EUROPEAN FREE TRADE ASSOCIATION

Ref. 29926

13 December 2011

EFTA Secretariat – Financial reports 2010

This document includes the following:

1. Excerpt from the Council Summary Record of 27 October 2011
2. Letter from EFTA Board of Auditors (EBOA) on Audit of the 2010 Accounts
3. Audit Report – EFTA Secretariat
4. Statement of Account 2010
5. Letter from the Chair of the Council to the Chair of EBOA, 22 July 2011
6. Letter from the Chair of the Council to the Chair of EBOA, 9 December 2011

Ref. 29608

18 November 2011

EIGHTH MEETING OF THE COUNCIL
Geneva, 27 October 2011

SUMMARY RECORD

Statement of accounts for 2010

17. The Council noted the letter from Chair of the Budget Committee recommending the approval by the Council of the accounts for 2010, ref. 29545. The Council approved the statement of account for 2010, ref. 1102230, and discharged the Secretary-General of his responsibilities for the financial period in question.

EUROPEAN FREE TRADE ASSOCIATION

BOARD OF AUDITORS

The Chairman

EFTA ref.1107352
6/2011
5 July 2011

Audit of the 2010 Accounts

At their last meeting in Brussels on 6 and 7 June 2011, the Members of the EFTA Board of Auditors (EBOA) reviewed the accounts of the **EFTA Secretariat** covering the period 1 January to 31 December 2010.

On the basis of the audit report from the mandated external auditor, BDO, EBOA has decided to issue a certificate for the 2010 accounts.

EBOA would like to convey BDO's satisfaction with the EFTA Secretariat's cooperation.

In accordance with Financial Regulations 14.4 and 15.6 the Board has given the EFTA Secretariat the opportunity to comment on the matters raised below. The Board has taken such comments into consideration.
EBOA would like to bring the following matters to the attention of the EFTA Council:

1. Savings Fund

According to the Financial Statement the Savings Fund is based on defined contribution from the association and its staff members. The Saving Fund is not included in the associations Financial Statement. The report by BDO points out an element of uncertainty regarding the liability for the Savings Fund in the case of changes in the value of these assets, and that no provisions have been made in the Financial Statement for such

H.E. Mrs Elin Østebø Johansen
Chair of the ESA/Court Committee
Permanent Mission of Norway to the WTO
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CC: Kåre Bryn, Secretary General, EFTA Secretariat liability. EBOA would like to continue to stress the importance of harmonization in how the EFTA institutions handle this matter both in how the issue is dealt with in the financial statements and how the employees affected are informed of the risks. The Board also requests that the EFTA Council inform us what decisions it has taken in regards to this matter and what steps it has taken to ensure that the matter is dealt with in a harmonized manner.

2. Compliance with IFRS

EBOA notes with satisfaction that the Financial Statements have been presented in compliance with the International Financial Reporting Standards (IFRS). There remain one exception:

- Not all disclosure notes and presentation requirements as prescribed by the IFRS have been included.

3. Harmonisation of the EFTA Institutions' Financial Statements

In its audit letter regarding the 2009 accounts, EBOA urged the three EFTA institutions to reach an agreement on a harmonised format for their financial statements for the sake of clarity and transparency.

According to the information provided to EBOA the Head of Finance of the EFTA Intuitions have met in order to discuss the harmonization of the Financial Statements. EBOA encourages the Heads of Finance to continue working on the harmonisation

Respectfully yours,

Per A. Engeseth

Per A. Engeseth
Chairman of the EFTA Board of Auditors

E U R O P E A N   F R E E   T R A D E   A S S O C I A T I O N

7 June 2011

EFTA ref. 1107125

1 Annex

Distribution Special

AUDIT REPORT - EFTA SECRETARIAT

CERTIFICATE OF THE BOARD OF AUDITORS ON THE AUDIT OF THE ACCOUNTS OF THE EFTA SECRETARIAT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2010

1. The Board of Auditors has examined the accounts of the EFTA Secretariat for the period 1 January to 31 December 2010 as outlined in its Rules of Procedure and the Terms of Reference of the Financial Regulations. The audit is carried out according to generally accepted auditing principles and standards, including such tests and other supporting evidence as considered necessary. The audit work has been performed by BDO on behalf of the Board of Auditors on basis of the contract between the two parties.

2. The Board has reviewed the transactions reflected in the books and have controlled whether these are in accordance with the Financial Regulations and Rules. The various items on the Balance Sheet have been checked and monies on deposit in banks have been verified. Other assets and liabilities as presented in the Balance Sheet have been verified by procedures considered appropriate under the circumstances. The examination of expenditures and income has been carried out on a test basis to the extent considered necessary.

3. The EFTA Board of Auditors states that:

(a) the financial statements give a true and fair view of the financial position as at the end of the period and the results of the operations for the period;

(b) the financial statements were prepared in accordance with the stated accounting principles;

(c) the accounting principles were applied on a basis consistent with that of the preceding financial year;

(d) transactions were in accordance with the Financial Regulations and Rules of the Secretariat.

SIGNATURES OF THE BOARD OF AUDITORS

Per A. Engeseth (Norway) Chairman	Ingi K. Magnusson (Iceland) Vice-Chairman
Heinz Vogt (Liechtenstein) Member	Arthur Taugwalder (Switzerland) Member

Annex: Auditor's Report by BDO including the Financial Statement for the EFTA Secretariat for the year ended 31 December 2010

Distribution: EFTA Ref. 1102230

31 March 2011

Statement of Account

Financial Year 2010

Note by the Secretariat

1. In accordance with Financial Regulation 14, the Secretary-General shall submit the final accounts for the period just ended to the Council as soon as practicable following the close of the period, and no later than three months after the end of the financial year in question.

2. The EFTA Board of Auditors is entrusted with the audit of the accounts. The Board's external auditor, the international auditing firm BDO, performed its audit of the accounts for the financial year ending 31 December 2010 between 6 and 10 December 2010 (interim audit) and between 14 and 17 March 2011.

3. Once the EFTA Board of Auditors has received the audit report from BDO, the Board will report back to the EFTA Council. This shall be no later than six months after the end of the financial year in question.

4. For any further information about EFTA's activities during 2010, reference is made to the Performance and Budget Report 2010, Ref. 1104549.

I. Main Activities

5. The EFTA Secretariat's activities centre around the management and monitoring of: (i) the relationships between the EFTA States on the basis of the EFTA Convention; (ii) the worldwide network of free trade and partnership agreements between EFTA States and non-EU countries; and (iii) the European Economic Area (EEA) Agreement which enables Iceland, Liechtenstein and Norway to participate in the EU's Internal Market.

6. The servicing of the EFTA Council and its committee structure is carried out with the support of the Secretariat in Geneva. In 2010 the EFTA Council met nine times at official level (Heads of Permanent Delegations to EFTA in Geneva) and twice at

ministerial level. Iceland held the EFTA Chair during the first six months, and Switzerland for the second six months of the year.

7. In the area of free trade relations, comprehensive support is provided by the EFTA Secretariat’s Geneva headquarters to Member States in the preparation and negotiation of Free Trade Agreements and Declarations on Cooperation, as well as in the implementation of such agreements through Joint Committees.

8. Under the EEA Agreement, the main body of work consists of monitoring the preparation of legislation and policy on the EU side with a view to giving timely input and preparing for the incorporation of relevant legislation into the EEA Agreement. The Secretariat services committees and working groups under the Standing Committee of the EFTA States and the Joint Committee.

9. The EFTA Statistical Office in Luxembourg coordinates EFTA’s participation in Eurostat and provides statistical support for various other EFTA purposes.

II. Review of Financial Results

10. The budget for the period 1 January to 31 December 2010 was adopted by the EFTA Council on 8 December 2009 in Decision no. 5 of 2009 (ref. 24501 of 8 December 2009). The approved net budget for the financial year 2010 totalled EUR 10,732,000 and CHF 8,813,000 on the basis of which amounts the contributions of Member States were assessed and set out in Decision no. 6 of 8 December 2009 (ref. 24502 of 8 December 2009).

11. The financial year 2010 was the seventh year with the new budgeting method as decided by the EFTA Council on 17 December 2003 in Decision no. 7 of 2003. The activities of the Secretariat are defined in the Performance Plan for the budget year 2010 (ref. 23862).

12. The total expenditure (Part I and Part II) for the financial year ending on 31 December 2010 was CHF 24,646,456 (CHF 24,028,019 in 2009) against a total income of CHF 25,969,034 (CHF 25,317,597 in 2009), leading to a budget surplus of CHF 1,322,578 before financial items (CHF 1,289,578 in 2009). Adding other items, i.e. write-offs, interest income, realised and unrealised exchange rate differences and bank charges, having a revenue effect of CHF 83,981 (cost effect of CHF 205,560 in 2009), the end surplus amounts to CHF 1,406,559 (CHF 1,084,018 in 2009).

13. The net results of Part I and part II are as follows:

a) The net expenditure in Part I was CHF 20,819,050 or 96.1% of the budget (CHF 20,714,544 or 98.1% in 2009). The total spending resulted in a surplus of CHF 855,961 (CHF 398,939 in 2009).

b) The net expenditure in Part II was CHF 2,789,780 or 83.7% of the budget (CHF 2,637,921 or 79.4% in 2009) resulting in a surplus of CHF 550,598 (CHF 685,079 in 2009).

14. The surplus is due to less spending than foreseen, both in Part I and Part II. The possibility of a surplus, and how to deal with it, is foreseen in the Financial Regulations of the Association (see Regulations 10 and 11).

The overview of the actual expenditure and budget is as follows:

	Budget 2010	Actual 2010	Actual in %	Remainder
Part I	21,675,000	20,903,031	96.4%	771,969
Part II	3,335,000	2,789,780	83.7%	545,220
Total Expenses as Budgeted:	**25,010,000**	**23,692,811**	**94.7%**	**1,317,189**
Add Reimbursed Expenses	917,791	953,645	103.9%	(35,854)
Total Expenses	**25,927,791**	**24,646,456**	**95.1%**	**1,281,335**
Part I				
Contributions	21,675,000	21,675,011	100.0%	(11)
From Surplus Account	-	-		-
Part II				
Contributions	3,335,000	3,340,378	100.2%	(5,378)
From Reserve Fund Part II				-
Total Income as Budgeted:	**25,010,000**	**25,015,389**	**100.0%**	**(5,389)**
Add Reimbursements	917,791	953,645	103.9%	953,645
Total Income	**25,927,791**	**25,969,034**	**100.2%**	**948,256**
Net Result Before Financial Items	-	1,322,578		1,322,578
Financial Items, Net	-	83,981		83,981
TOTAL 2010	-	**1,406,559**		**1,406,559**
Transferred to Reserve Funds	-	**(22,120)**		
Net Surplus to Member States	-	**1,384,439**		
BREAKDOWN PART I/II				
Total Part I	21,675,000	20,819,050	96.1%	855,950
Contributions	21,675,000	21,675,011	100.0%	(11)
Net Part I	-	855,961		(855,961)
Total Part II	3,335,000	2,789,780	83.7%	545,220
Contributions	3,335,000	3,340,378	100.2%	(5,378)
Net Part II	-	550,598		(550,598)
TOTAL 2010	-	**1,406,559**		**(1,406,559)**
PERFORMANCE & BUDGET REPORT				
Total Expenses	25,927,791	24,646,456		
Deduct Reimbursed Expenses	(917,791)	(953,645)		
Financial Items, Net	-	(83,981)		
TOTAL PERFORM. & BUD. REPORT	**25,010,000**	**23,608,830**		

III. Distribution of Financial Result

15. The financial year 2010 resulted in a surplus of CHF 855,961 in Part I and a surplus of CHF 550,598 in Part II, giving a total surplus of CHF 1,406,559. In accordance with Financial Regulation 10, budgetary surpluses for Part I and Part II not exceeding 5% of the budget for that Part shall be transferred to the Reserve Funds for Part I and Part II respectively. Surpluses exceeding 5% shall be transferred to the Surplus Account pending a decision by the Council on their use. Deficits are covered by transfers from the respective Reserve Funds. The result for 2010 has been distributed as follows (details in notes 0 and 0):

	Reserve Funds	**Member States**	**Total**
Part I	21,611	834,350	855,961
Part II	509	550,089	550,598
Total	22,120	1,384,439	1,406,559

The Financial Statements and notes thereto are contained in the following pages.

Statement of Financial Position

31 December	Note	2010 Cons. CHF	2010 Geneva CHF	2010 Brussels EUR	2009 Cons. CHF-2010 exch. rate	2009 Geneva CHF	2009 Brussels EUR	Cons. CHF-2009 exch. rate
ASSETS								
Current Assets								
Cash		**6,903,816**	*3,065,416*	*2,543,334*	**5,805,760**	*1,537,714*	*2,828,019*	**5,738,453**
Receivables	4	**1,298,680**	*232,148*	*706,687*	**518,885**	*39,441*	*317,681*	**511,324**
Special Funds FMO, Negative bal.	4,7	**-**	-	-	**123,536**	-	*81,855*	**121,588**
		8,202,496	3,297,564	3,250,021	**6,448,181**	1,577,155	3,227,555	**6,371,365**
Long-Term Assets								
Fixed Assets	6	**499,380**	*160,920*	*224,264*	**534,506**	*196,161*	*224,188*	**529,170**
Fixed Assets FMO	6	**177,641**	-	*117,706*	**250,714**	-	*166,124*	**246,760**
Building Brussels	6	**542,286**	-	*359,320*	**723,048**	-	*479,093*	**711,645**
Receivables	4	**88,203**	*30,545*	*38,205*	**33,995**	*30,418*	*2,370*	**33,938**
		1,307,510	*191,465*	*739,494*	**1,542,262**	*226,579*	*871,775*	**1,521,514**
Total Assets		**9,510,006**	***3,489,030***	***3,989,515***	**7,990,443**	***1,803,734***	***4,099,330***	**7,892,879**
LIABILITIES								
Current Liabilities								
Payables and Provisions	7,12	**1,560,434**	*701,570*	*569,085*	**1,309,333**	*171,283*	*754,075*	**1,291,386**
Unearned Revenues	7	**3,141**	*3,141*	-	**70,817**	*2,648*	*45,169*	**69,742**
Special Fund 4: Stat. Co-op	8	**14,212**	-	*9,417*	**19,590**	-	*12,980*	**19,281**
Special Funds FMO	8	**891,393**	-	*590,640*	**-**	-	-	**-**
Building Funds	9	**542,286**	-	*359,320*	**723,048**	-	*479,093*	**711,645**
Reserve Funds	10	**1,250,500**	*814,278*	*289,042*	**1,221,850**	*1,221,850*	-	**1,221,850**
		4,261,966	*1,518,989*	*1,817,504*	**3,344,637**	*1,395,781*	*1,291,318*	**3,313,904**
Long-Term Liabilities								
Provision for Programmes	11	**1,228,470**	-	*813,987*	**1,209,097**	*1,209,097*	-	**1,209,097**
Provision for Repatriation	11	**1,247,854**	*412,733*	*553,353*	**1,145,398**	*349,597*	*527,300*	**1,132,849**
Provision for Repatriation FMO	11	**615,102**	-	*407,568*	**366,930**	-	*243,129*	**361,144**
Other Long-Term Liabilities	11	**38,937**	-	*25,800*	**38,937**	-	*25,800*	**38,323**
		3,130,362	*412,733*	*1,800,708*	**2,760,363**	*1,558,694*	*796,229*	**2,741,413**
Total Liabilities		**7,392,328**	***1,931,722***	***3,618,213***	**6,105,000**	***2,954,475***	***2,087,547***	**6,055,317**
Exchange Rate Differences	14				**-47,880**			
NET ASSETS		**2,117,677**			**1,837,562**			**1,837,562**
Surplus Account	15	**2,117,677**			**1,837,562**			**1,837,562**

Statement of Comprehensive Income

Financial Year Ending 31 December	Note	2010	2009
		CHF	CHF
Member States Contribution		25,015,389	24,436,483
Other Income:			
Part I		953,645	881,114
Part II		0	0
Total Income		25,969,034	25,317,597
Expenditure			
Part I		21,856,676	21,390,098
Part II		2,789,780	2,637,921
Total Expenditure		24,646,456	24,028,019
Net Result Before Financial Items		1,322,578	1,289,578
Interest Income	17	76,314	72,422
Exchange Gains / (Losses) Realised		(7,899)	16,948
Exchange Gains / (Losses) Unrealised	16	14,939	(272,974)
Interest Expense	20	(58)	(124)
Bank Charges		(22,915)	(20,852)
Write-off		23,600	(980)
Profit/(Loss) for the Year		1,406,559	1,084,018
Opening Surplus Account	15	1,837,562	1,111,363
2010 Exchange Difference on Surplus Account	16	7,038	
Amount Transferred (to) / from Surplus Account	15	(1,111,362)	
Amount Transferred (to) / from Reserve Funds	10	(22,120)	(357,819)
Closing Surplus Account		2,117,677	1,837,562

Statement of Changes in Equity-like Funds

Financial Year Ending 31 December

	Member States Surplus Accounts	Reserve Funds	Total Surplus Accounts and Reserve Funds
31 December 2009	1,837,562	1,221,850	3,059,412
2010 Exchange Rate Difference	7,038	6,530	13,568
Returned to Member States in 2010	-1,111,362	0	-1,111,362
Profit for the Year	1,384,439	22,120	1,406,559
31 December 2010	**2,117,677**	**1,250,500**	**3,368,177**

See notes 0 and 0.

Statement of Cash Flows

Financial Year Ending 31 December	Note	2010		2009	
Profit/(Loss) for the Year		1,406,559		1,084,018	
Adjustments for:					
Depreciation (excluding fitting out of offices Brussels)	6	299,051		344,887	
Depreciation FMO	6	130,016		239,591	
Increase (decrease) in provision for repatriation	11a	102,455		281,978	
Increase (decrease) in provision for repatriation FMO	11a	248,171		206,111	
Interest income	16	(76,314)		(72,422)	
Surplus Before Working Capital Changes		2,109,938		2,084,164	
Decrease (increase) in current receivables	4	(779,795)		565,617	
Decrease (increase) in long-term receivables	4	(54,208)		7,953	
Increase (decrease) in payables	7	251,101		(660,757)	
Increase (decrease) in unearned revenues	7	(67,676)		69,742	
Increase (decrease) in long-term payables		-		-	
Increase (decrease) in Special Funds	8	1,009,552		(549,623)	
Increase (decrease) in provision for programmes	11b	19,373		-	
Net Cash Provided from (used in) Operating Activities			**2,488,285**		**1,517,096**
Investing Activities					
Purchase of property, plant and equipment	6	(263,925)		(358,669)	
Purchase of property, plant and equipment FMO	6	(56,944)		(12,478)	
Investments new office building Brussels		-		-	
Interest income	16	76,314		72,422	
Net Cash Provided from (used in) Investing Activities			**(244,555)**		**(298,725)**
Financing Activities					
Member States contribution, transfer to Surplus Account		-		-	
Member States contribution transfer from Surplus Account	14	(1,111,362)		-	
Net Cash Provided in (used from) Financing Activities			**(1,111,362)**		**-**
Net Increase in Cash and Cash Equivalents			**1,132,368**		**1,218,371**
Cash and Cash Equivalents at Beginning of Period			**5,738,453**		**4,670,098**
Exchange rate adjustment	13		32,995		(150,016)
Cash and cash equivalents at the end of the period			**6,903,816**		**5,738,453**

Notes to the Financial Statements

Reporting entity

These financial statements of the EFTA Secretariat concern its operations in Geneva (headquarters), Brussels and Luxembourg. The assets and liabilities of the Financial Mechanism Office (FMO) in Brussels which is administratively part of the EFTA Secretariat are included but its income and expenditure are excluded.

Significant accounting policies

The significant accounting polices adopted in the preparation of these financial statements of the EFTA Secretariat are set out below:

Basis of preparation

The financial statements of the Association have been prepared in accordance with the accounting standards of the present Financial Regulations and Rules of the Association. The statements have been prepared under the historical cost system and are prepared in Swiss francs (CHF).

The present Financial Regulations and Rules were approved by the EFTA Council on 18 December 1997 and entered into force on 31 December 1997. The Regulations have to be approved and amended by the EFTA Council. Since then there have been three amendments. The first amendment, made in 2002, concerned part VII – Audit and approval of the accounts, and the second amendment, made in 2004, concerned parts I, II, III and IV. The second amendment was done as a natural consequence of the introduction of the new budgeting method. The third amendment was made in 2009 and related to the streamlining of the approval process of financial commitments.

In line with the Financial Regulations the statements shall be prepared according to the international accounting standards (IFRS/IAS).

Changes in accounting policies

The funds affected by the annual profit or loss, the Reserve Funds and the Member States' Surplus Account have in the past only been kept in CHF. As of this year the results of the Brussels (including Luxembourg) duty station are kept in EUR. This is done to avoid currency risks as the Association's operations are in both currencies. Further, this new method prevents the building up of intercompany balances (between the Geneva and the Brussels duty stations) when the EUR entity has either a surplus or deficit in any particular year. The transfer of the EUR results of 2009 has been reversed. The 2009 year-end balance of the Reserve Funds and the Surplus Account are restated in notes 0 and 0 respectively as if this change had taken effect in 2009.

The Association has entered into a number of long-term commitments related to cooperation programmes in Part II of the EFTA Budget, including standardisation and technical cooperation in the field of statistics. These commitments are not reported as liabilities in the statements but expensed in the period of the execution of the relevant services. In order to meet these commitments, as well as to provide a buffer, should disbursements accelerate in any one year beyond budgetary planning a provision was set up in 1999. This provision has been denominated in CHF but in light of the fact that all said long-term commitments are denominated in EUR, the fund is as of this year denominated in EUR, retaining the EUR equivalent of last year's balance (see note 0. This change leads to the recording of CHF 19,373 in exchange rate loss due to the change in the budgetary exchange rate between 2009 and 2010.

Principles of combined statements

The accounting policies have been consistently applied by the two duty stations of the Association, i.e. Geneva and Brussels (including four staff members and two national experts in Luxembourg). All balances and transactions between the duty stations have been eliminated.

Fixed assets

Assets are stated at their acquisition cost less depreciation using the straight-line depreciation method over their estimated useful lives. Expenditure on repairs or maintenance (leased buildings, computers, furniture, cars, etc), made to restore or maintain future economic benefits expected from the assets, is recognised as an expense when incurred, while improvements are capitalised in line with other fixed assets.

The fixed assets recognised at 31 December 2010 are the three EFTA cars in Geneva and Brussels, various IT and non-IT equipment (furniture and infrastructure installations), the fitting out of the new office premises in Brussels for the Secretariat and the FMO, as well as assets for the FMO which is administratively part of the EFTA Secretariat. The rates of depreciation used are as follows:

Vehicles:	20%
IT equipment:	33%
Other equipment:	20%
Fitting out of offices EFTA:	11.11% (9 years – length of the lease contract)
Fitting out of offices FMO:	16.67% (6 years – length of the lease contract)

The assets have been depreciated from the date of acquisition (see also note 6).
For the fitting out of offices the actual date of relocation to the premises has been used.

Foreign currency

(i) Transactions

All transactions are booked in EUR (Brussels) and CHF (Geneva). All exchange rate differences are identified immediately. For reporting reasons any transactions between the duty stations are converted at the rate of exchange used for establishing the budget, 1 EUR= 1.5092 CHF. For the balance sheet, the rate of exchange used for the budget has been used both for the opening balance (1 January 2010) and for the closing balance (31 December 2010). This has resulted in an unrealised exchange rate loss for the opening balance which is reflected in the profit & loss (see also note 16).

(i) Translation of financial statements

The operations of foreign duty stations of the Association are considered an integral part of EFTA's operations. Accordingly, assets and liabilities at foreign duty stations are translated at the rate of exchange used for the budget: 1.5092. Both the opening balance (1 January 2010) as well as the closing balance (31 December 2010) have been converted to CHF using the rate of exchange for the budget. Resulting exchange differences are recognised in operations.

Taxation

The Association is exempt from most taxes at all duty stations (see note 2). Taxes payable and non-recoverable are expensed directly with the goods and services received if the amount is CHF 100 (Switzerland) or EUR 100 (Belgium/Luxembourg) or less, while invoices exceeding CHF 100 or EUR 100 are recovered directly through the supplier. The local tax in Brussels (to cover local utility costs such as garbage collection) is recorded in operations.

Swiss withholding taxes are fully recoverable and are therefore recorded separately among debtors.

Inventories

Inventories are not recorded in the accounts, however lists of equipment and furniture are maintained.

Leased assets

Leases of equipment under which the Association assumes substantially all risks and rewards incidental to ownership are classified as finance leases. Such equipment has historically consisted of computers, photocopiers and fax machines but currently the Association has no finance leases. Other leases are classified as operating leases. Such leases are rental contracts for the office buildings in Geneva and Brussels.

Revenue recognition

Contributions from Member States are recognised on an accrual basis in accordance with the budget. Contributions made in euros during the year are recognised at the exchange rate of the budget.

In relation to both the sale of goods and to the rendering of services, revenue is recognised at the delivery date of the goods or services.

Financial instruments – risk management

The financial assets of the Association include cash and trade receivables. The financial liabilities of the Association are trade payables. The accounting policies for financial assets and liabilities are set out in note 1. The Association has not entered into any foreign exchange contracts.

Interest rate risk

No loans were outstanding at 31 December 2010.

Credit risk

Cash is placed with international banks with high credit ratings. To further limit potential risks relating to banks, the FMO call for funds is, as of 2009, made quarterly instead of twice a year. Credit risk on receivables is limited as clients are usually national or international organisations with high credit ratings. Trade receivables are not shown net of provision for bad and doubtful receivables. Such receivables are, however, identified in separate lists of receivables.

Fair value

The fair values of cash, trade receivable, trade payables, loans and borrowing are the same as their carrying amounts.

Hedges of anticipated future transactions

In 2010, the Association did not enter into any forward exchange contracts in order to hedge foreign currency assets or liabilities.

Receivables

Receivables 31 December		**2010**			**2009**		
Current	Cons. **CHF**	*Geneva* ***CHF***	*Brussels* ***EUR***	Cons. **CHF** *2010 rate*	*Geneva* ***CHF***	*Brussels* ***EUR***	Cons. **CHF** *2009 rate*
Accounts Receivable – Normal Operations	112,835	*478*	*74,448*	7,701	*3,282*	*2,928*	*7,632*
Advances and Loans to Staff Members	25,587	*8,600*	*11,255*	25,788	-	*17,087*	*25,382*
Receivables from Member States	-	-	-	-	-	-	-
Prepaid Expenses	1,160,258	*223,070*	*620,983*	485,395	*36,159*	*297,665*	*478,311*
	1,298,680	*232,148*	*706,687*	518,885	*39,441*	*317,681*	*511,324*
Special Funds, Negative Balances							
Special Fund 1: Financial Instrument / Mechanism		See payables		48,181	-	*31,925*	*47,421*
Special Fund 6: EEA Financial Mechanism		See payables		45,472	-	*30,130*	*44,754*
Special Fund 7: Norwegian Financial Mechanism		See payables		29,884	-	*19,801*	*29,413*
		See payables		123,536	-	*81,855*	*121,588*
Long-Term							
Guarantee Deposits	88,203	*30,545*	*38,205*	33,995	*30,418*	*2,370*	*33,938*

Inventories

Lists of equipment and furniture are maintained, but the aggregate balance at 31 December 2010 of items of less than CHF 1,500 / EUR 1,000 is not recorded among assets. These items have already been expensed in previous years.

Fixed assets

The carrying value of property and equipment is calculated as follows:

2010	Vehicles		IT		Other		Total
Cost	***Geneva (CHF)***	***Brussels (EUR)***	***Geneva (CHF)***	***Brussels (EUR)***	***Geneva (CHF)***	***Brussels (EUR)***	***Consolidated (CHF)***
At 1/1	77,787	41,704	558,194	1,055,068	568,683	294,530	3,271,304
2010 exchange rate							33,113
Additions	0	0	50,378	125,612	11,305	8,394	263,925
Disposals	0	0	0	0	0	0	0
Cost at 31/12	77,787	41,704	608,572	1,180,680	579,988	302,924	3,568,343
Accumulated depr.							
At 1/1	44,975	32,312	503,184	903,339	460,342	231,464	2,742,135
2010 exchange rate							27,777
Depr. for year	15,557	4,900	47,043	100,341	34,324	28,689	299,051
Disposals	0	0	0	0	0	0	0
Acc. Depr. 31/12	60,532	37,212	550,227	1,003,680	494,666	260,153	3,068,963
NBV at year end	**17,255**	**4,492**	**58,344**	**177,000**	**85,322**	**42,772**	**499,379**

The carrying value of equipment for the FMO is calculated as follows:

2010	FMO BRU (CHF)	FMO BRU (EUR)
Opening carrying value	250,714	166,124
Additions	56,944	37,731
Disposals	-	-
Depreciation	130,016	86,149
Closing carrying value	**177,641**	**117,706**

The carrying value of the fitting out of office premises in Brussels is calculated as follows:

2010	Building BRU (CHF)	Building BRU (EUR)
Opening carrying value	723,048	479,093
Additions	-	-
Disposals	-	-
Depreciation	180,762	119,773
Closing carrying value	**542,286**	**359,320**

Payables

Payables 31 December		**2010**			**2009**		
	Cons. **CHF**	*Geneva* ***CHF***	*Brussels* ***EUR***	Cons. **CHF** *(2010 rate*	*Geneva* ***CHF***	*Brussels* ***EUR***	Cons. **CHF** *(2009 rate*
Accounts Payable - Normal Operations	1,055,108	*676,570*	*250,820*	762,860	*167,748*	*394,323*	753,475
Provisions	505,326	*25,000*	*318,265*	546,474	*3,535*	*359,753*	537,911
Due to Member States	-	-	-	-	-	-	-
Unearned Revenues (Prepayments Received)	3,141	*3,141*	-	70,817	*2,648*	*45,169*	69,742
Special Fund 1: Financial Instrument / Mechanism	237,973	-	*157,682*		See receivables		
Special Fund 4: Statistical Cooperation	14,212	-	*9,417*	19,590	-	*12,980*	19,281
Special Funds: EEA Financial Mechanisms 2004-2014	359,229	-	*238,026*		See receivables		
Special Funds: Norwegian Financial Mechanisms 2004-2014	294,191	-	*194,932*		See receivables		
Building Funds	542,286	-	*359,320*	723,048	-	*479,093*	711,645
Reserve Funds	1,250,500	*814,278*	*289,042*	1,221,850	*1,221,850*	-	1,221,850
Total	**4,261,966**	***1,518,989***	***1,817,504***	**3,344,637**	***1,395,781***	***1,291,318***	**3,313,904**

For an ongoing legal case related to events that took place in 2009, a provision of CHF 51,000 has been made to cover costs of legal council and the ILO Tribunal that will be paid by the Association, irrespective of the outcome of the case (see note 0). Otherwise provisions are mainly relating to the EEA Supplement, i.e. acts originating in 2010 or before but not yet published.

Special funds

In accordance with the Financial Regulation and Rules, the Secretariat reports the status of the Special Funds as per 31 December of each year. At present, there are four Special Funds in EFTA’s accounts:

1. Special Fund 1: Financial Instrument / Mechanism

Net assets on 31/12/2010:	CHF 237,973 / EUR 157,682 (CHF -47,421 / EUR -31,925 in 2009)
Legal basis:	Decisions of the Financial Instrument / Mechanism Committee based on a budget proposal of the EFTA Secretariat and approved by the European Commission.
Operational procedures:	EFTA operates the office for the Financial Mechanism Liaison Officer and his assistant. EFTA sends invoices to the European Investment Bank in Luxembourg in accordance with the approved budget.
Establishing date:	1 July 1995
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to the EEA EFTA Member States and the European Commission.

2. Special Fund 4: Statistical Cooperation

Net assets on 31/12/2010:	CHF 14,212 / EUR 9,417 (CHF 19,281 / EUR 12,980 in 2009)
Legal basis:	Article 82(1) (a) of the EEA Agreement; Budget line B-5600 and Point 5 of Protocol 30 of the EEA Agreement. Exchange of letters between Eurostat and the EFTA Secretariat establishing a mechanism to remove this particular matter from the general EU programmes.
Operational procedures:	This fund was not used in the period 2008-2009. On 15 May 2009 the Working Group of the Heads of the EFTA National Statistical Institutes agreed that the then remaining balance should be used for activities and projects concerning EFTA seconded national experts to Eurostat and that the EFTA Statistical Office would administer the fund.
Establishing date:	1 July 1995
Comments:	The balance belongs to the EEA EFTA Member States.

3. Special Funds: EEA Financial Mechanisms 2004-2014

Net assets on 31/12/2010:	CHF 359,229 / EUR 238,026 (CHF -44,754 / EUR -30,130 in 2009)
Legal basis:	Decisions of the Standing Committee of the EFTA States no. 1/2004/SC of 5 February 2004 and no. 6/2010/SC of 9 December 2010.
Operational procedures:	The EFTA Secretariat carries out administrative functions for the FMO based on a service agreement. The budget of the FMO is approved by the Financial Mechanism Committee.
Establishing date:	1 May 2004
Comments:	The balance belongs to the EEA EFTA Member States. The above balance is the total of the two funds: a) the fund for 2004-2009 and b) the fund for 2009-2014.

4. Special Funds: Norwegian Financial Mechanisms 2004-2014

Net assets on 31/12/2010:	CHF 294,191 / EUR 194,932 (CHF -29,413/ EUR -19,801 in 2009)
Legal basis:	Decisions of the Standing Committee of the EFTA States no. 1/2004/SC of 5 February 2004 and no. 6/2010/SC of 9 December 2010.
Operational procedures:	The EFTA Secretariat carries out administrative functions for the FMO based on a service agreement. The budget of the FMO is approved by the Financial Mechanism Committee.
Establishing date:	1 May 2004
Comments:	The balance belongs to Norway. The above balance is the total of the two funds: a) the fund for 2004-2009 and b) the fund for 2009-2014.

Building fund

The status of the building fund is as follows:

Source	ICE (EUR)	LIE (EUR)	NOR (EUR)	SWI (EUR)	TOTAL (EUR)	Balance (EUR)	Balance (CHF)
Transferred from Surplus Fund	6,393	1,576	67,946	153,235	229,150		
Paid by Member States in 2004	40,600	9,741	-	332,323	382,664	611,814	
Paid by Member States in 2005	-	-	466,007	-	466,007	1,077,821	
Out of the fund 2005	-5,221	-1,257	-59,328	-53,951	-119,758	958,063	
Out of the fund 2006	-5,221	-1,257	-59,328	-53,951	-119,758	838,305	
Out of the fund 2007	-5,221	-1,257	-59,328	-53,951	-119,758	718,547	
Out of the fund 2008	-5,218	-1,257	-59,290	-53,916	-119,681	598,867	
Out of the fund 2009	-5,222	-1,258	-53,958	-59,336	-119,773	479,093	
Out of the fund 2010	-5,222	-1,258	-53,958	-59,336	-119,773	359,320	542,286
Total	**15,666**	**3,773**	**188,763**	**151,118**	**359,320**		

Reserve Funds Part I and Part II[1]

Based on the distribution of the result of 2010, the balances of the Reserve Fund Part I and the Reserve Fund Part II are as follows:

Source	Reserve Fund Part I	Reserve Fund Part II	Total
Surplus 2004	710,331	137,681	848,012
Out of fund 2005	-129,137	-	-129,137
Surplus 2005	184,270	22,467	206,737
Out of fund 2006	-19,712	-	-19,712
Surplus 2006	166	4,166	4,332
Out of fund 2007	-459,000	-70,000	-529,000
Surplus 2007	742,412	4,193	746,605
Out of fund 2008	-339,299	-	-339,299
Surplus 2008	-	75,493	75,493
Surplus 2009	365,669	-7,850	357,819
2010 exch. rate diff	6,439	91	6,530
Surplus 2010	21,611	509	22,120
Total	**1,083,750**	**166,750**	**1,250,500**
Max balance	1,083,750	166,750	1,250,500

[1] The reserve funds were introduced in 2004.

As of 2010 (and with effect from 31 December 2009 by restatement) the Reserve Funds are now kept in EUR as well as in CHF (see note 0. The following table shows the split of the 2009 results restated into the two currencies (at that year’s exchange rate) and the split of current year’s results:

	Reserve Fund Part I		Reserve Fund Part II		Total		Cons.	Cons.	Cons. at 2009 Exch. Rate	Cons. Balance at 2009 Exch. Rate
	Transfers		Transfers		Transfers		Transfers	Balance		
Source	CHF	EUR	CHF	EUR	CHF	EUR	CHF	CHF	CHF	CHF
Surplus 2004	710,331		137,681		848,012		848,012	848,012	848,012	848,012
Out of fund 2005	-129,137		-		-129,137		-129,137	718,875	- 129,137	718,875
Surplus 2005	184,270		22,467		206,737		206,737	925,612	206,737	925,612
Out of fund 2006	-19,712		-		-19,712		-19,712	905,900	- 19,712	905,900
Surplus 2006	166		4,166		4,332		4,332	910,232	4,332	910,232
Out of fund 2007	-459,000		-70,000		-529,000		-529,000	381,232	- 529,000	381,232
Surplus 2007	742,412		4,193		746,605		746,605	1,127,837	746,605	1,127,837
Out of fund 2008	-339,299		-		-339,299		-339,299	864,031	- 339,299	864,031
Surplus 2008	-		75,493		75,493		75,493	1,203,330	75,493	1,203,330
Surplus 2009	-36,205	270,550	-13,548	3,836	-49,753	274,386	364,349	1,228,380	357,819	1,221,850
Surplus 2010	-	14,319	-	337	-	14,657	22,120	1,250,500		
Total	**653,826**	**284,869**	**160,452**	**4,173**	**814,278**	**289,042**	**1,250,500**		**1,221,850**	
Total in CHF	1,083,750		166,750		1,250,500					

This year’s addition to the Reserve Funds is added so the CHF/EUR ratio of the balance moves in the direction of the target allocation, i.e. the ratios of net costs between the duty stations.

Provision funds and other long-term payables

Provision for repatriation

The Association has a contractual obligation to repatriate all non-locally recruited staff members at the end of their term of service. Based on the present Staff Regulations and Rules, the cost of each staff member has been estimated and provisions recorded assuming an average lifetime of four years in EFTA. Repatriation provision for the FMO staff is also calculated (first calculated in 2008); see separate line in the balance sheet.

2010	Consolidated CHF	Repatriation in Geneva CHF	Repatriation in Brussels EUR	Consolidated 2009
Opening Carrying Value	1,145,398	349,597	527,300	850,870
Into the Fund	349,792	113,810	156,362	422,714
Out of the Fund	-247,337	-50,676	-130,308	-140,735
Closing Carrying Value	**1,247,853**	**412,731**	**553,354**	**1,132,849**

The provision calculated for FMO staff is as follows:

FMO 2010	CHF	EUR	EUR 2009
Opening Carrying Value	366,930	243,129	104,371
Into the Fund	270,610	179,307	141,957
Out of the Fund	-22,439	-14,868	-3,199
Closing Carrying Value	**615,101**	**407,568**	**243,129**

Provision for cooperation programmes (Part II Fund)

The Association has entered into a number of long-term commitments related to cooperation programmes in Part II of the EFTA Budget, including standardisation and technical cooperation in the filed of statistics. These commitments are not reported as liabilities in the statements but expensed in the period of the execution of the relevant services.

The carrying value of EFTA standardisation commitments is estimated at CHF 2,505,099 (EUR 1,659,885) at 31 December 2010 (CHF 2,533,038 / EUR 1,705,290 in 2009).

In order to make provisions to cover the commitments under Part II, the EFTA Council established a Part II Fund (see C 3/99 of 10 March 1999). Its purpose is to meet long-term commitments related to cooperation programmes in Part II of the EFTA Budget, including standardisation, as well as to provide a buffer should disbursements accelerate in any one year beyond budgetary planning. During the year 2010, no funds were transferred to or from the Fund. In light of the fact that all said long-term commitments are all denominated in EUR, the Fund is now denominated in EUR, retaining the EUR equivalent of last year's balance (EUR 813,987 = CHF 1,209,097/1.4854).

2010	Geneva CHF	Brussels CHF	Brussels EUR	Total EFTA
Opening Carrying Value	1,209,097	-	-	1,209,097
Fund Changed from CHF to EUR at 2009 Exchange Rate	-1,209,097	1,209,097	813,987	-
New Exchange Rate	-	19,373	-	19,373
Into the Fund	-	-	-	-
Out of the Fund	-	-	-	-
Closing Carrying Value	**-**	**1,228,470**	**813,987**	**1,228,470**

Loans and borrowing

No loans were taken in 2010.

Exchange rates

For reporting reasons all transactions in EUR are converted to CHF at the exchange rate used when establishing the budget, EUR 1 = CHF 1.5092 (1.4854 in 2009). This is in line with the practice approved by the external auditors and was established in 2003. All balance sheet overviews in this report show both the EUR and the CHF value for balances in Brussels. The exchange rate difference from converting the EUR balances into CHF at the rate of 1.5092 (budget and reporting rate 2010) instead of 1.4854 (rate used for the year-end balance 2009) has been identified in the Balance Sheet Overview for 2009 and the Cash Flow Statement for 2010. This exchange rate difference of CHF 47,880 is the difference between the exchange rate differences of the conversion of the surplus in Brussels in 2009 (CHF 12,897) and the opening balance of the “mirror accounts” (CHF 34,983) which have both been recorded in the Profit and Loss in Geneva. The total figure partly reversed due to the new practices of keeping the Surplus Account and the Reserve Funds partly in EUR (see notes 0, 0 and 0). The change of the provision for cooperation programmes from CHF to EUR has the same effect (see notes 0 and 0, leading to net unrealised exchange rate gains of CHF 14,939 as shown in the income statement.

Surplus account

Adjustment to opening surplus

No corrections were made to the opening surplus brought forward from 31 December 2009, apart from those resulting from the new exchange rate (on EUR part) (see note 0.

Transactions in current year

The accumulated balances up to and including 2008 were paid back to Member States in 2010 as shown in the table in item 0 below.

The Member States agreed in March 2011 on the sharing of costs related to an ILO case decided in February 2010, for a former FMO staff member. Some of these costs which had been booked in 2009 and 2010 as to be shared between EFTA at 4, are now booked as to be shared between EFTA at 3, through transfers between the individual surplus accounts as reflected in the table in item 0 below.

Distribution keys

The EFTA Council determines the distribution keys. For the period 1 July 1995 to 31 December 2010, the keys are as follows:

Distribution Keys of EFTA Member States

	Iceland	**Liechtenstein**	**Norway**	**Switzerland**	
	%	**%**	**%**	**%**	**%**
1995: All	4.37	1.27	43.37	50.99	100.00
1995: EEA	8.92	2.59	88.49	-	100.00
1996: All	4.28	1.23	44.1	50.39	100.00
1996: EEA	8.63	2.48	88.89	-	100.00
1997: All	4.08	1.25	43.92	50.75	100.00
1997: EEA	8.28	2.54	89.18	-	100.00
1998: All	3.79	1.26	44.26	50.69	100.00
1998: EEA	7.69	2.55	89.76	-	100.00
1999: All	3.68	1.26	44.58	50.48	100.00
1999: EEA	7.43	2.55	90.02	-	100.00
2000: All	3.73	1.19	46.13	48.95	100.00
2000: EEA	7.31	2.33	90.36	-	100.00
2001: All	4.2	1.14	46.94	47.72	100.00
2001: EEA	5.09	0.72	94.19	-	100.00
2002: All	4.47	1.12	47.3	47.11	100.00
2002: EEA	5.16	0.71	94.14	-	100.01
2003: All	4.5	1.08	48.17	46.25	100.00
2003: EEA	4.69	0.66	94.65	-	100.00
2004: All	4.36	1.05	49.54	45.05	100.00
2004: EEA	4.43	0.63	94.94	-	100.00
2005: All	4.14	1.03	50.58	44.25	100.00
2005: EEA	4.36	0.64	95	-	100.00
2006: All	4.03	1.02	51.49	43.46	100.00
2006: EEA	4.52	0.64	94.84	-	100.00
2007: All	4.24	1.01	52.31	42.44	100.00
2007: EEA	4.84	1.01	94.15	-	100.00
2008: All	4.59	0.97	53.00	41.44	100.00
2008: EEA	4.84	0.97	94.19	-	100.00
2009: All	4.71	0.92	54.18	40.19	100.00
2009: EEA	4.84	1.02	94.14	-	100.00
2010: All	**4.84**	**0.87**	**55.74**	**38.55**	100.00
2010: EEA	**3.17**	**1.08**	**95.75**	**-**	100.00

Member States' balance

Based on the aforementioned keys, the status on the balance sheet of the accounts of Member States within the Association is as follows:

	Iceland		Liechtenstein		Norway		Switzerland		TOTAL		TOTAL	BALANCE		BALANCE
Source	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CONS.***	**CHF**	**EUR**	**CONS.***
Surplus Part I 2004	0		0		0		0		0		0			
Surplus Part II 2004	14,424		3,474		163,889		149,035		330,822		330,822	330,822		
Returned to Member States 2004	0		0		-81,945		0		-81,945		-81,945	248,878		
Transfer to Part II fund 2004	-7,212		-1,737		-81,945		-74,518		-165,410		-165,410	83,467		
Surplus Part I 2005	0		0		0		0		0		0	83,467		
Surplus Part II 2005	22,008		5,475		268,882		235,232		531,598		531,598	615,065		
Returned to MS, rent comp FMO	1,592		225		33,406		0		35,223		35,223	650,288		
Transfer to Part II fund 2005	-4,140		-1,030		-50,580		-44,250		-100,000		-100,000	550,288		
Surplus Part I 2006	0		0		0		0		0		0	550,288		
Surplus Part II 2006	11,824		2,993		151,073		127,512		293,402		293,402	843,690		
Returned to Member States 2007	-7,212		0		0		0		-7,212		-7,212	836,478		
Surplus Part I 2007	8,325		1,983		102,708		83,328		196,344		196,344	1,032,822		
Surplus Part II 2007	0		0		0		0		0		0	1,032,822		
Returned to Member States 2008	0		0		-251,708		0		-251,708		-251,708	781,114		
FIPOI 2007 Invoice	-871		-208		-10,747		-8,720		-20,546		-20,546	760,568		
Surplus Part I 2008	0		0		0		0		0		0	760,568		
Surplus Part II 2008	16,101		3,403		185,921		145,369		350,795		350,795	1,111,363		
Surplus Part I 2009, restated	-4,975	4,405	-972	860	-57,234	50,666	-42,455	37,583	-105,637	93,514	33,269	1,005,726	93,514	1,144,633
Surplus Part II 2009, restated	18,490	9,524	3,612	1,860	212,697	109,554	157,776	81,266	392,575	202,204	692,930	1,398,302	295,718	1,837,562
2010 exch. rate											7,038	1,398,302	295,718	1,844,600
Returned to Member States 2010	-54,840		-14,577		-428,956		-612,989		-1,111,362		-1,111,362	286,940	295,718	733,238
ILO Costs reallocation		448		-68		-14,908		14,528		0	0	286,940	295,718	733,238
Surplus Part I 2010	35,811	3,029	6,437	544	412,422	34,883	285,233	24,125	739,903	62,581	834,350	1,026,843	358,300	1,567,588
Surplus Part II 2010	25,675	629	4,615	113	295,681	7,248	204,494	5,013	530,465	13,003	550,089	1,557,308	371,302	2,117,677
Total	**75,000**	**18,035**	**13,692**	**3,310**	**863,565**	**187,443**	**605,047**	**162,515**	**1,557,308**	**371,302**	**2,117,677**			

* Consolidated total and consolidated balance are shown at then current year's exchange rate.

Taxation

Headquarters Agreements in Switzerland, Belgium, and Luxembourg grant tax exemptions for normal activities with the following exceptions:

Two types of local taxes for the office building in Brussels have to be paid. The amounts paid in 2010 were EUR 60,944 (CHF 91,977 [58,756 / 87,276 in 2009]) for real estate tax and EUR 18,084 (CHF 27,292 [17,304 / 25,703 in 2009]) for regional tax.

Value Added Taxes of amounts less than EUR 100 have to be paid in Belgium and Luxembourg. Purchases of higher amounts are tax-free.

Interest income

Interest income derives from deposits of the contributions from the Member States. Since June 2008 contributions for the FMO are placed in bank accounts separate from those of the Association. Regular transfers are made from the FMO bank accounts to meet the payments made in relation to the FMO. Interest on these FMO bank accounts is credited as income for the FMO.

Commitments

Various commitments have been made in respect of cooperation programmes (Part II). The carrying value of EFTA standardisation commitments is estimated at CHF 2,505,099 (EUR 1,659,885) at 31 December 2010 (CHF 2,533,038 / EUR 1,705.290 in 2009).

(See note 0

Evaluation of claims or possible claims

No known claims or possible claims exist apart from the following: A staff member, dismissed in 2009, has brought a claim for financial compensation before the ILO Tribunal. The case will be decided in 2011 or early 2012. The majority of the Association’s Internal Advisory Board has already rendered an opinion favourable to the Association. The Association does not believe that the claim has merit, is defending itself vigorously and does not expect any significant financial effects from the judgment. For the associated legal costs, see note 0.

Savings fund

In accordance with the Staff Regulations and Rules, a savings fund for staff is held in the name of the Association. The purpose of the savings fund is to assist staff members and their families in protecting themselves from the economic consequences of old age. The savings fund is based on defined contributions from the Association and its staff members. The savings fund is not included in the Association’s financial statements. In 2010 EFTA contributed CHF 2,031,639 to the savings fund.

Savings fund contributions can be kept in three currencies (CHF, EUR, and NOK). Contributions are placed with the Swiss National Bank, Nordea S.A. Luxembourg (Zurich branch), or Banca Monte Paschi Belgio.

At 31 December 2010 the balance of the savings fund (including FMO) was as follows (CHF consolidated figure is at market rate):

Balance	CHF	EUR	NOK	CHF Cons.
BMP (deposits)		1,799,226		2,249,877
SNB (deposits)	2,786,775			2,786,775
Nordea, deposits (CHF, EUR, NOK)	72,656	1,096,571	8,817,289	2,857,385
Nordea, bonds				1,436,546
Nordea, equities				948,151
Total				**10,278,734**
Total deposits				7,894,037

The credit ratings for long-term bank deposits, as per Moody's bank ratings,[2] for the parent companies (the local entities are not rated) of the private institutions are: A2 for Banca Monte dei Paschi di Siena[3] and Aa2 for Nordea Bank AB.[4] The Association does not consider itself liable for the assets of the savings fund, whether deposits or securities.

Events subsequent to the balance sheet date

No significant events took place after 31 December 2010.

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[2] Moody's Investor Service, www.moodys.com, 24 March 2011.

[3] Banca Monte dei Paschi di Siena holds of 99.99% of the shares of Banca Monte Paschi Belgio.

[4] Nordea Bank AB holds 99.99% of the shares of Nordea S.A. Luxembourg.

EUROPEAN FREE TRADE ASSOCIATION

THE CHAIR OF THE COUNCIL

Ref. 29888

Geneva, 9 December 2011

EFTA Savings Fund

Dear Mr. Engeseth,

I refer to the questions raised by EBOA concerning the EFTA Savings Fund.

The Council has not made any decision with regard to the Association's liability for possible losses incurred by the Savings Fund. As far as the Council is aware, there is no relevant jurisprudence concerning the issue. Hence, no provisions for liability have been included in the Financial Statement.

The Council and the competent institutions in the Member States share the view of EBOA that it is important to harmonise the way this issue is dealt with in the EFTA institutions.

Furthermore, it is extremely important to the Council to ensure that staff are given full support and guidance to minimise risk exposure in light of the financial, monetary and economic crises. To this end, the EFTA Secretariat has undertaken a number of measures in order to reduce the risk for the individual staff member's savings. Staff are now permitted to spread their savings over several schemes in different banks and in different currencies, and an agreement with a new bank is also under consideration. Staff are encouraged to limit their savings in each bank to the level of the official guarantee scheme. Staff are also reminded that the Swiss National Bank is a valid option for all staff, although it entails a currency exchange risk for staff whose salaries are in Euros. The Secretariat is monitoring the performance and risk situation of each scheme on a continuous basis and is informing staff regularly.

Sincerely yours,

Chair of the EFTA Council
Elin Østebø Johansen

Mr. Per A. Engeseth
EFTA Board of Auditors
P.O. Box 8130 Dep.
N-0032 OSLO

Cc: Mr. Kåre Bryn, Secretary-General of EFTA

EUROPEAN FREE TRADE ASSOCIATION

THE CHAIR OF THE COUNCIL

Ref. 29052
22 July 2011

Dear Mr. Engeseth,

I refer to your letter dated 5 July 2011 on the audit of the 2010 accounts of the EFTA Secretariat.

1. Savings Fund

The Council has not finished its deliberations on the issues mentioned in your letter regarding the Savings Fund. Further discussions are foreseen to take place in the autumn.

2. Compliance with IFRS

The Council notes EBOA’s satisfaction with the compliance of the EFTA Financial Statements with the International Financial Reporting Standards (IFRS) and their remark that not all disclosure notes and presentation requirements as prescribed by the IFRS have been included. The Secretariat in cooperation with the auditors (BDO) will continue to look into whether additional disclosure requirements can be of added value and thus included in future EFTA financial statements.

3. Harmonisation of the EFTA Institutions’ Financial Statements

The Council agrees with EBOA that the financial statements of the EFTA institutions would benefit from an increased level of harmonisation. There has been contact between the three institutions during 2010. A working group has been established which discussed and agreed upon a common approach for the 2010 financial statements. Progress has hence already been made for the 2010 accounts and the Secretariat will continue its efforts towards improved harmonisation between the three institutions for the 2011 accounts.

Yours sincerely,

Chair of the EFTA Council
Elin Østebø Johansen

cc: Mr. Kåre Bryn, Secretary-General of EFTA

Mr Per A. Engeseth
EFTA Board of Auditors
P.O.Box 8130-Dep.
N-0032 OSLO