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**REPORT FROM THE COMMISSION**

**FINANCIAL REPORT  
ECSC in Liquidation  
at 31 December 2011**

{SWD(2012) 223 final}

## **REPORT FROM THE COMMISSION**

### **FINANCIAL REPORT ECSC in Liquidation at 31 December 2011**

This is the tenth report on the ECSC in liquidation, covering the year ended on 31 December 2011. This report is shown in the form approved by the Commission. This report is accompanied by a Commission Staff Working Document, the Financial Statements ECSC in liquidation at 31 December 2011.

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

At 31 December 2011, 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
Olli REHN	Vice-President
Janez POTOČNIK	Member
Andris PIEBALGS	Member
Michel BARNIER	Member
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Algirdas ŠEMETA	Member
Karel DE GUCHT	Member
John DALLI	Member
Máire GEOGHEGAN-QUINN	Member
Janusz LEWANDONWSKI	Member
Maria DAMANAKI	Member
Kristalina GEORGIEVA	Member
Günther OETTINGER	Member
Johannes HAHN	Member
Connie HEDEGAARD	Member
Štefan FÜLE	Member
László ANDOR	Member
Cecilia MALMSTRÖM	Member
Dacian CIOLOȘ	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 2011.

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 2011, of Mr. Marco Buti, Director-General of DG ECFIN, of Mr. Maarten Verwey, Deputy Director General of ECFIN (in charge of Directorates D, E and L) 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 2011, the income statement, the statement of changes in equity and the Cash flow statement for the year ended 31 December 2011 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 2011

(amounts in EUR) - before allocation of surplus

	Notes	31 December 2011	31 December 2010
<b>Assets</b>			
Cash and deposits with credit institutions	B.3.3.		
- Repayable on demand		5 287 834	4 067 253
- With agreed maturity dates or period of notice		205 043 255	297 203 923
Loans and advances to credit institutions	B.3.1., D.1.	236 106 208	333 099 910
Loans and advances to customers	B.3.1., D.1.	56 428 741	58 636 060
Available-for-sale securities	B.3.2., C.5., D.2.	1 462 949 855	1 282 873 754
New Member States' contribution	D.3.	14 640 500	26 686 416
Other assets	D.4.	1 619 562	1 320 373
<b>Total assets</b>		<b>1 982 075 955</b>	<b>2 003 887 689</b>
<b>Liabilities</b>			
Debts evidenced by certificates	B.3.4., D.5.	235 804 851	230 316 830
Other liabilities	D.6.	239 503 377	241 459 693
<b>Total liabilities</b>		<b>475 308 228</b>	<b>471 776 523</b>
<b>Equity</b>			
Profit for the year		6 340 376	3 878 880
Reserves	D.7.	1 500 427 351	1 528 232 286
<b>Total equity</b>		<b>1 506 767 727</b>	<b>1 532 111 166</b>
<b>Total equity and liabilities</b>		<b>1 982 075 955</b>	<b>2 003 887 689</b>

The accompanying notes are shown in the attached Commission Staff Working Document "Financial Statements ECSC in liquidation at 31 December 2011".

# Income statement for the year ended 31 December 2011

(amounts in EUR)

	Notes	31 December 2011		31 December 2010	
<b>Income</b>					
Interest and similar income :					
From bank accounts and loans		18 032 732		18 101 505	
From fixed income debt securities and other interest		43 300 275		46 569 126	
<b>Total</b>	B.4.1., E.1.		61 333 007		64 670 631
Fees and commissions income		129 789		38 235	
Net gain on sale of securities	E.2.	0		6 585 189	
Net gain on foreign exchange	E.3.	908 788		1 203 052	
Other financial income	E.4.	503 084		1 038 397	
<b>Total</b>			1 541 661		8 864 873
Other operating income	E.5.		6 661 798		2 756 847
<b>Total income</b>			<b>69 536 466</b>		<b>76 292 351</b>
<b>Charges</b>					
Interest and similar charges	B.4.1., E.6.		15 092 090		16 166 139
Fees and commissions charges	E.7.		227 330		239 125
Financial operations :					
Net loss on sales of securities	E.2.	2 873 840		-	
<b>Total</b>			2 873 840		-
Provision for Research financing	E.8.	45 000 000		56 000 000	
Other operating charges		2 830		8 207	
<b>Total</b>			45 002 830		56 008 207
<b>Total charges</b>			<b>63 196 090</b>		<b>72 413 471</b>
<b>Net profit for the year</b>			<b>6 340 376</b>		<b>3 878 880</b>

The accompanying notes are shown in the attached Commission Staff Working Document "Financial Statements ECSC in liquidation at 31 December 2011".

# Statement of changes in equity for the year ended 31 December 2011

(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 2011	1 370 960	14 641	86 290	59 589	(3 247)	3 879	1 532 112
Allocation of retained earnings	3 879	-	-	-	-	(3 879)	-
Net change in fair value reserve	-	-	-	-	(24 951)	-	(24 951)
Use of reserves	-	-	-	-	-	-	-
Call for Member States' Contribution	14 641	(14 641)	-	-	-	-	-
Transfer of reserves on 31 December 2011	8 000	-	(8 000)	(6 733)	-	-	(6 733)
Net profit 2011	-	-	-	-	-	6 340	6 340
<b>At 31 December 2011</b>	<b>1 397 480</b>	<b>-</b>	<b>78 290</b>	<b>52 856</b>	<b>(28 198)</b>	<b>6 340</b>	<b>1 506 768</b>

The accompanying notes are shown in the attached Commission Staff Working Document "Financial Statements ECSC in liquidation at 31 December 2011".

# Cash flow statement for the year ended 31 December 2011

(amounts in thousands EUR)

	2011	2010
<b>Operating activities</b>		
New Member States' contribution	12 549	8 366
Repayment of loans	5 594	5 205
Interest received - loans	15 625	16 035
Interest expenses - borrowings	(15 325)	(15 662)
Proceeds from other assets	61	15
Net advance to the General Budget of the EU	(45 240)	(49 312)
Operating (cost) / income	(2)	1
<b>Net cash flow from operating activities</b>	<b>(26 738)</b>	<b>(35 352)</b>
<b>Investing activities</b>		
Interest received - cash and cash equivalents	4 518	3 527
Net increase of deposits (maturity 4-12 m)	96 000	78 500
Purchase of investments available-for-sale portfolio	(713 518)	(276 640)
Proceeds from sales of investments available-for-sale portfolio	494 995	456 309
Interest received - available-for-sale portfolio	54 030	55 706
Investing cost and other	(227)	(238)
<b>Net cash flow from investing activities</b>	<b>(64 202)</b>	<b>317 164</b>
Net (decrease)/increase in cash and cash equivalents	(90 940)	281 812
<b>Cash and cash equivalents at 01 January</b>	<b>301 271</b>	<b>19 459</b>
<b>Cash and cash equivalents at 31 December</b>	<b>210 331</b>	<b>301 271</b>

The accompanying notes are shown in the attached Commission Staff Working Document "Financial Statements ECSC in liquidation at 31 December 2011".

# 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, 2011, 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, and for such internal control as DG ECFIN's Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *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 give a true and fair view of the financial position of ECSC in liquidation as of December 31, 2011 and its financial performance and its cash flows for the year then ended, in accordance with the accounting rules applicable to the European Communities set out in note 2.



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 2011 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, 2011.

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 Audit, *Cabinet de révision agréé*

Martin Flaunet *Réviseur d'entreprises agréé*  
*Partner*

April 10, 2012

# **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<sup>1</sup> 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.

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<sup>1</sup> 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 31.12.2011 proceeded as follows:

In million euros	Status 23.07.2002	Status 31.12.2011
<b>ASSETS</b>		
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	20.3
To Customers	17.2	4.3
	112.3	24.6
EIB Loans (granted in GBP)	161.9	179.0
Loans to officials	33.5	7.0
Total loans	964.1	256.3
Levy		
Gross amount	5.0	-
Value adjustment	(5.0)	-
	0.0	-
Fines		
Gross amount	46.9	-
Value adjustment	(46.9)	-
	0.0	-
Interest subsidies		
Gross amount	3.1	0.0
Value adjustment	(2.8)	(0.0)
	0.3	0.0
<b>LIABILITIES</b>		
Borrowings	(36.2)	-
Debts evidenced by certificate (partially in GBP)	(706.3)	(224.6)
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 claim for interest rebate repayment is totally covered by value adjustment.

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 73.4 % of outstanding loans have been reimbursed to date and 30.2 % 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 these 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 01.01.2011 to 31.12.2011, the debt of the ECSC in liquidation changed as follows (nominal amounts):

(EUR million)

Currency	Number of borrowings at 01 January 2011	Debt outstanding at 01 January 2011	Reimbursements from 1 January to 31 December 2011	Exchange rate adjustments	Debt outstanding at 31 December 2011	Number of borrowings at 31 December 2011
EUR	1	45.7	-	-	45.7	1
GBP	5	173.7	-	5.3	179.0	5
<b>TOTAL</b>	<b>6</b>	<b>219.4</b>	<b>-</b>	<b>5.3</b>	<b>224.7</b>	<b>6</b>

The maturity of the borrowings outstanding at 31 December 2011 breaks down as follows:

(EUR million)

	EUR	GBP	TOTAL
<b>2012</b>	45.7	-	<b>45.7</b>
<b>2017</b>	-	80.5	<b>80.5</b>
<b>2019</b>	-	98.5	<b>98.5</b>
<b>Total</b>	<b>45.7</b>	<b>179.0</b>	<b>224.7</b>

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 2011	
				in borrowing currency	equivalent in EUR
<b>Contracts redenominated in EUR</b>					
1992	0.556	20	300 000 000 FRF	45 734 705	45 734 705
			<b>Currency total</b>	<b>45 734 705</b>	<b>45 734 705</b>
<b>Contracts in GBP</b>					
1992	9.875	25	50 000 000 GBP	17 220 000	20 615 348
1992	9.875	25	30 000 000 GBP	30 000 000	35 915 240
1993	9.875	24	20 000 000 GBP	20 000 000	23 943 493
1994	6.875	25	50 000 000 GBP	35 261 000	42 213 576
1994	8.9375	25	47 000 000 GBP	47 000 000	56 267 210
			<b>Currency total</b>	<b>149 481 000</b>	<b>178 954 867</b>

**Total in EUR**

**224 689 572**

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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 2011, 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 2011, 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 2011	Amortisation from 1 January to 31 December 2011	Exchange rate adjustment	Amount outstanding at 31 December 2011	Number of loans
Belgium	13	1.45	(0.32)	-	1.13	12
Germany	25	15.13	(3.16)	-	11.97	24
Greece	6	0.20	(0.03)	-	0.17	6
Spain	17	3.68	(0.65)	-	3.03	17
France	12	2.61	(0.50)	-	2.11	12
Ireland	7	0.10	(0.10)	-	0.00	0
Italy	17	1.93	(0.35)	-	1.58	13
Luxembourg	4	0.29	(0.06)	-	0.23	4
Netherlands	4	0.21	(0.04)	-	0.17	4
Austria	2	2.49	(0.18)	-	2.31	2
Portugal	6	0.27	(0.04)	-	0.23	6
Finland	2	0.48	(0.03)	-	0.45	2
United Kingdom	16	1.39	(0.57)	0.45	1.27	16
<b>Total EC</b>	<b>131</b>	<b>30.23</b>	<b>(6.03)</b>	<b>0.45</b>	<b>24.65</b>	<b>118</b>

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 total return on investments in year 2011, including the variation in the market value of bonds (marked to market) was 0.84%. The benchmark serving as the reference for the ECSC in liquidation portfolio yielded 2.17% in the same period. This resulted in a yearly relative performance of the ECSC portfolio with respect to the benchmark of -133 bps. This outcome was mainly driven by the difficult and very volatile market environment associated to the ongoing European sovereign debt crisis, together with the *no-fire-sales* policy adopted by the Treasury Management Committee, concerning positions on sovereign securities issued by program countries which were nevertheless no longer represented in the benchmark because of their low credit rating (i.e. Greece and Portugal).

Despite the relatively low weight these securities had in the portfolio, the deepness of their price correction turned out to be the main driver of its relative performance.

## 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<sup>2</sup>. The revenue for 2011 will be used for research in 2013.

The net revenue of investments 2011 has been calculated (in EUR):

Interest on bank accounts (net)	4 433 386
Interest on securities available-for-sale	43 300 275
Fees and comissions (net)	(97 541)
Loss on sales of available-for-sale portfolio	(2 873 840)
Net revenue on investment	44 762 280
Rounded	45 000 000

Calculation of the allocation for research in 2013: (in EUR thousand)

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

Financing provisions for 2012	58 464.9
Net revenue in 2011 (rounded)	45 000.0
Difference	<u>13 464.9</u>

**Allocation:**

Net revenue in 2011	45 000.0
Half of the difference	6 732.5
Available for research in 2013	<u>51 732.5</u>

**Financing:**

Net revenue in 2011	45 000.0
Decrease of smoothing reserve	6 732.5
	<u>51 732.5</u>