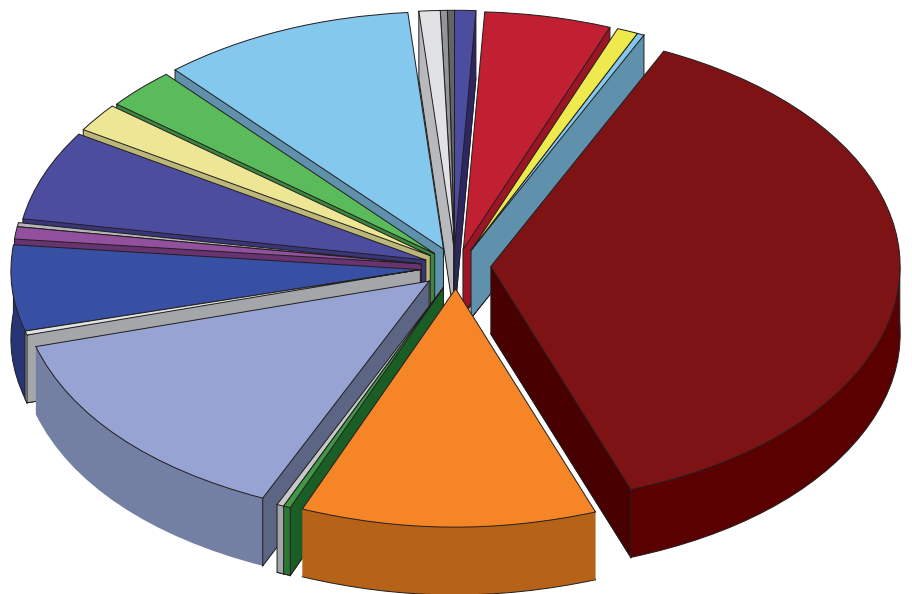


# Resources Management



# Finance and Corporate Control

## Expenditure

The Agency's total expenditure in 2006 amounted to:

- 2824 MEuro in Contract Authority and
- 2582 MEuro in Payment Appropriations.

The Agency's Mandatory Activities represented 28% of the total expenditure (734 MEuro) in Payment Appropriations, whereas 69% was spent by Optional Programmes (1780 MEuro) and 3% by Programmes financed by Third Parties (68 MEuro).

The core elements of the Agency's Mandatory Activities are the Science Programme, the Technological Research Programme and the technical and operational infrastructure. In 2006, the Science Programme benefited from a rescheduling of the loan reimbursement, allowing the start of the development of the Gaia mission while continuing the implementation of the Herschel, Plank and LISA Pathfinder projects. The Science Programme also funded the operation of nine satellites in orbit and contributed to the operating costs of eight spacecraft in orbit in the framework of international cooperation.

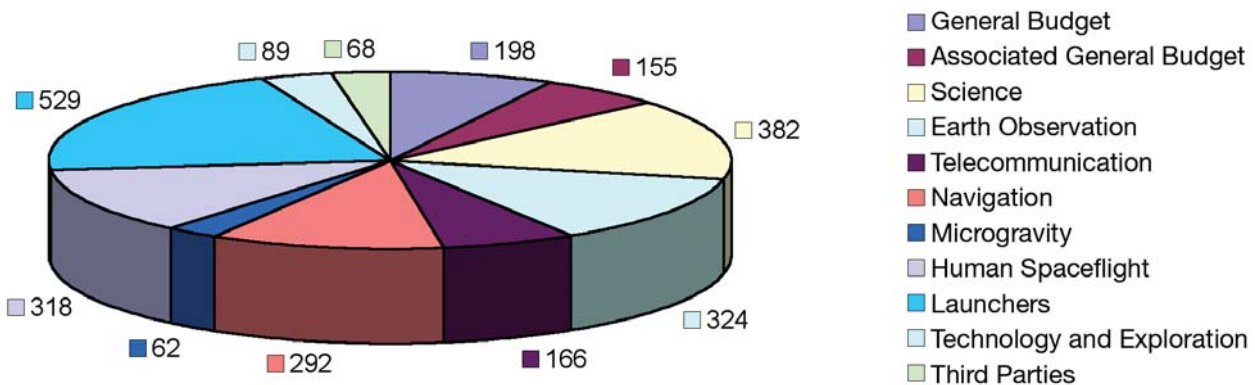
The expenditure associated with the General Budget increased by 10% in 2006. The main emphasis was on reinforcing the Technological Research activities, in preparation for future missions, and the general strengthening of the Agency's technical capabilities, including enhancements to the common technical and operational infrastructure.

The development of applications is provided via the Agency's Optional Programmes, to which Participating States declare a voluntary subscription. In 2006, the expenditure on Optional Programmes decreased by 18% compared with 2005. Following the Ministerial Council in December 2005 in Berlin, several new programmes were initiated, including ExoMars and the GMES programme. Expenditures for these new programmes will pick up in later years based on the specific frameworks of these initiatives.

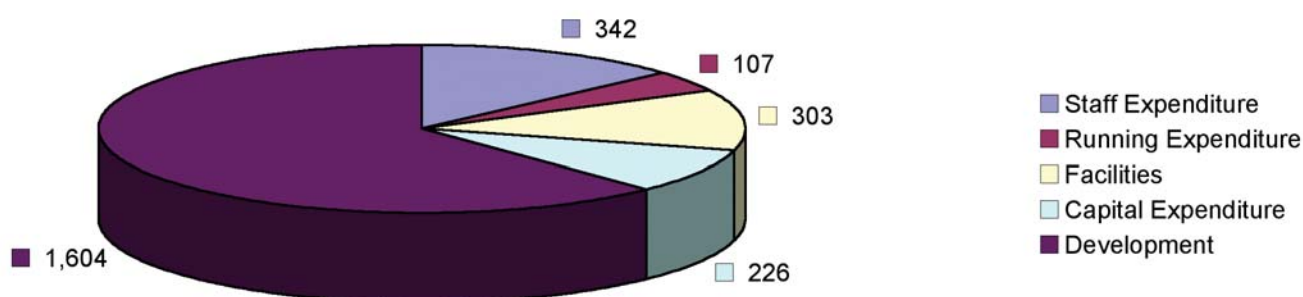
In 2006, 523 MEuro or 20% of the total ESA budget was spent on the Launchers Programme. The construction of the Soyuz launch facilities in Kourou, the development of the small launcher (Vega), and the programme supporting European Guaranteed Access to Space (EGAS) represent the main areas of expenditure in the launchers domain.

13% of ESA's 2006 expenditure was devoted to the Earth Observation Programme, with the development of the family of Explorer missions accounting for the majority of that expenditure. A smaller than originally planned amount was spent on the new Global Monitoring for Environment and Security (GMES) Programme.

The Navigation Programme increased its share of ESA's total expenditure from 8% in 2005 to 11% in 2006. The main area of expenditure was Galileo, on which a total of 249 MEuro was spent.



Expenditure per Programme domain (MEuro)



Expenditure per function (MEuro)

The solid recovery of the Telecommunications Programme in 2005 continued in 2006, with expenditure amounting to 165 MEuro. In particular, the Artes-8 programme (Alphabus, Alphasat) benefited from the renewed interest of the Participating States in space-based telecommunications.

Expenditures for the Human Spaceflight and Microgravity Programmes, which account for 15% of ESA's total expenditure, were substantially reduced as a consequence of the delayed Space Shuttle return to flight, following the Columbia accident in 2003.

Similar to previous years, around 83% of the Agency's 2006 budget was spent on contracts 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.

to include the invoice approval process and travel-expenditure management.

In parallel and following the Ministerial Council decision, a more ambitious project is ongoing, namely the Financial Management Reform. The aim of that reform is to introduce a new financial-management model, which will provide financial information allowing continuous optimisation of the use of available resources and the attraction of new ones. In 2006, the Director General outlined the main features of this new model, taking due account of the best practices identified in a benchmarking exercise with comparable organisations. In particular, the new model will re-focus performance measurement on activities and costs rather than on budget and expenditure. The project is currently in a definition phase, with the final decision on its implementation planned for March 2008.

## Financial Management Evolution

In 2006, the Director General and ESA staff pursued the ongoing efforts to increase internal operating efficiency. In this context, the financial operations processes and procedures have been simplified wherever possible and the organisation has been rationalised by regrouping the services in the Establishments. In parallel, the financial systems have been enhanced to introduce an electronic workflow wherever possible, such as for the invoice registration process (90% of invoices are now submitted electronically by industry). In 2007, it will be extended

## Funding of ESA Programmes

The ESA Mandatory Activities (which include the General Budget, the Associated General Budget and the Science Programme) are financed by Member State and Cooperating State contributions. The ESA Convention dictates that the Agency's Mandatory Programme be financed using a contribution scale based on the national incomes of the Member States over the last three years for which statistics are available. The ESA Council adopted a new scale for the period 2006-2008 in October 2005.

Contributions to Mandatory Activities (%)		Contributions to Optional Programmes (%)*	
AUSTRIA	2.24	AUSTRIA	1.08
BELGIUM	2.74	BELGIUM	7.36
DENMARK	1.76	DENMARK	0.79
FINLAND	1.40	FINLAND	0.52
FRANCE	15.50	FRANCE	34.08
GERMANY	21.85	GERMANY	22.56
GREECE	1.57	GREECE	0.06
IRELAND	1.11	IRELAND	0.28
ITALY	12.85	ITALY	14.00
LUXEMBOURG	0.21	LUXEMBOURG	0.25
NETHERLANDS	4.48	NETHERLANDS	1.92
NORWAY	2.06	NORWAY	0.81
PORTUGAL	1.20	PORTUGAL	0.25
SPAIN	7.33	SPAIN	4.42
SWEDEN	2.58	SWEDEN	1.83
SWITZERLAND	3.42	SWITZERLAND	3.58
UNITED KINGDOM	17.70	UNITED KINGDOM	5.11
<b>TOTAL MEMBER STATES</b>	<b>100.00</b>	<b>TOTAL MEMBER STATES</b>	<b>98.90</b>
CANADA	3.64	CANADA	0.98
CZECH REPUBLIC	-	CZECH REPUBLIC	0.06
HUNGARY	-	HUNGARY	0.06
TOTAL Cooperating States**	3.64	TOTAL Cooperating States**	1.10
<b>TOTAL ESA</b>	<b>-</b>	<b>TOTAL ESA</b>	<b>100.0</b>

\* Including contributions of National Aviation Agencies to ARTES-9 GNSS IP (ATMSP)

\*\* Participating non-Member States linked to ESA by a Cooperation Agreement

The ESA Optional Programmes are financed by Member and Cooperating State contributions and by third parties, which include the European Union. The Participating States declare a voluntary subscription on a multi-annual basis.

The Third-Party Programmes are managed by ESA, but are totally financed by third parties. In 2006, they represented 3% of ESA activities.

The contributions from Member and Cooperating States to the Agency's Mandatory Activities and Optional Programmes in 2006 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 2006 are presented in the following pages.

### Notes to the Financial Statements

The Agency's Annual Accounts are summarised in four main financial statements presented herewith (unaudited at the time of this publication), including comparative information for 2005.

Among the assets, the 908 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 771 MEuro, the not yet financed portion is shown as a receivable amount.

One of the main current assets is represented by 227 MEuro of advance payments to suppliers, made across the on-going programmes of the Agency. Until the relevant services are tested and accepted, these payments are considered as a claim towards the contractor companies.

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 2006 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 151 MEuro credit balance in 2006 can be considered as the net accumulated excess of assets over liabilities recognised in the accounts.

Provisions and accruals are included in the Statement of Assets and Liabilities in order 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. Therefore, the net effect of reversed accruals of the previous year and new accruals is 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 2006, this balance amounted to a 244 MEuro net increase 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 2006 Surplus amounts to 508 MEuro, including 677 MEuro of underspending of the budget allocations, 75 MEuro of excess actual income over the budget, with other minor balances, and the 244 MEuro net increase in restated prior-year accruals.

## Financial Statements 2006

### 1. Income and Expenditure for the year ended 31 December

(in kEuro)

	2006		2005		Increase/ Decrease
<b>OPERATING INCOME</b>					
Contributions	2,758,817		2,854,432		-95,615
Other Income	427,434		264,878		162,556
		3,186,251		3,119,310	66,941
Third Party Programmes Income	118,460		169,580		-51,120
Plan for European Cooperating States	4,894		3,845		1,049
Management Outputs/Estrange Income	25,370		486		24,884
Suspense Output	2,669		2,794		-125
Internal Tax Income	111,736		103,332		8,404
Etraordinary Accrued Income	362		0		362
		263,491		280,037	-16,546
<b>Total operating income</b>		<b>3,449,742</b>		<b>3,399,347</b>	<b>50,395</b>
<b>OPERATING EXPENDITURE</b>					
General Budget	197,616		187,573		10,043
Scientific Programme	381,256		345,723		35,533
Earth Observation	323,701		362,810		-39,109
Telecom	165,242		159,312		5,930
Navigation	291,874		244,051		47,823
Manned Spaceflight	61,934		574,396		-512,462
Microgravity	317,287		81,036		236,251
Launchers	523,189		648,666		-125,477
Technology	88,719		85,025		3,694
CSG Kourou and other activities	90,169		82,711		7,458
Pensions	64,452		59,496		4,956
<b>Total financed by contributions</b>		2,505,439		2,830,799	-325,360
Third Party Programmes	68,283		145,796		-77,513
Plan for European Cooperating States	1,474		1,196		278
Management Outputs Expenditure	8,519		-24,880		33,399
Suspense Output	1,633		0		1,633
Estrange/Andøya special project	198		193		5
Internal Tax	111,736		103,332		8,404
Variation of accruals/provisions	244,783		-242,582		487,365
Restatement of expenditure to assets	0		-20,000		20,000
		436,626		-36,945	473,571
<b>Total operating expenditure</b>		<b>2,942,065</b>		<b>2,793,854</b>	<b>148,211</b>
<b>NON-OPERATING CHARGES</b>	0		0		0
<b>Net Surplus for the Period</b>		<b>507,677</b>		<b>605,493</b>	<b>-97,816</b>

#### REPRESENTED BY

Bank and Cash	908,118	311,779
Other Assets	1,439,727	1,637,461
Prepaid Contributions, Other Liabilities	-1,644,948	-1,420,137
Reserves	-195,220	76,390
<b>Net Surplus for the Period</b>	<b>507,677</b>	<b>605,493</b>



## 2. Assets and Liabilities at 31 December

(in kEuro)

	2006		2005		Increase/ Decrease
<b>ASSETS</b>					
<i>Current assets :</i>					
BANKS AND CASH	908,118		311,779		596,339
AMOUNTS RECEIVABLE :					
Outstanding contributions	387,193		353,270		33,923
Other customers (net)	3,550		20,615		-17,065
Other amounts receivable	51,423		66,280		-14,857
PREPAYMENTS	226,561		396,296		-169,735
		1,576,845		1,148,240	428,605
<i>Non-current assets :</i>					
Investments in associates	0		40,000		-40,000
PENSION SCHEME to be financed	574,514		569,152		5,362
PENSION SCHEME Buffer Fund	196,486		191,848		4,638
		771,000		801,000	-30,000
<b>Total assets</b>		2,347,845		1,949,240	398,605
<b>LIABILITIES</b>					
<i>Current liabilities:</i>					
Prepaid Contributions and other payables to Member States	296,685		194,466		102,219
Regulation Fund	50,590		72,574		-21,984
ACCRUED PAYABLES	459,524		339,803		119,721
OTHER AMOUNTS PAYABLE	11,018		9,279		1,739
UNTAKEN STAFF LEAVE	56,131		43,015		13,116
		873,948		659,137	214,811
<i>Non-current liabilities:</i>					
PENSION SCHEME	771,000		761,000		10,000
		771,000		761,000	10,000
<b>Total liabilities</b>		1,644,948		1,420,137	224,811
<b>NET ASSETS</b>		702,897		529,103	173,794
<b>NET ASSETS/ RESERVES</b>					
RESERVES Telecom 3 bis, GNSS2, ARTES, PPF					
Envisat, Marecs, Exchange gains	43,663		34,635		9,028
Reserve for Accruals and Provisions	151,557		-111,025		262,582
SURPLUS	507,677		605,493		-97,816
		702,897		529,103	173,794
<b>MEMORANDUM ACCOUNTS</b>					
Property, plant and equipment	2,787,030		2,739,381		47,649
Fixed Assets in progress	284,615		217,945		66,670
INVENTORY OF FIXED ASSETS		3,071,645		2,957,326	114,319

### 3. Consolidated Cash Flow for the year ended 31 December

(in MEuro)

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b><i>Receipts of Contributions</i></b>		
2006 Called Contributions	2,554.7	
Increase in outstanding contributions	-33.9	
Increase in prepaid contributions	102.2	
Decrease in Regulation Fund	-21.9	
		2,601.1
<b><i>Other Receipts</i></b>		
Other Income ESA financed programmes	427.4	
Third Party Programmes	94.5	
Plan for European Cooperating States	2.2	
Other Receipts	0.3	
Decrease in other customers	17.8	
Decrease in other amounts receivable	11.9	
Increase in other reserves	9.0	
		563.1
		3,164.2
<b><i>Payments</i></b>		
Expenses for ESA Programmes	-2,750.2	
Expenses for Third Party Programmes	-68.3	
Expenses for Plan for European Cooperating States	-1.5	
Other Expenses	-10.4	
Decrease in prepayments to suppliers	169.7	
Decrease in investments to associates	-40.0	
Increase in untaken staff leave	13.1	
Increase in accrued payables	119.7	
Increase in other amounts payable	1.7	
Reimbursement of contributions	-1.7	
		-2,567.9
<b><i>Net cash flow from operating activities</i></b>		596.3
CASH AND BANKS 31.12.2005		311.8
CASH AND BANKS 31.12.2006		908.1



#### 4. Changes in Net Assets/Equity for the years 2005-2006

(in MEuro)

	SURPLUS	RESERVES	RESERVE FOR ACCRUALS AND PROVISIONS	TOTAL NET ASSETS
	(A)	(B)	(C)	(A+B+C)
<b>Balance at 31 December 2005 ESA/AF(2006)<sup>1</sup></b>	605.5	34.6	-111.0	529.1
Allocation of Surplus 2005 to income 2006:				
- Programmes funded by contributions	-286.8			
- Plan for European Cooperating States	-2.7			
- Programmes funded by Third Parties	-24.0			
- Management and Suspense Outputs	-27.7			
Reimbursement to Participants	-1.7			
Allocation to exchange gains reserve	0.0			
Adjustments for accrued expenditure 2005	-262.6		262.6	262.6
<b>Sub-total Allocation of Surplus 2005</b>	<b>-605.5</b>			<b>-605.5</b>
Surplus 2006	507.7			507.7
Net movements in reserves		9.0		9.0
<b>Balance 31 December 2006</b>	<b>507.7</b>	<b>43.6</b>	<b>151.6</b>	<b>702.9</b>

# Human Resources

The year was marked by a number of initiatives in the area of HR policy. These included measures that have been put into place aimed at reinforcing the management team, particularly at the A6 level. Following a review in 2004, the HR Department had also embarked on a project to introduce amendments to a number of HR Reform elements. This project was concluded in 2006.

## Human Resources Policy

Through the recently introduced Agenda 2011, the Agency has also adopted a strengthened approach to HR, which foresees: (a) raising the profile and importance of human resources management in the Agency, (b) improving the clarity and transparency of HR processes, and (c) establishing the flow of information through managers (top-down and bottom-up).

## Staff Training and Development

A wide range of training and development activities were made available to ESA staff members. These included activities centrally driven by the Internal University to serve corporate needs and priorities and those instigated locally in each Establishment in response to the job needs identified by staff members and their managers. Activities covered a broad spectrum, from courses/seminars designed to ESA specifications, to the financing of staff members' participation in external professional or academic programmes.

In 2006, the Internal University offered about 15 programmes responding to different corporate priorities, and introduced in particular new seminars to reinforce management and leadership skills, and to promote harmonisation of practice and exchange of expertise.

To evaluate the impact of Leadership Development Programmes on ESA managers and on the organisation itself after five years, a survey was conducted in summer 2006, the outcome of which was positive and encouraging.

## External Training

Almost 1850 applications for the 2006 Young Graduate Trainee (YGT) programme resulted in the successful recruitment of highly motivated recent graduates contributing to the total of 170 YGTs (totalling 93 man-years) working at ESA in 2006. The YGTs gained valuable 'hands-on' work experience preparing them for future employment in space industry or research.

The Internal Research Fellow Programme provided 50 Postdoctoral candidates (totalling 29 man-years) with the opportunity to carry out research in a variety of disciplines, mainly related to space science, space applications or space technology, under the supervision of ESA scientists and engineers.

Two new groups of 14 Spanish and 8 Portuguese graduates started a traineeship at ESA within the framework of bilateral agreements with these two countries. The graduates will benefit by gaining practical experience in engineering and scientific disciplines related to space applications.

## Equal Opportunity and Diversity Policy (EOD)

The end of 2005 marked the completion of the EOD first phase, with all of the instruments defined in the 2002 Action Plan being implemented. The 2nd phase started in 2006 with four main objectives to be focused on: increased female representation with the support of the NOW programme and ESA's database; career development with specific training in female leadership and self communication, in close cooperation with the Internal University; managerial commitment to EOD through

the Directorate Specific Action Plan, a key issue in getting the support of mid-managers for EOD objectives; external visibility by developing role models, and partnership with the public and private sector, bringing opportunities for good-practices exchange and benchmarking in the field of EOD.

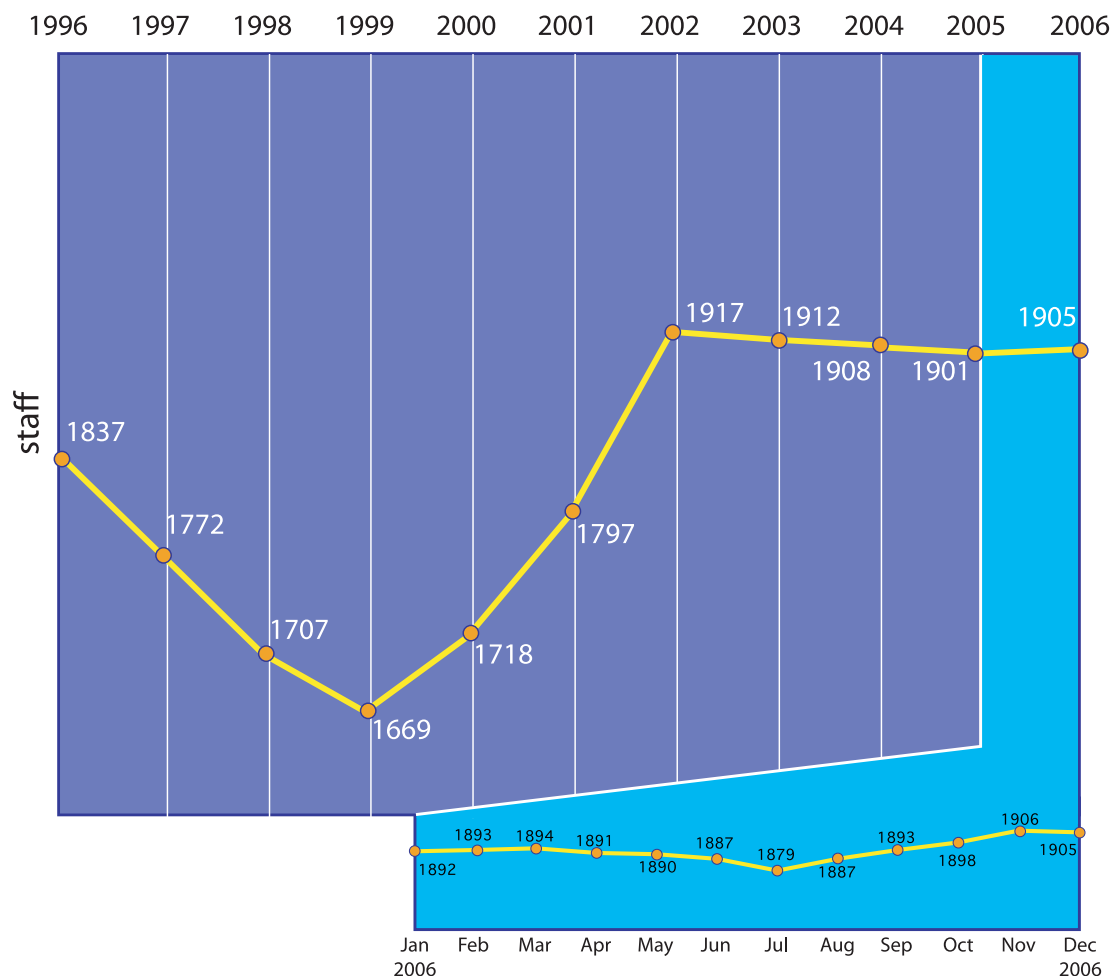
Indicators show an encouraging increase in overall A-grade female representation from 8% to 14% between 2001 and 2006, reflecting real progress in female representation in grades A2 to A4, but also a clear improvement at A5 level, up from 2.1% in 2001 to 6.6% in 2006. These figures show that the 'glass ceiling' is not an inevitability at ESA if it maintains the current proactive approach. However, benchmarking reveals that the Agency is still quite far behind its partners in terms of female representation in managerial and engineering positions.

## Coordination

The Coordinating Committee on Remuneration (CCR) finalised a recommendation on a new salary adjustment method, as the previous one was due to come to an end by December 2006. The Administrative and Finance Committee (AFC) adopted this new method, which will be valid for 6 years, in September. The AFC also approved the new set of Education Allowance rules, on the basis of the proposal made by the Coordinating Committee on Remuneration (CCR) in 2005.

## Workforce Management

A workforce-management system project was initiated in 2006, aimed at supporting the optimisation of the ESA workforce – staff and contractors – taking into account a



Evolution in staffing from 1996 to 2006; inset, the evolution during 2006

	Hors Classe	A	L	B	C	Total Staff
<b>I Member States</b>						
Austria		29		3		32
Belgium	1	71		12		84
Denmark		26		2		28
Finland		12		4		16
France	3	347	10	94	9	463
Germany	3	296	4	62		365
Greece		3				3
Ireland		12		8		20
Italy	2	304		34	1	341
The Netherlands	1	57		40		98
Norway		20		2		22
Portugal		9		3		12
Spain		134		9		143
Sweden		42		4		46
Switzerland		25		3		28
United Kingdom	1	140	3	34		178
<b>Total</b>	<b>11</b>	<b>1527</b>	<b>17</b>	<b>314</b>	<b>10</b>	<b>1879</b>
<b>II Non-Member States</b>						
Canada	-	23		3		26
<b>Total</b>	<b>-</b>	<b>23</b>		<b>3</b>		<b>26</b>
<b>Grand Total</b>	<b>11</b>	<b>1550</b>	<b>17</b>	<b>317</b>	<b>10</b>	<b>1905</b>

ESA staffing per  
December 2006

variety of budgetary constraints and the necessary evolution in competences to cope with new challenges. This system encompasses a set of coherent and inter-linked modules such as:

- Mapping/apportionment of the workforce (staff and contractors) per competence and activity
- Workload planning with a 3 to 5 year horizon
- Anticipation of short-term staff movements
- Rationalisation of the human-resources allocation process within an overall integrated process including budget
- Implementation of an information system able to consolidate the workforce data
- Definition and implementation of reporting tools

- To enforce harmonisation of practices ESA-wide
- To increase efficiency, i.e. maximisation of results with available resources (manpower, systems)
- To compress processing time through simplification and the delegation of decision authority to local/subordinate level

## Pensions

At the end of 2006, there were 1011 pension recipients, compared with 959 at the end of 2005. An actuarial study conducted in 2006 in conformity with the established procedure resulted in an increase in the pension contribution rate as of 1 July 2006.

## Review of HR Processes

A review of HR processes is being conducted via a project with the following objectives:

## Staff

At the end of 2006, the Agency had 1905 staff in post, compared with 1901 at the end of 2005.