTRIBUTIONS		20,419,541	20,818,000	21,500,000	19,909,793
<b>TOTAL REVENUES</b>		<b>22,100,000</b>	<b>22,374,183</b>	<b>22,726,714</b>	<b>20,670,453</b>
ACCOUNTING SURPLUS			876,496	3,917,180	7,893,474
CAPITAL EXPENDITURE			(75,047)	(95,422)	(3,608,240)
DEPRECIATION ADJUSTMENT			515,191	423,252	145,811
CAPITAL EXPENDITURE & DEPRECIATION ADJUSTMENTS			440,144	327,830	(3,462,429)
<b>BUDGETARY SURPLUS REPAYABLE TO pMS</b>	6		<b>1,316,640</b>	<b>4,245,010</b>	<b>4,431,045</b>

<sup>(7)</sup> Revised Budget as per EDA COM 07110.

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

EUROPEAN DEFENCE AGENCY  
2007 FINANCIAL REPORT

2007 BALANCE SHEET (1/2)

BALANCE SHEET

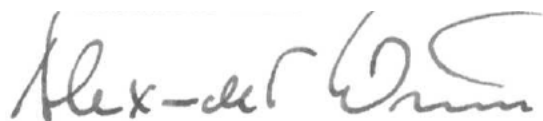
Figures in €	Notes	For the year ending		
		31.12.2007	31.12.2006	31.12.2005
<b>ASSETS</b>				
<b>FIXED ASSETS</b>				
ACQ. FITTING-OUT OF PREMISES		3,030,953	3,017,659	3,024,631
ACCUML. DPR. FITTING-OUT OF PREMISES		(704,382)	(383,187)	(111,775)
FITTING-OUT OF PREMISES		2,326,571	2,634,472	2,912,856
ACQ. SECURITY EQUIPMENT		136,145	134,978	122,623
ACCUML. DPR. SECURITY EQUIPMENT		(80,194)	(38,671)	(5,805)
SECURITY EQUIPMENT		55,951	96,307	116,818
ACQ. IT EQUIPMENT & SOFTWARE		463,914	427,087	383,453
ACCUML. DPR. IT EQUIPMENT & SOFTWARE		(253,697)	(125,412)	(22,690)
IT EQUIPMENT		210,217	301,675	360,763
ACQ. OFFICE FURNITURE		117,583	97,649	77,533
ACCUML. DPR. OFFICE FURNITURE		(39,892)	(21,101)	(5,541)
OFFICE FURNITURE		77,691	76,548	71,992
ACQ. OFFICE TECHN. EQUIPMENT		30,114	26,289	0
ACCUML. DPR. OFFICE TECHN. EQUIPM.		(6,088)	(692)	0
OFFICE TECHNICAL EQUIPMENT		24,026	25,597	0
NET FIXED ASSETS	7	2,694,456	3,134,599	3,462,429
<b>SUPPLIER RECEIVABLES</b>				
INTERESTS RECEIVABLE		160,909	126,492	49,517
ADVANCE PAYMENTS ON SUPPLIERS		320,668	316,414	203,790
SUPPLIER RECEIVABLES	8	481,577	442,906	253,307
<b>STAFF RECEIVABLES</b>				
STAFF RECEIVABLES		0	0	11,744
RECEIVABLES		0	0	11,744
<b>CASH</b>				
EDA BANK ACCOUNTS		15,519,461	14,277,564	10,389,816
PETTY CASH		1,000	500	0
CASH	9	15,520,461	14,278,064	10,389,816
<b>TOTAL ASSETS</b>		<b>18,696,494</b>	<b>17,855,569</b>	<b>14,117,296</b>

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2007 BALANCE SHEET (2/2)

BALANCE SHEET (CONT'D)

Figures in €	Notes	For the year ending		
		31.12.2007	31.12.2006	31.12.2005
<b>LIABILITIES</b>				
<b>STAKEHOLDERS</b>				
ADVANCES ON pMS CONTRIBUTIONS		2,181,181	2,132,594	1,677,000
OUTSTANDING pMS CONTRIBUTIONS		(329,254)	0	(241,501)
CAPEX & DEPRECIATION ADJ. (YEAR N-1)		3,134,599	3,462,429	0
ACCOUNTING SURPLUS		876,496	3,917,180	7,893,474
<b>STAKEHOLDERS</b>	<i>10</i>	<b>5,863,022</b>	<b>9,512,203</b>	<b>9,328,973</b>
<b>SUPPLIER PAYABLES</b>				
ACCRUED EXPENSES		6,778,335	4,701,578	2,699,841
- THEREOF FUNCTIONING		361,725	172,069	799,853
- THEREOF OPERATIONAL		6,416,610	4,529,509	1,899,988
PENDING INVOICES		807,124	517,286	799,134
<b>SUPPLIER PAYABLES</b>	<i>11</i>	<b>7,585,459</b>	<b>5,218,864</b>	<b>3,498,975</b>
<b>STAFF PAYABLES</b>				
STAFF PENSION ACCRUALS (RCN)		5,198,562	2,921,421	1,199,964
STAFF STATUTORY INSURANCE CONTRIBUTIONS		0	0	(1,117)
MISC. STAFF PAYABLES		49,451	203,081	90,501
<b>STAFF PAYABLES</b>	<i>12</i>	<b>5,248,013</b>	<b>3,124,502</b>	<b>1,289,348</b>
<b>TOTAL LIABILITIES</b>		<b>18,696,494</b>	<b>17,855,569</b>	<b>14,117,296</b>



Alexander WEIS  
Chief Executive

June 2008

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2007 CASH FLOW

CASH FLOW

<i>Figures in €</i>	For the year ending		
	31.12.2007	31.12.2006	31.12.2005
<i>OPENING BANK ACCOUNT BALANCE</i>	14,277,564	10,389,816	1,545,583
<b>CASH RECEIVED FROM PMS</b>			
PMS CONTRIBUTIONS	20,818,000	21,500,000	19,909,793
REIMBURSEMENT OF YEAR N-1 SURPLUS	(4,245,010)	(4,431,045)	(1,422,414)
DEFERRED PAYMENTS OF CONTRIBUTIONS	(236,638)	711,607	1,435,499
Subtotal	16,336,352	17,780,562	19,922,878
<b>CASH RECEIVED FROM BANK</b>			
INTERESTS CREDITED DURING THE YEAR	588,816	298,490	109,222
Subtotal	588,816	298,490	109,222
<b>TOTAL CASH INFLOWS</b>	<b>16,925,168</b>	<b>18,079,052</b>	<b>20,032,100</b>
<b>CASH SPENT FOR FUNCTIONING &amp; OPERATIONAL EXPENSES</b>			
PAYMENTS FOR FUNCTIONING EXPENSES	13,297,122	12,933,869	10,592,913
PAYMENTS FOR OPERATIONAL EXPENSES	2,386,149	1,257,435	594,953
<b>TOTAL CASH OUTFLOWS</b>	<b>15,683,271</b>	<b>14,191,304</b>	<b>11,187,866</b>
<i>CLOSING BANK ACCOUNT BALANCE</i>	15,519,461	14,277,564	10,389,816



# EUROPEAN DEFENCE AGENCY

## 2007 FINANCIAL REPORT

### 2007 QUARTERLY FINANCIALS

Figures in € k

EXPENSES	2007 Annual		2007 Quarterly Financials			
	Budget <sup>(9)</sup>	Actual <sup>(10)</sup>	Q1	Q2	Q3	Q4
<b>TITLE I : PERSONNEL EXPENSES</b>						
Chapter 11: OFFICIALS (SCO) & TEMPORARY STAFF	10,893	10,736	1,969	2,968	2,957	2,842
Chapter 12: SNE, CONTRACT & OTHER STAFF	1,428	1,372	294	369	348	360
Chapter 13: STAFF RELATED	530	517	134	111	115	157
<b>SUBTOTAL</b>	<b>12,851</b>	<b>12,626</b>	<b>2,398</b>	<b>3,448</b>	<b>3,421</b>	<b>3,359</b>
<b>TITLE II : FUNCTIONING EXPENSES</b>						
Chapter 20: BUILDING & BUILDING RELATED	2,797	3,095	552	722	1,003	819
Chapter 21: IT EQUIPMENT, FURNITURE & OTHER	921	858	58	121	162	517
Chapter 22: OTHER FUNCTIONING	531	433	134	66	58	175
<b>SUBTOTAL</b>	<b>4,249</b>	<b>4,387</b>	<b>744</b>	<b>909</b>	<b>1,223</b>	<b>1,510</b>
<b>SUBTOTAL PERSONNEL &amp; FUNCTIONING</b>	<b>17,100</b>	<b>17,013</b>	<b>3,141</b>	<b>4,357</b>	<b>4,644</b>	<b>4,870</b>
<b>TITLE III : OPERATIONAL BUDGET</b>						
OPERATIONAL PROJECTS & STUDIES	5,000	4,485	0	15	4	4,466
<b>SUBTOTAL</b>	<b>5,000</b>	<b>4,485</b>	<b>0</b>	<b>15</b>	<b>4</b>	<b>4,466</b>
<b>TOTAL EXPENSES</b>	<b>22,100</b>	<b>21,498</b>	<b>3,141</b>	<b>4,372</b>	<b>4,648</b>	<b>9,336</b>

REVENUES	Budget <sup>(9)</sup>	Actual <sup>(10)</sup>	Q1	Q2	Q3	Q4
<b>TITLE IV : DEDUCTIONS STAFF REMUNERATION</b>						
Chapter 40: DEDUCTIONS STAFF REMUNERATION	1,041	1,037	226	263	269	278
<b>TITLE V : INCOME FROM OPERATING ACTIVITIES</b>						
Chapter 52: FINANCIAL INCOME	639	520	124	150	175	71
<b>TITLE VI : pMS CONTRIBUTIONS</b>						
Chapter 61: pMS CONTRIBUTIONS	20,420	20,818	5,720	5,503	2,811	6,785
<b>TOTAL REVENUES</b>	<b>22,100</b>	<b>22,374</b>	<b>6,070</b>	<b>5,916</b>	<b>3,255</b>	<b>7,133</b>

<sup>(9)</sup> Revised Budget as per EDA COM 07110

<sup>(10)</sup> 2007 Actual expenses and revenues.

## 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. 2007/29 (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 2007, after the accession of Bulgaria and Romania, the EDA counts 26 pMS<sup>(11)</sup>.

#### **2007 Budget and 2007 Revised Budget**

The budget for 2007 was established in November 2006. On 28 November 2007, in accordance with the Financial Rules, to properly reflect its financial situation, the Agency issued a revised budget, showing selected intra-chapter transfers and theoretic pMS contributions based on forecasted expenses and revenues (EDA COM 07110).

#### **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

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<sup>(11)</sup> 27 EU Member States excluding Denmark.

## EUROPEAN DEFENCE AGENCY

### 2007 FINANCIAL REPORT

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 (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, etc.).

#### 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 <sup>(12)</sup> and calculations are based on:

- Staff Regulations applicable to Officials and other Servants of the European Communities and the last amendment, Council Regulation (EC, EURATOM) No 1558/2007 of 17 December 2007 adjusting with effect from 1 July 2007 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 and the last amendment, Council Decision 2007/456/EC of 18 June 2007 adjusting the allowances,
- Council Decision 2004/676/EC of 24 September 2004 concerning the Staff Regulations of the European Defence Agency ('EDA Staff Regulations') and the last amendment, Council Decision 2007/215/EC of 29 January 2007,
- 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 and the last amendment, Council Decision 2007/216/EC of 29 January 2007 with regard to a minimum period of secondment of national experts and military staff seconded to the European Defence Agency.

#### PERSONNEL EXPENSES

Personnel expenses amount to € 12.6 million. In line with the Staff Establishment Plan, the Agency's posts increased by 10 %, from 89 to 98 (including 4 vacant posts and 1 frozen post) <sup>(13)</sup>. The corresponding increase in personnel expenses is mainly due to the growth of EDA's personnel, the regulatory step changes after 2 years of service and the annual salary grid adjustments and the 12-month impact of posts recruited in the course of 2006. The remuneration of the members of the temporary and contract Staff is determined according to the same rules as those set out in the Staff Regulations of Officials of the European Communities (Art. 59 and Art. 111 of EDA Staff Regulations).

During 2007, 66 % of personnel were employed as Temporary Staff, 23 % as Seconded National Experts, 5 % as Contract Staff and 4 % as Officials on Secondment, 1 % as Short Term Officials on Secondment and 1 % 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.

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<sup>(12)</sup> Acronyms in the brackets refer to *Paymasters Office of the European Institutions* ('PMO') definitions.

<sup>(13)</sup> EDA posts increase including Contract Staff: 10 % (from 94 to 103).

# EUROPEAN DEFENCE AGENCY

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### 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.

### 3. Contract Staff

Staff not included in the Staff Establishment Plan 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 and Short Term SNEs

Temporarily assigned experts from the Member States' administrations in accordance with EDA's requirements and budgetary possibilities. Seconded National Experts are graded AD5-AD16 and AST5-AST11 as defined in Article 6 of Council Regulation of 29 January 2007 amending Decision 2004/677/EC with regard to a minimum period of secondment of national experts and military staff seconded to the European Defence Agency. In addition, EDA may under the same conditions hire *Short Term SNEs* for specific projects (not included in the Staff Establishment Plan).

### 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.

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Staff present as per 31/12/2007

STAFF LIST	TOTAL	FEMALE	MALE
AD16	1		
AD15	1		
AD14	4		
AD13	9		
AD12	11		
AD11	7		
AD10	8		
AD9	4		
AD8	5		
Temporary Staff - AD <sup>(1)</sup>	50	22%	78%
AST10	2		
AST8	4		
AST7	1		
AST6	1		
AST5	7		
AST4	1		
Temporary Staff - AST	16	69%	31%
Temporary Staff	66	33%	67%
AD12	1		
AST10	1		
AST7	2		
SCO	4	75%	25%
AD13	4		
AD12	11		
AD11	1		
AD10	5		
AD9	2		
SNE	23	13%	87%
Total Staff Establishment Plan <sup>(2)</sup>	93	30%	70%
IV	1		
III	1		
II	3		
Contract Staff	5	40%	60%
Short Term SNEs <sup>(3)</sup>	1	0%	100%
Trainee <sup>(4)</sup>	1	100%	0%
<b>TOTAL EDA STAFF</b>	<b>100</b>	<b>31%</b>	<b>69%</b>

(1) 49 posts of 2007 Staff Establishment Plan + 1 AD10 post converted from SNE to Temporary.

(2) 2007 Staff Establishment Plan = 98 (93 occupied + 4 vacant + 1 frozen).

(3) 3 Short Term SNEs worked for EDA during 2007, 1 was present on 31/12/07.

(4) 4 Trainees worked for EDA during 2007, 1 was present on 31/12/07.

## 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

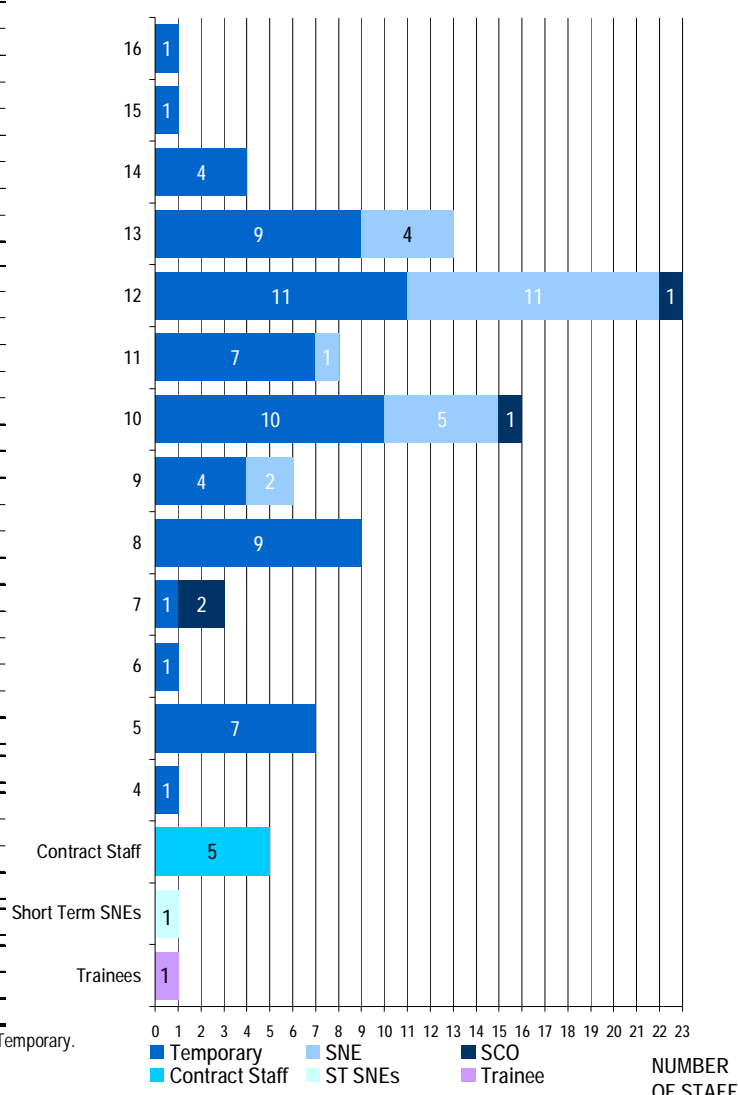
Staff statutory allowances <sup>(14)</sup> relate to:

- Expatriation status (IDE), as per Article 69 and Article 4 (1) of Annex VII
- Dependent child allowances (AEA and AEN), as per Article 2 of Annex VII
- Household allowance (AFO), as per Article 1 (1) of Annex VII
- Education allowance (APF), as per Article 3 (2) of Annex VII
- Education allowances (ISF and ISN), as per Article 3 (1) of Annex VII
- Birth grant (ANA), as per Article 74

<sup>(14)</sup> For details calculations, please refer to *Staff Regulations applicable to Officials and other Servants of the European Communities* and the last amendment, Council Regulation (EC, EURATOM) No 1558/2007 of 17 December 2007 adjusting with effect from 1 July 2007 the remuneration and pensions of Officials and other Servants of the European Communities and the correction coefficients applied thereto.

GRADE

STAFF DISTRIBUTION PER GRADE



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### Staff Social Protection

Staff social protection is financed both from the Agency (*Staff Social Protection*) and from Staff <sup>(15)</sup> (*Deductions from Staff Remuneration*). The following statutory contributions were paid in 2007:

Social contribution (as % of TBA)	Staff		EDA	
Sickness	CAM	1.70	CAI	3.40
Accident	CAA	0.10	CAB	0.87
Unemployment <sup>(16)</sup>	CCA	0.81	CCI	1.62
Pension	CPP	10.25	n/a	20.50

Source: *Staff Regulations applicable to Officials and other Servants of the European Communities and the last amendment, Council Regulation (EC, EURATOM) No 1558/2007 of 17 December 2007 as well as 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.*

### 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. Not used in 2007.

### Overtime

Statutory overtime expenses (HSU) may be paid to Staff members up to grade 4. In 2007 no overtime was paid.

### Staff Allowances on Entering & Leaving Service

Staff allowances on entering & leaving service related to:

- Installation allowance (INS), as per Article 5 of Annex VII
- Resettlement allowance (IRI), as per Article 6 of Annex VII
- Travel expenses on termination (FVC), as per Article 7 of Annex VII
- Travel expenses on taking up appointment (FVY), as per Article 7 of Annex VII
- Removal expenses on termination (FDG), as per Article 9 of Annex VII
- Removal expenses on taking up appointment (FDE), as per Article 9 of Annex VII
- Daily subsistence allowance (IJO), as per Article 10 of Annex VII

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<sup>(15)</sup> SCO and Temporary Staff.

<sup>(16)</sup> After deduction of a standard allowance of € 1,132.49.

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### Contract Staff

5 Contract Staff worked in the Agency in 2007.

The following expenses and revenues are booked under the Contract Staff account:

- Staff basic salaries (TBA),
- Staff statutory allowances: Household allowance (AFO), Dependent child allowances (AEN and AEA), School allowance (APF), Education allowances (ISF and ISN),
- Social protection EDA contribution: Sickness (CAI), Accident (CAB), Unemployment (CCI), Pension;
- Social protection Staff contribution: Sickness (CAM), Accident (CAA), Unemployment (CCA), Pension (CPP)
- EU taxation: Taxation on Staff salaries and allowances (8IM), EU special levy (PSP).

### Seconded National Experts (SNEs)

In 2007, allowances were paid to 23 SNEs:

- Daily allowance (€ 115.09 per calendar day for the period January – June 2007, € 117.74 per calendar day for the period July – December 2007),
- 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 and the last amendment, Council Decision 2007/456/EC of 18 June 2007 adjusting the allowances.

### Short Term SNEs

In the course of 2007, 3 Short Term SNEs worked at the Agency of which one was present at the end of the year. All short term SNEs were hired for Directorate specific project work.

### Trainees

In the course of 2007, 4 trainees worked at the Agency, of which one was present at the end of the year. EDA internships are paid based on SNE daily allowances.

### 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 business missions: travel expenses, meals and accommodation (according to the EDA Mission Guide). In 2007, 768 missions were accomplished for an average mission cost of €573 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, external lighting, 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, surveillance locks, cabinets 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 operating lease for the office building in Rue des Drapiers in Brussels. Rent is settled on a quarterly basis and includes related taxation.

#### 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.

#### 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, plumbing, heating.

### Office Vehicles

Rental fee for two office vehicles.

### 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 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 Relations 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 for bank transfers outside the EU and bank services subject to specific charges. Net expenses on foreign exchange transactions and financial charges amounted to € 368.

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### Note 4: 2007 Operational Projects and Studies

In 2007, EDA awarded 34 contracts under the Operational Budget for approx. €4.5 million.

Contract ID	Contract Title	Value (in €)	Award Notice	Contract Signature	Final Delivery
OPS 07 ARM 001	UAV Insertion into General Air Traffic.	500,000	26-Oct-07	20-Dec-07	8-Jul-08
OPS 07 ARM 002	Enhancing the Mutual Understanding and Competence of Stakeholders Engaged in Cooperative Programmes.	46,500	11-Oct-07	11-Oct-07	31-Jul-08
OPS 07 CAP 001	Strategic Transport Model for European Union Crisis Management Operations.	749,000	25-May-07	8-Jun-07	8-Jun-08
OPS 07 CAP 002	Study to Support the Definition of SDR Military Requirements.	80,000	27-Mar-07	29-Mar-07	28-Mar-08
OPS 07 CAP 003	Study to Support the Definition of Future MilSatCom R&T goals.	129,000	13-Jun-07	28-Jun-07	20-Nov-07
OPS 07 CAP 004	Identifying Key Aspects of Running Threats and Challenges Workshop.	4,999	28-Mar-07	5-Apr-07	12-Apr-07
OPS 07 CAP 005	Study of Opportunities the Potential EU Adversaries could gain from Commercial Technology Development.	4,999	28-Mar-07	5-Apr-07	12-Apr-07
OPS 07 CAP 006	Contracting Supporting Food for Thought Paper for CDP Strand B Science & Technology Workshop.	4,999	13-Jun-07	20-Jun-07	22-Jun-07
OPS 07 CAP 007	European Maritime Surveillance Network - Architecture Study.	130,000	12-Dec-07	11-Jan-08	15-May-08
OPS 07 CAP 008	Identification of Appropriate Simulation Tools for Maritime Surveillance Studies.	4,999	13-Sep-07	13-Sep-07	28-Sep-07
OPS 07 CAP 009	Study on the Development of Metrics for Military Capabilities.	60,000	30-Jul-07	30-Jul-07	31-Mar-08
OPS 07 CAP 010	Improved Lightweight Individual Dual-Protective Equipment against Blast and CBRN Hazards.	120,996	5-Dec-07	22-Jan-08	22-Nov-08
OPS 07 CAP 011	Airlift Technology Assessment Study.	60,000	7-Dec-07	9-Jan-08	7-Apr-08
OPS 07 CAP 012	Support the development of an EDA-sponsored Pilot Course on Open Source Intelligence (OSINT).	4,999	24-Jul-07	9-Aug-07	5-Sep-07
OPS 07 CAP 013	IEs Follow on Study.	119,984	2-Oct-07	25-Oct-07	25-Mar-08
OPS 07 CAP 014	Supporting Study for CDP Strand B.	4,000	5-Sep-07	5-Sep-07	19-Sep-07
OPS 07 CAP 015	Information Assurance Study.	4,990	2-Oct-07	2-Oct-07	5-Oct-07
OPS 07 CAP 016	Electronic warfare and identification functionalities in SDR.	4,999	18-Sep-07	18-Sep-07	7-Dec-07
OPS 07 CAP 017	Follow-on support for CDP Strand B.	77,854	25-Sep-07	25-Sep-07	29-Oct-07
OPS 07 CAP 018	Follow-on study on UIAT.	104,000	28-Nov-07	15-Jan-08	29-Apr-08
OPS 07 CAP 019	Mapping of Directed Energy Capabilities Development and their Growth Potential with Focus on EDA pMS.	135,000	18-Dec-07	15-Jan-08	29-Apr-08
OPS 07 CAP 020	Market Study on Intelligence Analysis Supporting Tools.	32,000	13-Dec-07	14-Jan-08	31-Mar-08
OPS 07 CAP 021	Market Study on De-duplication Technology.	10,000	13-Dec-07	21-Jan-08	3-Mar-08
OPS 07 CAP 022	NEC Concept ("Wise Pen Mandate").	80,000	5-Oct-07	5-Nov-07	5-May-08
OPS 07 CAP 023	Supporting Study for CDP Strand B ("Hezbollah Study").	31,920	17-Dec-07	11-Jan-08	28-Feb-08
OPS 07 CAP 024	Consultancy and Support for Workshop on ARMS (Autonomous Remote Multi-sensing System).	4,999	9-Nov-07	19-Nov-07	30-Jan-08
OPS 07 CAP 025	Transition Edge Sensors (TES).	4,999	25-Nov-07	27-Nov-07	31-Jan-08
OPS 07 I&M 001	Communication Strategy for EBB2.	4,950	13-Mar-07	13-Mar-07	25-Mar-07
OPS 07 I&M 002	How to Measure Strengths and Weaknesses of the DTIB in Europe.	126,100	7-Dec-07	10-Jan-08	10-Jun-08
OPS 07 R&T 001	UAV Simulation Testbed (Phase II).	700,000	28-Nov-07	10-Dec-07	10-Oct-08
OPS 07 R&T 002	Study on Nano-Technology Sciences into CBRN.	50,000	8-Jun-07	26-Jun-07	26-Mar-08
OPS 07 R&T 003	Technology Watch: How the Most Disruptive COTS Technologies in the area will drive the Military Requirements after 2020.	300,000	14-Dec-07	25-Jan-08	25-Feb-09
OPS 07 R&T 004	Collaboration Pump-Priming: Huge Sensor Network Feasibility Study.	396,000	9-Nov-07	19-Dec-07	19-Jun-08
OPS 07 R&T 005	Collaboration Pump-Priming: Autonomous Navigator based on Innovative Radar Altimeter & Doppler Velocity Sensor (RADVS).	400,000	19-Dec-07	19-Feb-08	31-May-08
<b>TOTAL</b>		<b>4,492,285</b>			

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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 2007, the Agency's bank accounts generated interests of € 476 k.

According to the Article 29 of the Financial Rules, € 44 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 2007, pMS contributions amounted to € 20.8 million; taking into account the 2007 surplus reimbursement of € 1.3 million, the actual cost to pMS was € 19.5 million.

2007 Contributions	% GNI <sup>(17)</sup>	Budgetary Contributions	Actual Cost to pMS	Budgetary Surplus <sup>(18)</sup>
Austria (AT)	2.2884	476,393	446,263	30,130
Belgium (BE)	2.8375	590,706	553,346	37,359
Bulgaria (BG)	0.2186	45,515	42,636	2,879
Cyprus (CY)	0.1290	26,859	25,160	1,699
Czech Republic (CZ)	0.9606	199,971	187,324	12,647
Estonia (EE)	0.1088	22,641	21,209	1,432
Finland (FI)	1.4722	306,481	287,098	19,384
France (FR)	16.0781	3,347,139	3,135,448	211,691
Germany (DE)	20.1846	4,202,027	3,936,268	265,758
Greece (EL)	1.7724	368,968	345,633	23,335
Hungary (HU)	0.7657	159,401	149,320	10,081
Ireland (IE)	1.3632	283,797	265,849	17,949
Italy (IT)	12.7991	2,664,519	2,496,001	168,518
Latvia (LV)	0.1453	30,249	28,336	1,913
Lithuania (LT)	0.2132	44,379	41,572	2,807
Luxembourg (LU)	0.2268	47,219	44,233	2,986
Malta (MT)	0.0420	8,739	8,187	553
Netherlands (NL)	4.6622	970,568	909,185	61,384
Poland (PL)	2.3013	479,091	448,791	30,300
Portugal (PT)	1.3467	280,353	262,622	17,731
Romania (RO)	0.8969	186,710	174,902	11,809
Slovakia (SK)	0.3960	82,435	77,221	5,214
Slovenia (SI)	0.2659	55,349	51,848	3,501
Spain (ES)	8.7882	1,829,532	1,713,823	115,709
Sweden (SE)	2.7211	566,469	530,643	35,826
United Kingdom (UK)	17.0165	3,542,487	3,318,442	224,046
<b>Total 26 pMS</b>	<b>100%</b>	<b>20,818,000</b>	<b>19,501,360</b>	<b>1,316,640</b>

<sup>(17)</sup> 2007 GNI "Own Resources, excl. reserves", OJ n° L 77, 16.03.2007; percentages rounded to 4 decimals.

<sup>(18)</sup> The Budgetary Surplus is returned to pMS as a deduction from the 3rd contribution in year N+1 (15 October 2008).

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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 2007 surplus is returned to pMS as a deduction from the third budgetary contribution on 15 October 2008 (also see Note 5 above).

### Note 7: Fixed Assets and Depreciation

Figures in €

Fixed Asset Classes	2007 Net Asset Value	2007 Accumulated Depreciation	2007 Asset Acquisitions	2006 Net Asset Value
Fitting-Out of Premises	2,326,571	(321,195)	13,294	2,634,472
Security Equipment	55,951	(41,523)	1,167	96,307
IT Equipment	210,217	(128,286)	36,827	301,675
Office Furniture	77,691	(18,791)	19,934	76,548
Office Technical Equipment	24,026	(5,396)	3,825	25,597
<b>Total</b>	<b>2,694,456</b>	<b>(515,191)</b>	<b>75,047</b>	<b>3,134,599</b>

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 2008).

### Note 9: Cash

#### EDA Bank Accounts

As at 31/12/2007, the global balance on the Agency's bank accounts totalled € 15,519,461.

Figures in €

EDA Bank Accounts	2007	2006	2005
Opening balance	14,277,564	10,389,816	1,545,583
Closing balance	15,519,461	14,277,564	10,389,816

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.

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### EDA Petty Cash

As at 31 December 2007, the Agency had a petty cash balance of € 1,000.00.

### Note 10: Stakeholders

The Stakeholders liabilities include the following items:

#### Deferred pMS contributions

At Year-end 2007, five pMS paid their contributions in advance; one pMS paid late.

#### Capital expenditure Year N-1

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

#### Accounting Surplus

For the year 2007, the accounting surplus amounts to € 876 k, down 78 % from last year.

### Note 11: Supplier Payables

The underneath table shows the variation of the Agency's balance sheet provisions for supplier payables, which include Accrued Expenses and Pending Invoices:

Supplier Payables (in €)	2005 Balance Sheet		2006 Balance Sheet		2007 Balance Sheet	
	Accrued Expenses <sup>(19)</sup>	Pending Invoices <sup>(20)</sup>	Accrued Expenses <sup>(19)</sup>	Pending Invoices <sup>(20)</sup>	Accrued Expenses <sup>(19)</sup>	Pending Invoices <sup>(20)</sup>
<b>FUNCTIONING EXPENSES</b>						
Payables related to 2005	799,853	799,134	12,396	0	10,337	0
Payables related to 2006	0	0	159,673	517,286	0	0
Payables related to 2007	0	0	0	0	351,388	367,986
<b>FUNCTIONING</b>	<b>799,853</b>	<b>799,134</b>	<b>172,069</b>	<b>517,286</b>	<b>361,725</b>	<b>367,986</b>
<b>OPERATIONAL EXPENSES</b>						
Payables related to 2005	1,899,988	0	775,294	0	525,000	-
Payables related to 2006	0	0	3,754,215	0	1,993,316	92,564
Payables related to 2007	0	0	0	0	3,898,294	346,574
<b>OPERATIONAL</b>	<b>1,899,988</b>	<b>0</b>	<b>4,529,509</b>	<b>0</b>	<b>6,416,610</b>	<b>439,138</b>
<b>TOTAL</b>	<b>2,699,841</b>	<b>799,134</b>	<b>4,701,578</b>	<b>517,286</b>	<b>6,778,335</b>	<b>807,124</b>

<sup>(19)</sup> Provisions for accrued expenses (163100 - Functioning expenses; 163200 - Operational expenses).

<sup>(20)</sup> Pending invoices from previous financial years, paid after the 31/12 but before the transfer to provisions.

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### Note 12: Staff Payables

#### Pensions

Staff (Temporary, SCO and Contract) 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;
- 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 31/12/2007 amount to €5,199 k.

Pension provision for 2007 amounts to €2,273 k and is composed of the following items:

*Figures in € k*

EDA Staff Pension Accruals <sup>(21)</sup>	2007	2006	2005
EDA contribution	1,456	1,212	805
Staff contribution	728	606	402
Payments for severance grant	(0)	(69)	(44)
Payments for maintenance of pension rights	(58)	(40)	0
Financial interests	148	17	0
<b>Total</b>	<b>2,273</b>	<b>1,726</b>	<b>1,163</b>

Note: The dedicated pension bank account was set-up in July 2006. On 31 December 2007, accumulated pension rights for the year and corresponding interests were transferred to the pension bank account.

#### 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 each month with the Council (contributions for sickness) and the Commission (contributions for accident and unemployment).

#### Miscellaneous Staff Payables

Miscellaneous Staff Payables include € 49.5 k of 2007 expenses paid in early 2008, such as: School and child allowances, severance grants, mission expenses, other.

<sup>(21)</sup> Staff pension rights (Temporary, SCO and Contract) are capitalised on the balance sheet account "Staff Pension Accruals". Maintenance of pension rights in accordance with Article 90 of the EDA Staff Regulations. See also p. 23.

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### APPENDIX - SELECTED EDA ACRONYMS

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