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REPORT FROM THE COMMISSION

FINANCIAL REPORT
ECSC in Liquidation
at 31 December 2010

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This is the ninth report on the ECSC in liquidation, covering the year ended on 31 December 2010. This report is accompanied by a Commission Staff Woking Document, the Financial Statements ECSC in liquidation at 31 December 2010.

The Commission's powers and responsibilities are governed by Council Decision 2003/76/EC of 1 February 2003.

At 31 December 2010, the members of the Commission were :

José Manuel BARROSO	President
Catherine ASHTON	Vice-President
Viviane REDING	Vice-President
Joaquín ALMUNIA	Vice-President
Siim KALLAS	Vice-President
Neelie KROES	Vice-President
Antonio TAJANI	Vice-President
Maroš ŠEFČOVIČ	Vice-President
Janez POTOČNIK	Member
Olli REHN	Member
Andris PIEBALGS	Member
Michel BARNIER	Member
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Algirdas ŠEMETA	Member
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Günther OETTINGER	Member
Johannes HAHN	Member
Connie HEDEGAARD	Member
Štefan FÜLE	Member
László ANDOR	Member
Cecilia MALMSTRÖM	Member
Dacian CIOLOŞ	Member

The management of the ECSC in liquidation and of the Research Fund for Coal and Steel is the responsibility of Mr. Olli Rehn at the reporting date as at 31 December 2010.

The ECFIN Directorate-General for Economic and Financial Affairs - Directorate L - conducts the main financial operations of the ECSC in liquidation under the authority, at 31 December 2010, of Mr. Marco Buti, Director-General of DG ECFIN, and Mr. Gerassimos Thomas, Director of Directorate L.

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Activity report and financial statements of the ECSC in liquidation

In implementation of the Protocol, annexed to the Treaty on the functioning of the European Union on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel, on 1 February 2003 the Council decided (Article 3 of Decision 2003/76/EC) that the liquidation and asset management operations must be the subject, separately from the other financial operations of the remaining Communities, of a profit and loss account, a balance sheet and a financial report.

The Balance sheet at 31 December 2010, the income statement, the statement of changes in equity and the Cash flow statement for the year ended 31 December 2010 are shown hereafter. They are followed by the Independent Auditor's Report.

The complete ECSC's Financial Statements are, due to the Commission rule not to translate reports of more than 15 pages, established only in English. This Commission Staff Working Document is accompanying this report.

Balance sheet at 31 December 2010

(amounts in EUR) - before allocation of surplus

	Notes	31 December 2010	31 December 2009
Assets			
Cash and deposits with credit institutions	B.3.3.		
- Repayable on demand - With agreed maturity dates or period of notice		4 067 253 297 203 923	19 458 727 -
Loans and advances to credit institutions	B.3.1., D.1.	333 099 910	411 740 132
Loans and advances to customers	B.3.1., D.1.	58 636 060	61 222 157
Available-for-sale securities	B.3.2., C.4.3., D.2.	1 282 873 754	1 482 946 414
New Member States' contribution	D.3.	26 686 416	34 014 019
Other assets	D.4.	1 320 373	1 725 652
Total assets		**2 003 887 689**	**2 011 107 101**
Liabilities			
Debts evidenced by certificates	B.3.4., D.5.	230 316 830	224 781 020
Other liabilities	D.6.	241 459 693	237 740 811
Total liabilities		**471 776 523**	**462 521 831**
Equity			
Profit for the year		3 878 880	13 914 151
Reserves	D.7.	1 528 232 286	1 534 671 119
Total equity		**1 532 111 166**	**1 548 585 270**
Total equity and liabilities		**2 003 887 689**	**2 011 107 101**

The accompanying notes are shown in the attached Commission Staff Working Document "Financial Statements ECSC in liquidation at 31 December 2010".

Income statement for the year ended 31 December 2010

(amounts in EUR)

	Notes	31 December 2010		31 December 2009	
Income					
Interest and similar income :					
From bank accounts and loans		18 101 505		19 253 087	
From fixed income debt securities					
and other interest		46 569 126		56 501 166	
Total	B.4.1., E.1.		64 670 631		75 754 253
Fees and commissions income		38 235		88 894	
Net gain on sale of securities	E.2.	6 585 189		9 082 785	
Net gain on foreign exchange	E.3.	1 203 052		-	
Other financial income	E.4.	1 038 397		14 387 296	
Total			8 864 873		23 558 975
Other operating income	E.5.		2 756 847		2 785 025
Total income			**76 292 351**		**102 098 253**
Charges					
Interest and similar charges	B.4.1., E.6.		16 166 139		16 483 414
Fees and commissions charges	E.7.		239 125		220 457
Financial operations :					
Net loss on foreign exchange	E.3.	-		2 339 766	
Other financial charges	E.8.	-		1 125 377	
Total			-		3 465 143
Provision for Research financing	E.9.	56 000 000		68 000 000	
Other operating charges		8 207		15 088	
Total			56 008 207		68 015 088
Total charges			**72 413 471**		**88 184 102**
Net profit for the year			**3 878 880**		**13 914 151**

The accompanying notes are shown in the attached Commission Staff Working Document "Financial Statements ECSC in liquidation at 31 December 2010".

Statement of changes in equity for the year ended 31 December 2010

(amounts in thousands EUR)

	Assets of the Coal and Steel Research Fund (B.5.2.)	**Member States' Contribution not yet called**	**Special Reserves**	**General Reserves**	**Fair value Reserve**	**Profit for the year**	**Total**
Previously reported balance at 01 January 2010	1 337 497	27 190	93 290	62 054	14 641	13 914	1 548 586
Allocation of retained earnings	13 914	-	-	-	-	(13 914)	-
Net change in fair value reserve	-	-	-	-	(17 888)	-	(17 888)
Use of reserves	-	-	-	-	-	-	-
Call for Member States' Contribution	12 549	(12 549)	-	-	-	-	-
Transfer of reserves on 31 December 2010	7 000	-	(7 000)	(2 465)	-	-	(2 465)
Net profit 2010	-	-	-	-	-	3 879	3 879
At 31 December 2010	**1 370 960**	**14 641**	**86 290**	**59 589**	**(3 247)**	**3 879**	**1 532 112**

The accompanying notes are shown in the attached Commission Staff Working Document "Financial Statements ECSC in liquidation at 31 December 2010".

Cash flow statement for the year ended 31 December 2010

(amounts in thousands EUR)

	2010	2009
Operating activities		
New Member States' contribution	8 366	62 274
Repayment of loans	5 205	159 970
Interest received - loans	16 035	24 894
Repayment of borrowings	-	(155 402)
Interest expenses - borrowings	(15 662)	(24 535)
Proceeds from other assets	15	191
Net advance to the General Budget of the EU	(49 312)	(53 949)
Operating cost / income	1	(13)
Net cash flow from operating activities	**(35 352)**	**13 430**

Investing activities		
Interest received - cash and cash equivalents	3 527	2 279
Net increase/(decrease) of deposits (maturity 4-12 m)	78 500	(174 500)
Purchase of investments available-for-sale portfolio	(276 640)	(566 820)
Proceeds from sales of investments available-for-sale portfolio	456 309	581 676
Interest received - available-for-sale portfolio	55 706	56 601
Investing cost and other	(238)	(217)
Net cash flow from investing activities	**317 164**	**(100 981)**

Net (decrease)/increase in cash and cash equivalents	281 812	(87 551)

Cash and cash equivalents at 01 January	**19 459**	**107 010**
Cash and cash equivalents at 31 December	**301 271**	**19 459**

The accompanying notes are shown in the attached Commission Staff Working Document "Financial Statements ECSC in liquidation at 31 December 2010".

Report of the réviseur d'entreprises agréé

Section 1 - Report on the financial statements

We have audited the accompanying financial statements of European Coal and Steel Community in liquidation ("ECSC in liquidation") managed by the Economic and Financial Affairs DG (DG ECFIN) on behalf of the European Commission (the "Commission"), which comprise the balance sheet as at December 31, 2010, and the economic outturn account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DG ECFIN's Management responsibility for the financial statements

DG ECFIN's Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting rules applicable to the European Communities set out in note 2. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the réviseur d'entreprises agréé

Our 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 as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. 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 from material misstatement.

We have not performed any audit work for the accounts that are managed by DB Budget relating to the loans to officials disclosed in Loans and advances to customers and in other assets, the interests received on loans to officials disclosed in Interests and similar income from bank accounts and loans.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the réviseur d'entreprises agréé's judgement, 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 réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by DG ECFIN's Management, 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.

Opinion

In our opinion, except for the matter noted above, the financial statements of ECSC in liquidation as of December 31, 2010, have been prepared, in all material respects, in accordance with the accounting rules applicable to the European Communities set out in note B.

Without qualifying our opinion, we emphasize that the accounting policies used and disclosures made are not intended to, and do not, comply with all the requirements of the International Financial Reporting Standards.

Report other legal and regulatory requirements

The activity report which is the responsibility of DG ECFIN's Management is consistent with the financial statements.

Section 2 – Review of the procedures relating to borrowing and lending operations

In accordance with the mandate received from DG ECFIN, we have checked that the borrowing and lending operations carried out during the financial year 2010 have been completed in line with the relevant manual of processes and procedures.

We did not detect any significant exceptions.

Section 3 – Review of treasury management procedures and investment returns

In accordance with the mandate received from DG ECFIN, we have analyzed and assessed the manual of processes and procedures relating to treasury management and we have assessed the investment returns for the year ending December 31, 2010.

The following work has been performed:

- Analysis and assessment of the manual of processes and procedures relating to treasury management of DG ECFIN;
- Based on a sample, we checked that the procedures relating to treasury management have been respected;
- Assessment of the investment returns of the treasury management in connection with the activities of ECSC in liquidation and most precisely :
    - Review of the main transactions performed under the headings current accounts, term deposits and portfolio of bonds to check that the above-mentioned procedures have been respected and that the decisions made were well-founded in relation to the market conditions;
    - Comparison of interest rates applied with the market rates for similar operations;
    - Assessment of the overall yield for the treasury management obtained by DG ECFIN in comparison with a benchmark for comparable assets taking into account the investment restrictions as imposed by the legal framework in place and applicable to the ECSC in liquidation operations.

We did not detect any significant exceptions.

Our report is solely for the purpose set forth in the first paragraph of each section and for your information and is not to be used for any other purpose or to be distributed to any other parties except to the European Court of Auditors.

For Deloitte S.A., Cabinet de révision agréé

Martin Flaunet, Réviseur d'entreprises agréé
Partner

March 31, 2011

Expiry of the ECSC Treaty and the management mandate given to the European Commission

The ECSC Treaty expired on 23 July 2002.

The Nice European Council decided to annex to the Treaty of Nice a Protocol on the financial consequences of the expiry of the ECSC Treaty and the creation and management of the Research Fund for Coal and Steel. It was decided that all the ECSC assets at the time of the expiry of the Treaty would be transferred to the European Union with effect from 24 July 2002. The net worth of these assets and liabilities is to be considered as assets earmarked for research in the sectors associated with the coal and steel industries. The revenue from these assets is to be used exclusively for research in these sectors.

On the entry into force of the Treaty of Nice on 1 February 2003, ownership of the ECSC's funds was transferred to the European Union with retroactive effect to 24 July 2002.

On 1 February 2003[1] the Council laid down the measures necessary for the implementation of the Protocol, annexed to the Treaty on the functioning of the European Union, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel. The Commission is responsible for winding-up the financial operations of the ECSC that were still in progress at the moment of the expiry of the ECSC Treaty. It is also responsible for managing the assets in such a way as to ensure their long-term profitability. The objective in placing the available assets must be to obtain the highest possible yield that is securely attainable, as defined by Council Decision 2003/76/EC of 1 February 2003.

The Decision of 1 February 2003 further stipulates that the net revenue from investing the available assets constitutes revenue in the general budget of the European Union and that this revenue is to be used to finance, in the sectors associated with the coal and steel industries, research projects that are not covered by the framework research programme. This revenue forms the Research Fund for Coal and Steel and is managed by the Commission.

[1] OJ L29, 05.02.2003, p. 22.

Winding-up of the ECSC financial operations in progress on expiry of the ECSC Treaty

Overall status of the winding-up of ECSC financial operations since 23 July 2002

The winding-up for the period from 24.07.2002 to 31.12.2010 proceeded as follows:

In million euros	Status 23.07.2002	Status 31.12.2010
ASSETS		
Loans from borrowed funds		
To credit institutions	25.1	-
To Customers	631.3	45.7
	656.4	45.7
Loans from own funds		
To credit institutions	95.1	25.2
To Customers	17.2	5.0
	112.3	30.2
EIB Loans (granted in GBP)	161.9	173.7
Loans to officials	33.5	8.8
Total loans	964.1	258.4
Levy		
Gross amount	5.0	0.0
Value adjustment	(5.0)	0.0
	0.0	0.0
Fines		
Gross amount	46.9	-
Value ajustment	(46.9)	-
	0.0	-
Interest subsidies		
Gross amount	3.1	0.1
Value adjustment	(2.8)	(0.1)
	0.3	0.0
LIABILITIES		
Borrowings	(36.2)	-
Debts evidenced by certificate (partially in GBP)	(706.3)	(219.4)
ECSC Operating Budget	(400.9)	-

The "Protocol on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel" (the "Protocol") annexed to the Treaty on the functioning of the European Union transferred all assets and liabilities of the ECSC to the EC with effect of 24 July 2002. It further stipulates that the assets are intended for research in the sectors related to the coal and steel industry and shall be referred to as the "ECSC in liquidation". On completion of the liquidation they shall be referred to as the "Assets of the Research Fund for Coal and Steel".

Considerable progress has been made in the liquidation of the assets and liabilities existing on 23 July 2002 on the balance sheet of the ECSC. The liquidation of the outstanding commitments from the operational budget has been achieved at the end of 2010. The remaining outstanding claims for levy and interest rebate repayments have been reduced to a very small amount and are totally covered by value adjustments.

However, there are still an important number of loans and some borrowings outstanding which continue to run for several years and where contractual terms need to be respected.

Given that the ECSC took long term commitments in the area of borrowing and loans during its activity before the expiry of the ECSC Treaty on 23 July 2002, the liquidation process in this area is proceeding in line with the commitments taken. About 73.2 % of outstanding loans have been reimbursed to date and 29.6 % of original borrowings remain outstanding. As long as considerable amounts are outstanding in this area, the liquidation needs to be continued. All the assets of the ECSC that are not used for the purpose of its liquidation as well as those provisionally set aside to cover contingent liabilities are invested on the capital markets (bonds and money markets). The revenues from theses assets (referred to as the "Research Fund for Coal and Steel") is used to finance research projects in the sectors related to the coal and steel industry as foreseen in the Protocol.

Management of borrowings of the ECSC in liquidation

During the winding-up period from 01.01.2010 to 31.12.2010, the debt of the ECSC in liquidation changed as follows (nominal amounts):

(EUR million)

Currency	Number of borrowings at 01 January 2010	Debt outstanding at 01 January 2010	Reimbursements from 1 January to 31 December 2010	Exchange rate adjustments	Debt outstanding at 31 December 2010	Number of borrowings at 31 December 2010
EUR	1	45.7	-	-	45.7	1
GBP	5	168.3	-	5.4	173.7	5
TOTAL	**6**	**214.0**	**-**	**5.4**	**219.4**	**6**

The maturity of the borrowings outstanding at 31 December 2010 breaks down as follows:

(EUR million)

	EUR	GBP	TOTAL
2012	45.7	-	**45.7**
2017	-	78.1	**78.1**
2019	-	95.6	**95.6**
Total	**45.7**	**173.7**	**219.4**

The main characteristics of the borrowings outstanding are as follows (nominal amounts):

Year of issue	Contractual Interest (%) per year	Term (years)	Initial amount	Amount outstanding at 31 December 2010	
				in borrowing currency	equivalent in EUR
	Contracts redenominated in EUR				
1992	0.556	20	300 000 000 FRF	45 734 705	45 734 705
			Currency total	**45 734 705**	**45 734 705**
	Contracts in GBP				
1992	9.875	25	50 000 000 GBP	17 220 000	20 005 809
1992	9.875	25	30 000 000 GBP	30 000 000	34 853 326
1993	9.875	24	20 000 000 GBP	20 000 000	23 235 550
1994	6.875	25	50 000 000 GBP	35 261 000	40 965 437
1994	8.9375	25	47 000 000 GBP	47 000 000	54 603 543
			Currency total	**149 481 000**	**173 663 665**

Total in EUR **219 398 370**

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NB : Capital and interest in respect of borrowings in GBP totalling GBP 149 481 000 are secured by loans from the European Investment Bank with the same interest rate and maturity date.

Management of loans from the ECSC in liquidation

During year ended 31 December 2010, only one loan **from borrowed funds** (under Article 56 ECSC) was outstanding. The loan (45.73 million EUR) was granted to a French company.

Over the year ended 31 December 2010, the changes in **loans from own funds** (under Article 54.2 ECSC) were as follows (nominal amounts):

(EUR million)

Member State	Number of loans	Amount outstanding at 01 January 2010	Amortisation from 1 January to 31 December 2010	Exchange rate adjustment	Amount outstanding at 31 December 2010	Number of loans
Belgium	13	1.82	(0.37)	-	1.45	13
Germany	28	17.62	(2.49)	-	15.13	25
Greece	7	0.22	(0.02)	-	0.20	6
Spain	17	4.33	(0.65)	-	3.68	17
France	12	3.11	(0.50)	-	2.61	12
Ireland	7	0.12	(0.02)	-	0.10	7
Italy	19	2.34	(0.41)	-	1.93	17
Luxembourg	4	0.35	(0.06)	-	0.29	4
Netherlands	5	0.25	(0.04)	-	0.21	4
Austria	2	2.67	(0.18)	-	2.49	2
Portugal	6	0.30	(0.03)	-	0.27	6
Finland	2	0.52	(0.04)	-	0.48	2
United Kingdom	19	1.50	(0.16)	(0.05)	1.39	16
Total EC	**141**	**35.15**	**(4.97)**	**(0.05)**	**30.23**	**131**

NB : These are loans for financing the construction of subsidised housing at an interest rate of 1 % p.a..

Management of assets

The net worth of the ECSC's assets and liabilities at the moment of the expiry of the ECSC Treaty is regarded as assets to be used for research in the sectors associated with the coal and steel industries. These assets are managed by the Commission so as to ensure their long-term profitability, the objective being to obtain the highest possible yield under secure conditions, as defined in Council Decision N° 2003/77/EC of 1 February 2003 and amended by Council Decision N° 2008/750/EC of 15 September 2008. During the liquidation phase, treasury investments take account of the constraints regarding maturity dates and liquidity.

The return on investment, including the variation in the market value of bonds (marked to market) was 2.23% for the whole year 2010. This result has been achieved against the background of the ongoing financial crisis which had a particularly negative effect on sovereign bonds. The benchmark, serving as the reference rate for the ECSC in liquidation portfolio, yielded 1.32%. The yearly relative out-performance of the ECSC portfolio in the year 2010 was then 0.91%.

Financing of coal and steel research

The net revenue generated by the assets of the ECSC in liquidation, constituting the Research Fund for Coal and Steel, is used exclusively for research carried out in the sectors associated with the coal and steel industries. The net revenue for year n is exclusively made available to the budget of the European Union for research in year n+2. In order to reduce as far as possible the fluctuations that movements in the financial markets could cause in the financing of research, a smoothing arrangement is applied[2]. The revenue for 2010 will be used for research in 2012.

Calculation of the allocation for research in 2012: (in EUR thousand)

Financing provisions for 2011	60 929.8
Net revenue in 2010 (rounded)	56 000.0
Difference	4 929.8
Allocation:	
Net revenue in 2010	56 000.0
Half of the difference	2 464.9
Available for research in 2012	58 464.9
Financing:	
Net revenue in 2010	56 000.0
Decrease of smoothing reserve	2 464.9
	58 464.9

[2] See Annex to Council Decision 2003/76/EC of 1 February 2003 (OJ L 29, 1.2.2003).