EUROPEAN FREE TRADE ASSOCIATION

Ref. 34258

11 February 2013

EFTA Secretariat – Financial reports 2012

This document includes the following:

1. Excerpt from the Council summary record of 11 December 2013
2. Letter from EFTA Board of Auditors (EBOA) on Audit of the 2012 Accounts
3. Audit Report – EFTA Secretariat
4. Statement of Account 2012
5. Letter from the Chair of the Council to the Chair of EBOA, 12 July 2013

Ref. 34029
12 December 2013

TENTH MEETING OF THE COUNCIL

Geneva, 11 December 2013

SUMMARY RECORD

Statement of account for 2012

1. The Council noted the letter from the Chair of the Budget Committee recommending the approval by the Council of the accounts for 2012, ref. 34009. The Council approved the Statement of account for 2012, ref. 1119037, and discharged the Secretary-General of his responsibilities for the financial period in question.

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EUROPEAN FREE TRADE ASSOCIATION

BOARD OF AUDITORS

The Chairman

EFTA ref.1124537
25/2013
24 June 2013

Audit of the 2012 Accounts

At their last meeting in Brussels on 4 and 5 June 2013, the Members of the EFTA Board of Auditors (EBOA) reviewed the accounts of the **EFTA Secretariat** covering the period 1 January to 31 December 2012.

On the basis of the audit report and the management letter from the mandated external auditor, BDO, EBOA has decided to issue a certificate for the 2012 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 Savings Fund is not included in the association's 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 liability. EBOA would like to continue to stress the importance of harmonisation in the way in which 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.

H.E. Ms Elin Østebø Johansen
Ambassador
Permanent Representative to the WTO and EFTA
Box 264, CH-1211 Geneva 19,
Switzerland

CC: Kristinn Árnason, Secretary General, EFTA Secretariat

EBOA takes note of the EFTA Secretariat's efforts to inform staff on saving options and risks.

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 remains one exception:

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

3. IPSAS

EBOA notes with satisfaction that the EFTA Secretariat will transform to the International Public Sector Accounting Standards (IPSAS) as of 2013.

4. 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.

EBOA notes with satisfaction the progress made by the EFTA Secretariat together with ESA on a harmonised format of the financial statements. EBOA encourages the Heads of Finance to continue working on the harmonisation.

5. IT system security risk

EBOA notes the Secretariat's work towards establishing an IT security policy and encourages the Secretariat to consider an external evaluation of the overall IT system.

Respectfully yours,

Hans Conrad Hansen

Hans Conrad Hansen
Chairman of the EFTA Board of Auditors

EUROPEAN FREE TRADE ASSOCIATION

4 June 2013

EFTA ref. 1123746
EBOA 10/2013

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 2012

1. The Board of Auditors has examined the accounts of the EFTA Secretariat for the period 1 January to 31 December 2012 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

Hans Conrad Hansen
(Norway)
Chair

Ingi K. Magnusson
(Iceland)
Vice-Chairman

Heinz Vogt
(Liechtenstein)
Member

Didier Monnot
(Switzerland)
Member

Annex: Auditor's Report by BDO including the Financial Statement for the EFTA Secretariat for the year ended 31 December 2012

EUROPEAN FREE TRADE ASSOCIATION

Distribution: EFTA | Ref. 1119037

22 March 2013

Statement of Account

Financial Year 2012

Note by the Secretariat

I. Preface to the financial statements

1. In accordance with Financial Regulation 14, the Secretary-General shall submit the final accounts for the period just ended to the EFTA Council (hereinafter "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 2012, between 3 and 5 December 2012 (interim audit) and between 11 and 15 March 2013.

3. Once the EFTA Board of Auditors has received the audit report from BDO, the Board will report back to the 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 2012, reference is made to the Performance and Budget Report 2012, ref. 1119038.

II. Mission / main activities

5. The tasks of the EFTA Secretariat consist of assisting the Member States in 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 Council and its committee structure is carried out with the support of the Secretariat in Geneva. In 2012 the Council met eight times at official level (Heads of Permanent Delegations to EFTA in Geneva) and twice at ministerial level. Switzerland held the chair during the first six months and Iceland 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 joint 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 EEA Joint Committee.

9. The EFTA Statistical Office in Luxembourg coordinates EFTA's cooperation with Eurostat and provides statistical support for various other EFTA purposes.

III. Review of financial result

10. The budget for the financial year 1 January to 31 December 2012 was adopted by the Council on 8 December 2011 in Decision no 8 of 2011 (ref. 29908). The approved net budget for the financial year 2012, including a transfer from the building fund, totalled EUR 11,194,262 and CHF 8,409,000 on the basis of which the contributions from Member States were determined and set out in Decision no 9 of 8 December 2011 (ref. 29909).

11. The planned activities of the Secretariat were defined in the Performance Plan for the year 2012 (ref. 1109059).

12. The total expenditure (Part I and Part II) for the financial year 2012 was CHF 21,332,014 (CHF 22,906,407 in 2011) against a total income of CHF 22,659,528 (CHF 24,405,656 in 2011), leading to a budget surplus of CHF 1,327,514 before financial items (CHF 1,499,249 in 2011). Adding financial items, i.e. write-offs, interest income, realised and unrealised exchange rate differences and bank charges, having a revenue effect of CHF 43,278 (CHF 80,679 in 2011), the end surplus amounts to CHF 1,370,792 (CHF 1,579,929 in 2011).

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

a) The net expenditure in Part I was CHF 18,130,584 or 94% of the budget (CHF 19,770,202 or 96% in 2011), resulting in a surplus of CHF 1,111,742 (CHF 770,905 in 2011).

b) The net expenditure in Part II was CHF 2,566,949 or 91% of the budget (CHF 2,303,976 or 74.0% in 2011), resulting in a surplus of CHF 259,051 (CHF 809,024 in 2011). According to Council's Decision no 5 of 6 November 2012, CHF 200,000 of the 2012 budget shall be carried over to the 2013 budget.

14. The surplus in Part I is mainly due to temporary vacancies, reduced IT spending, e.g. due to project delays and lower than expected expenditure on staff allowances. The surplus in Part II is due to fewer projects undertaken than planned. 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 in CHF is as follows:

	Budget 2012	Actual 2012	%	Remainder
Part I	19,240,624	18,173,862	94%	1,066,762
Part II	2,826,000	2,566,949	91%	259,051
Total expenses as budgeted	**22,066,624**	**20,740,812**	**94%**	**1,325,812**
Add reimbursed expenses	619,501	591,202	95%	28,299
TOTAL EXPENSES	**22,686,125**	**21,332,014**	**94%**	**1,354,111**
Part I				
Contributions	19,240,624	19,242,326	100%	-1,702
Part II				
Contributions	2,826,000	2,826,000	100%	-
Total income as budgeted	**22,066,624**	**22,068,326**	**100%**	**-1,702**
Add reimbursements	619,501	591,202	95%	28,299
TOTAL INCOME	**22,686,125**	**22,659,528**	**100%**	**26,597**
Net result before financial items	-	1,327,514		
Financial items, net	-	43,278		
RESULT 2012	**-**	**1,370,792**		
Transferred from Reserve Funds		30,789		
Carryover to 2013 budget		-200,000		
Net surplus to Member States		**1,201,581**		
BREAKDOWN PART I/II				
Part I, net expenditure	19,240,624	18,130,584	94%	1,110,040
Contributions	19,240,624	19,242,326	100%	-1,702
Net Part I	-	1,111,742		
Part II, net expenditure	2,826,000	2,566,949	91%	259,051
Contributions	2,826,000	2,826,000	100%	-
Net Part II	-	259,051		
TOTAL 2012	-	1,370,792		
PERFORMANCE & BUDGET REPORT				
Total expenses	22,686,125	21,332,014		
Deduct reimbursed expenses	-619,501	-591,202		
Financial items, net	-	-43,278		
TOTAL PERFORMANCE & BUDGET REPORT	22,066,624	20,697,534		

IV. Distribution of financial result

15. The distribution of the financial result is shown in the table below (details in notes 9f) and 12):

	Result 2012	Distribution of result 2012		
	CHF Cons.	Reserve Funds	Carryover to 2013 budget	Member States' Surplus Accounts
Part I	1,111,742	-19,445	-	1,131,187
Part II	259,051	-11,344	200,000	70,395
Total	**1,370,792**	**-30,789**	**200,000**	**1,201,581**

The financial statements and notes thereto are contained in the following pages.

22 March 2013,

Kristinn F. Árnason
Secretary-General

Financial Statements as at 31 December 2012

Statement of Financial Position

Financial year ending:		31/12/2012			31/12/2011			
	Note	Cons. **CHF**	*Geneva CHF*	*Brussels EUR*	Cons. **CHF-2012 exch rate**	*Geneva CHF*	*Brussels EUR*	Cons. **CHF-2011 exch rate**
ASSETS								
Current assets								
Cash	4	**9,424,952**	*3,352,370*	*4,977,526*	**7,540,000**	*3,502,842*	*3,309,146*	**8,069,463**
Receivables	5	**755,424**	*171,144*	*478,918*	**1,138,107**	*411,693*	*595,421*	**1,233,374**
		10,180,376	*3,523,514*	*5,456,444*	**8,678,107**	*3,914,535*	*3,904,567*	**9,302,838**
Non-current assets								
Fixed assets	6	**292,592**	*69,906*	*182,529*	**362,960**	*100,571*	*215,073*	**397,372**
Fixed assets FMO	1,6	**621,556**	-	*509,472*	**466,624**	-	*382,479*	**527,820**
Intangible assets	7	**194,340**	*1,000*	*158,475*				
Building Brussels	6	**146,123**	-	*119,773*	**292,247**	-	*239,547*	**330,574**
Receivables	5	**72,108**	*25,500*	*38,203*	**77,254**	*30,647*	*38,203*	**83,367**
		1,326,719	*96,406*	*1,008,453*	**1,199,085**	*131,218*	*875,301*	**1,339,133**
Total assets		**11,507,094**	*3,619,920*	*6,464,897*	**9,877,192**	*4,045,753*	*4,779,868*	**10,641,971**
LIABILITIES								
Current liabilities	9							
Payables and provisions	9	**1,907,269**	*276,839*	*1,336,418*	**1,112,744**	*145,402*	*792,903*	**1,239,608**
Unearned revenues	9b	**3,001**	*278*	*2,232*	**77,606**	*2,627*	*61,458*	**87,439**
Special Fund 4: Stat. Co-op	9c	**11,489**	-	*9,417*	**11,489**	-	*9,417*	**12,995**
Special funds FMO	9c	**2,433,215**	-	*1,994,439*	**1,145,035**	-	*938,553*	**1,295,203**
Building fund	9d	**146,123**	-	*119,773*	**292,247**	-	*239,547*	**330,574**
Adv. payment 2013 budget	12b	**200,000**	*200,000*	-	**-**	-	-	**-**
Reserve funds	9f	**1,103,331**	*710,884*	*321,678*	**1,134,120**	*763,658*	*303,658*	**1,182,705**
		5,804,429	*1,188,001*	*3,783,957*	**3,773,240**	*911,686*	*2,345,536*	**4,148,526**
Non-current liabilities								
Provisions for programmes	10b	**993,065**	-	*813,987*	**993,065**	-	*813,987*	**1,123,303**
Prov. for repatriation	10a	**1,089,879**	*353,917*	*603,247*	**1,187,844**	*440,730*	*612,388*	**1,285,826**
Prov. for repatriation FMO	10a	**814,625**	-	*667,725*	**647,852**	-	*531,026*	**732,816**
Other non-current liabilities		**29,803**	-	*24,429*	**29,803**	-	*24,429*	**33,712**
		2,927,371	*353,917*	*2,109,388*	**2,858,563**	*440,730*	*1,981,830*	**3,175,656**
Total liabilities		**8,731,800**	*1,541,918*	*5,893,346*	**6,631,803**	*1,352,417*	*4,327,366*	**7,324,182**
Exchange rate differences	2f	**-**	-	-	**72,400**	-	-	**-**
NET ASSETS / Surplus account	12	**2,775,294**	*2,078,002*	*571,551*	**3,317,789**	*2,693,336*	*452,502*	**3,317,789**
Surplus Account		2,775,294			3,317,789			3,317,789

Statement of Comprehensive Income

Financial year ending:		31/12/2012	31/12/2011
	Note	CHF	CHF
INCOME			
Member States' contributions		22,068,326	23,654,107
Other income, Part I		591,202	751,549
Total income		**22,659,528**	**24,405,656**
EXPENDITURE			
Part I		18,765,064	20,602,431
Part II		2,566,949	2,303,976
Total Expenditure		**21,332,014**	**22,906,407**
NET RESULT BEFORE FINANCIAL ITEMS		**1,327,514**	**1,499,249**
Interest income	13	65,782	101,760
Exchange gains (+)/losses (-) realised		-79	-75
Exchange gains (+)/losses (-) on intercompany expenses, unrealised		-	-
Interest expense		-569	-35
Bank charges		-21,856	-21,832
Write-offs reversed (+)/incurred (-)		-	862
Total financial items		**43,278**	**80,679**
Surplus/(deficit) for the year		**1,370,792**	**1,579,929**
Opening surplus account	12a	3,317,789	2,117,677
Exchange difference on Surplus Account	12b	-72,400	-47,972
Amount transferred to (+)/from (-) Surplus Account	12b	-1,671,675	-362,296
Advance payment 2013 budget	12b	-200,000	-
Amount transferred from (+)/to (-) Reserve Funds	9f	30,789	30,450
Closing Surplus Account		**2,775,294**	**3,317,789**

Statement of Changes in Equity-Like Funds

Financial year ending 31 December 2012

	Member States' Surplus Accounts	Reserve Funds	Total Surplus Accounts and Reserve Funds
31 December 2011	3,317,789	1,182,705	4,500,494
Exchange rate difference	-72,400	-48,585	-120,986
Returned to Member States in 2012	-1,671,675	-	-1,671,675
Advanced payment 2013 budget	-200,000	-	-200,000
Profit for the year	1,401,581	-30,789	1,370,792
31 December 2012	**2,775,294**	**1,103,331**	**3,878,625**

See notes 9f) and 12.

Statement of Cash Flow

Financial year ending:	Note	31/12/2012		31/12/2011	
Cash flow from operating activities					
Surplus (+)/deficit (-) for the year		**1,370,792**		**1,579,929**	
Adjustments for:					
Depreciation fixed assets (excluding building fund Brussels)	6	142,838		181,672	
Amortisation intangible assets	7	89,871		87,359	
Depreciation/amortisation FMO	6	-		185,369	
Increase (+)/decrease (-) in provision for repatriation	10a	-97,965		109,465	
Increase (+)/decrease (-) in provision for repatriation FMO	10a	166,773		170,372	
Interest income	13	-65,782		-101,760	
Surplus (+)/deficit (-) before working capital changes		**1,606,527**		**2,212,405**	
Decrease (+)/increase (-) in current receivables	5	382,683		-25,998	
Decrease (+)/increase (-) in long-tem receivables	5	5,147		-100	
Increase (+)/decrease (-) in payables	9	794,526		-247,300	
Increase (+)/decrease (-) in unearned revenues	9	-74,604		84,298	
Increase (+)/decrease (-) in long-term payables		-		-1,892	
Increase (+)/decrease (-) in Special Funds	9	1,288,180		480,121	
Increase (+)/decrease (-) in provision for programmes	10b	-		-	
Net cash from from (+)/used in (-) operating activities			**4,002,458**		**2,501,534**
Cash flow from investing activities					
Purchase of fixed assets	6	-195,441		-108,638	
Purchase of intangible assets	7	-161,239		-87,359	
Purchase of fixed assets FMO	6	-621,556		-550,755	
Interest income	13	65,782		101,760	
Net cash from (+)/used in (-) investing activities			**-912,455**		**-644,992**
Cash flow from financing activities					
Member States' contribution transfer from Surplus Account	12	-1,671,675		-362,296	
Net cash from (+)/used in (-) financing activities			**-1,671,675**		**-362,296**
Net increase (+)/decrease (-) in cash and cash equivalents			**1,418,328**		**1,494,246**
Cash and cash equivalents at the beginning of the period			**8,069,463**		**6,903,816**
Exchange rate adjustment of cash		-529,463		-328,599	
Total exchange rate adjustments			-529,463		-328,599
Cash and cash equivalents at the end of the period			**8,958,328**		**8,069,463**

Notes to the financial statements

1 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.

2 Basis of preparation, significant accounting policies, and determination of fair values

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

a) Basis of preparation

The financial statements of the Association have been prepared in accordance with the International Financial Reporting Standards (IFRS) according to the Financial Regulations and Rules of the Association, in effect during the financial year 2012. 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 Council on 18 December 1997 and entered into force on 31 December 1997. Since then there have been four amendments. The first amendment, made in 2002, concerned part VII – Audit and approval of the accounts. The second amendment, made in 2004, concerned parts I, II, III and IV and 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. The fourth amendment, effective only as of 1 January 2013, changes the accounting standards used from IFRS to the International Public Sector Accounting Standards (IPSAS). The present financial statements are not affected by this change.

b) Changes in accounting policies

As of the current financial year, and in line with International Accounting Standard (IAS) 19 (Employee Benefits), the Association recognises an expense and corresponding liability due to accrued but unused annual leave. Otherwise, there have been no changes in accounting policies since the year 2011.

c) Principles of combined statements

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

d) Fixed assets

Fixed assets are stated at their acquisition cost less depreciation using the straight-line method over the assets' 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 2012 are three cars, 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, and assets for the FMO, which is administratively part of the EFTA Secretariat. Useful lives are estimated as follows:

Vehicles:	5 years
IT equipment:	3 years
Other equipment:	5 years
Fitting out of offices EFTA:	9 years – length of the original lease contract
Fitting out of offices FMO:	6 years – length of the original lease contract as well as the length of the lease contract for a new floor, entered into in 2012

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.

Items costing less than CHF 1,500 / EUR 1,000 are not recorded among assets but are expensed in the year of purchase.

e) Intangible assets

Intangible assets are stated at their acquisition cost, including development cost, less amortisation using the straight-line method over the assets' estimated useful lives.

The intangible assets recognised at 31 December 2012 consist only of computer software. Useful lives are estimated as three years.

f) 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 accounting entities are converted at the rate of exchange used for establishing the budget, EUR 1 = CHF 1.22.

(ii) Translation of financial statements

The operations of the Brussels entity of the Association are considered an integral part of EFTA's operations. Accordingly, the relevant assets and liabilities are translated at the rate of exchange used for the budget: 1.22. Both the opening balance (1 January 2012) and the closing balance (31 December 2012) have been converted to CHF using the rate of exchange for the budget. This amounts to revaluing net assets in the Brussels entity (the Member States' surplus account), based on the new exchange rate. Due to the strengthening of the Swiss franc, the result of this is an exchange loss of CHF 72,400 which is shown in the Statement of Comprehensive Income as Exchange Difference on Surplus Account.

g) Taxation

The Association is exempt from most taxes at the three duty stations (see details in note 14).

h) Inventories

Inventories such as printed publications and stationary are of negligible value and not recorded in the accounts.

i) 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 which concern office space and office equipment.

j) 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 the rendering of services, revenue is recognised at the delivery date of the goods or services.

k) Fair value

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

3 Financial risk management

The financial assets of the Association consist mainly of cash and prepaid expenses. The financial liabilities of the Association are trade payables.

a) Interest rate risk

No loans were outstanding at 31 December 2012.

b) Credit risk

Cash is placed with international banks with high credit ratings (see note 4). Calls for funds are made quarterly. Credit risk on receivables is limited as the Association's debtors are usually national or international organisations.

c) Hedges of anticipated future transactions – foreign exchange risk

At the end of the current year the Association was not a party to any forward currency contract and no such contracts were entered into during the year.

4 Cash and cash equivalents

31 December			2012				2011
	Cons.	Geneva	Brussels	Cons.	Geneva	Brussels	Cons.
	CHF	**CHF**	**EUR**	**CHF-2012**	**CHF**	**EUR**	**CHF-2011**
Bank				**exch rate**			**exch rate**
UBS - CHF	555,936	555,936	-	509,596	509,596	-	509,596
PostFinance - CHF	5,118	5,118	-	6,325	6,325	-	6,325
Swiss National Bank - CHF	2,787,859	2,787,859	-	2,982,983	2,982,983	-	2,982,983
ING - EUR	6,070,139	-	4,975,524	4,035,041	-	3,307,411	4,564,227
Other	5,900	3,458	2,002	6,055	3,938	1,735	6,332
	9,424,953	**3,352,371**	**4,977,526**	**7,540,000**	**3,502,842**	**3,309,146**	**8,069,463**

The long-term obligations credit ratings as per Moody's[1] are A2 (Aa3 on 20 March 2012) for both UBS AG Switzerland and ING Belgium SA.

5 Receivables

Receivables 31 December			2012				2011
	Cons.	Geneva	Brussels	Cons.	Geneva	Brussels	Cons.
	CHF	**CHF**	**EUR**	**CHF-2012**	**CHF**	**EUR**	**CHF-2011**
Current				**exch rate**			**exch rate**
Accounts receivable - normal operations	144,137	345	117,862	57,622	762	46,607	65,079
Accounts receivable - savings fund	-	-	-	194,601	194,601	-	194,601
Advances and loans to staff members	16,365	0	13,414	16,052	0	13,157	18,157
Receivables from Member States	-	-	-	-	-	-	-
Prepaid expenses	594,922	170,799	347,642	869,832	216,330	535,657	955,537
	755,424	**171,144**	**478,918**	**1,138,107**	**411,693**	**595,421**	**1,233,374**
Long term							
Guarantee deposits	**72,108**	**25,500**	**38,203**	**77,254**	**30,647**	**38,203**	**83,367**

[1] Moody's Investor Service, www.moodys.com, 19 March 2013.

6 Fixed assets

The carrying value of property and equipment is calculated as follows in 2012:

	Vehicles		IT		Other		Total
	Geneva	Brussels	Geneva	Brussels	Geneva	Brussels	Cons.
Cost	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**
At 1 January	77,787	41,704	536,179	754,678	586,290	319,382	2,740,009
New exchange rate							-178,523
Additions	-	-	19,679	80,107	7,250	58,018	195,441
Disposals	-	-	-10,874	-11,412	-	-328	-10,874
At 31 December	77,787	41,704	544,984	823,372	593,540	377,072	2,746,054
Accumulated depreciation							
At 1 January	76,089	41,704	504,080	678,011	523,389	278,595	2,481,226
New exchange rate							-159,730
Depr for year	1,696	-	25,256	51,430	26,766	21,619	142,838
Disposals	-	-	-10,874	-11,412	-	-328	-10,874
At 31 December	77,786	41,704	518,461	718,029	550,156	299,886	2,453,461
Net at 31 December	**-**	**-**	**26,522**	**105,343**	**43,384**	**77,186**	**292,592**

The carrying value of equipment for the FMO is calculated as follows in 2012:

	EUR	CHF
At 1 January	382,479	527,820
New exchange rate		-61,197
Additions	352,451	429,991
Depreciation/amortisation	-225,458	-275,059
At 31 December	**509,472**	**621,556**

* This table includes fixed and intangible assets

The carrying value of the fitting out of office premises in Brussels is calculated as follows in 2012:

	EUR	CHF
At 1 January	239,547	330,574
New exchange rate		-38,327
Additions	-	-
Depreciation	-119,773	-146,123
At 31 December	**119,773**	**146,123**

7 Intangible assets

The carrying value of intangible assets, which solely consist of computer software, is calculated as follows in 2012:

Cost	Geneva CHF	Brussels EUR	Cons. CHF
At 1 January	84,906	537,940	827,263
New exchange rate			-86,070
Additions	-	132,163	161,239
Disposals	-	-	-
At 31 December	84,906	670,103	902,432
Accumulated depreciation			
At 1 January	81,030	440,320	688,672
New exchange rate			-70,451
Amortisation for year	2,875	71,307	89,871
Disposals	-	-	-
At 31 December	83,906	511,628	708,092
Net at 31 December	**1,000**	**158,475**	**194,340**

8 Finance leases

The Association is not a party to any lease agreement that can be classified as a finance lease and does therefore not recognise any asset or liability in connection with its leases. For operating leases, see note 15.

9 Current liabilities

Payables 31 December			2012				2011
Current	Cons. CHF	Geneva CHF	Brussels EUR	Cons. CHF-2012 exch rate	Geneva CHF	Brussels EUR	Cons. CHF-2011 exch rate
Accounts payable - normal operations	1,048,451	161,607	726,921	682,951	138,919	445,928	754,300
Accounts payable - savings fund	861	861	-	-	-	-	-
Provisions	857,958	114,371	609,497	429,792	6,483	346,975	485,308
Due to Member States	-	-	-	-	-	-	-
Unearned revenues (prepaym. received)	3,001	278	2,232	77,606	2,627	61,458	87,439
Special Fund: Financial Instr. 1999-2003	-9,920	-	-8,132	94,334	-	77,323	106,706
Special Fund: Statistical Cooperation	11,489	-	9,417	11,489	-	9,417	12,995
Special Funds: EEA FM 2004-2014	1,337,711	-	1,096,485	598,467	-	490,547	676,954
Special Funds: Norwegian FM 2004-2014	1,105,424	-	906,086	452,234	-	370,684	511,544
Building Funds	146,123	-	119,773	292,247	-	239,547	330,574
Advance payment 2013 budget	200,000	200,000	-	1,134,120	763,658	303,658	1,182,705
Reserve Funds	1,103,331	710,884	321,678	1,134,120	763,658	303,658	1,182,705
	5,804,429	**1,188,001**	**3,783,958**	**4,907,360**	**911,686**	**2,345,536**	**4,148,526**

a) Provisions

Provisions are mainly relating to two posts. First, a provision is made for the publishing and external translation costs of documents originating in the current year or before, but not yet published or translated. These documents include legal acts adopted by the EEA Joint Committee and documents from the EFTA Surveillance Authority and the EFTA Court. Second, a provision is now made for the first time for unused annual leave. This may be carried over by staff in accordance with the Association's Staff Regulations and Rules.

b) Unearned revenues

The unearned revenues consist of payments of pensioners' medical insurance received by the Association in 2012 but relating to 2013, and an early payment of funds for 2013 by a Member State.

c) Special Funds

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

1. Special Fund: Financial Instrument 1999-2003

Net assets on 31/12/2012:	CHF -9,920 / -8,132 (CHF 106,706 / EUR 77,323 in 2011)
Legal basis:	Decisions of the Financial Instrument/Mechanism Committee based on a budget proposal of the EFTA Secretariat and approved by the European
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:	The balance belongs to the EEA EFTA Member States and the European Commission. The FMO has been informed of the negative balance and will make the corresponding payment to the Association.

2. Special Fund: Statistical Cooperation

Net assets on 31/12/2012:	CHF 11,489 / 9,417 (CHF 12,995 / EUR 9,417 in 2011)
Legal basis:	Article 82(1) (a) of the EEA Agreement; Budget line B-5600 and Point 5 of Protocol 30 to 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 Fund: EEA Financial Mechanisms 2004-2014

Net assets on 31/12/2012:	CHF 1,337,711 / EUR 1,096,485 (CHF 676,954 / EUR 490,547 in 2011)
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 two funds: a) the fund for 2004-2009 and b) the fund for 2009-2014.

4. Special Fund: Norwegian Financial Mechanisms 2004-2014

Net assets on 31/12/2012:	CHF 1,105,424 / EUR 906,086 (CHF 511,544 / EUR 370,684 in 2011)
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 two funds: a) the fund for 2004-2009 and b) the fund for 2009-2014.

d) 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	
Out of the fund 2011	-5,222	-1,258	-53,958	-59,336	-119,773	239,547	
Out of the fund 2012	-5,222	-1,258	-53,958	-59,336	-119,773	119,773	146,123
Total	**5,222**	**1,258**	**80,848**	**32,446**	**119,773**		

The year 2013, which is the last year of the initial lease agreement for the offices at Rue Joseph II in Brussels, will be the final year in which the office renovations will be depreciated and accordingly the building fund will cease to exist after the end of that year.

e) Advance payment of 2013 budget

See note 12b).

f) Reserve Funds Part I and Part II[2]

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.

As of 2009 the Reserve Funds have been kept in EUR as well as in CHF. Due to the weakening of the euro against the Swiss franc, the consolidated balance of the Reserve Funds is reduced from 2011 to 2012 to keep it at its maximum level of 5% of the budget. The excess funds are transferred along with the 2012 net result to the Member States' surplus accounts (see note 12d)).

Source	Reserve Fund Part I		Reserve Fund Part II		Total		Consolidated CHF*	
	CHF	EUR	CHF	EUR	CHF	EUR	Total cons.	Balance cons.
Surplus 2004	710,331	-	137,681	-	848,012	-	848,012	848,012
Out of fund 2005	-129,137	-	-	-	-129,137	-	-129,137	718,875
Surplus 2005	184,270	-	22,467	-	206,737	-	206,737	925,612
Out of fund 2006	-19,712	-	-	-	-19,712	-	-19,712	905,900
Surplus 2006	166	-	4,166	-	4,332	-	4,332	910,232
Out of fund 2007	-459,000	-	-70,000	-	-529,000	-	-529,000	381,232
Surplus 2007	742,412	-	4,193	-	746,605	-	746,605	1,127,837
Surplus 2008	-	-	75,493	-	75,493	-	75,493	1,203,330
Out of fund 2008	-339,299	-	-	-	-339,299	-	-339,299	864,031
Surplus 2009	-36,205	270,550	-13,548	3,836	-49,753	274,386	357,819	1,221,850
2010 exch. rate	-	-	-	-	-	-	6,530	1,228,380
Surplus 2010	-	14,319	-	337	-	14,657	22,120	1,250,500
2011 exch. rate	-	-	-	-	-	-	-37,344	1,213,156
Surplus 2011	-19,890	-	-30,731	14,616	-50,620	14,616	-30,450	1,182,705
2012 exch. rate	-	-	-	-	-	-	-48,585	1,134,120
Surplus 2012	-46,166	21,902	-6,608	-3,882	-52,774	18,020	-30,789	1,103,331
Total	**587,770**	**306,771**	**123,114**	**14,907**	**710,884**	**321,678**		
Total CHF (5% of budget)	**962,031**		**141,300**		**1,103,331**			
Budget in CHF	**19,240,624**		**2,826,000**		**22,066,624**			

* Consolidated total and consolidated balance are shown at that year's exchange rate

10 Long-term payables and provisions

a) Provision for the resettlement of non-locally recruited staff

The Association has a contractual obligation to all non-locally recruited staff to pay a resettlement allowance and removal expenses at the end of their term of service. Based on the present Staff Regulations and Rules, the cost for each staff member has been estimated and provisions recorded

[2] The Reserve Funds were introduced in 2004.

assuming an average employment time of four years in EFTA. A resettlement provision is also calculated for FMO staff (see separate line in the balance sheet).

The resettlement provision for the Association is calculated as follows:

31 December	2012			2011			
	Cons. CHF	Geneva CHF	Brussels EUR	Cons. CHF-2012 exch rate	Geneva CHF	Brussels EUR	Cons. CHF-2011 exch rate
At 1 January	1,187,844	440,730	612,388	1,087,823	412,731	553,354	1,176,360
Into the fund	280,494	93,813	153,017	292,626	127,648	135,228	314,262
Out of the fund	-378,459	-180,626	-162,158	-192,606	-99,651	-76,193	-204,797
At 31 December	**1,089,879**	**353,917**	**603,247**	**1,187,843**	**440,728**	**612,389**	**1,285,825**

The resettlement provision for the FMO is calculated as follows:

31 December	2012		2011		
	Cons. CHF	Brussels EUR	Cons. CHF-2012 exch rate	Brussels EUR	Cons. CHF-2011 exch rate
At 1 January	647,852	531,026	497,232	407,568	562,443
Into the fund	260,328	213,384	224,098	183,687	253,488
Out of the fund	-93,556	-76,685	-73,479	-60,229	-83,115
At 31 December	**814,625**	**667,725**	**647,851**	**531,026**	**732,815**

b) 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 field of statistics. These commitments are not reported as liabilities in the statements but expensed in the period of execution of the relevant services.

The carrying value of EFTA standardisation commitments is estimated at CHF 3,137,459 (EUR 2,571,687) at 31 December 2012 (CHF 3,186,009 / EUR 2,308,702 in 2011).

In order to make provisions to cover the commitments under Part II, the Council, on 28 May 1999, established a Part II Fund (ref. 28192). 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 2012, no funds were transferred to or from the Fund. In light of the fact that all said long-term commitments are denominated in EUR, the Fund is denominated in EUR as of 2010.

	Geneva CHF	Brussels EUR	Cons. CHF
At 1 January	-	813,987	1,123,303
New exchange rate	-	-	-130,238
Into the Fund	-	-	-
Out of the Fund	-	-	-
At 31 December	**-**	**813,987**	**993,065**

11 Loans and borrowing

No loans were taken in 2012, and there were no loans outstanding at the end of the year.

12 Surplus account

a) Adjustment to opening surplus

In the period between 2004 and 2011, the net result related to the part of the EFTA Budget which is only financed by the three EEA EFTA States ("EFTA at three" funds the external costs of the publication of the EEA supplement) was not distinguished from the net result of EFTA in general. In 2012, Member States agreed to correct this through a reallocation of previous surplus (see table below).

b) Transactions in current year

The respective surplus balances resulting from 2009 and 2010 were paid back or deducted from calls for funds according to the Member States' wishes, and have now been paid back in full. In December 2012, the Council decided that the 2011 surplus would go back to the Member States. This will be executed in connection with the second call for funds in 2013.

In November 2012, the Council decided to establish a financial facility for technical assistance to the Palestinian Authority, in the amount of CHF 200,000, by carrying said amount from Part II of the 2012 budget over to the 2013 budget. This amount is shown as advance payment of the 2013 budget under current liabilities in the present financial statements and is deducted from the surplus of 2012.

The 2012 surplus of the EFTA at three Budget, referred to in item a) above, is shown as a separate line in the surplus overview below.

Due to the change in exchange rates between CHF and EUR and the fact that part of the Surplus Account is in EUR , an exchange rate adjustment is calculated on the consolidated balance.

c) Distribution keys

The Council determines the distribution keys. For the period 2009-2012, the keys are as follows:

Distribution keys of EFTA Member States

	Iceland	Liechtenstein	Norway	Switzerland	Total
	%	%	%	%	%
2009: All	4.710	0.920	54.180	40.190	100.000
2009: EEA	4.840	1.020	94.140	-	100.000
2010: All	4.840	0.870	55.740	38.550	100.000
2010: EEA	3.170	1.080	95.750	-	100.000
2011: All	4.350	0.860	56.580	38.210	100.000
2011: EEA	3.050	1.220	95.730	-	100.000
2012: All	**3.840**	**0.880**	**56.070**	**39.210**	**100.000**
2012: EEA	**2.919**	**1.195**	**95.886**	-	**100.000**

d) Member States' balance

The status of the Member States' surplus accounts is shown on the following page. This year, the format has been changed to facilitate understanding of the surplus accounts' transactions.

SURPLUS ACCOUNTS, TRANSACTIONS ORDERED ACCORDING TO THE YEAR TO WHICH THEY RELATE

	Iceland		Liechtenstein		Norway		Switzerland		Total		
Source	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**Cons.**
Surplus Part I 2009, restated	-4,975	4,405	-972	860	-57,234	50,666	-42,455	37,583	-105,637	93,514	-
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	-
ILO costs reallocation	-	448	-	-68	-	-14,908	-	14,528	-	-	-
Returned to Member States 2011	-	-	-2,641	-2,653	-155,463	-145,312	-	-	-158,104	-147,965	-
Returned to Member States 2012-1	-13,515	-14,376	-	-	-	-	-115,321	-133,377	-128,836	-147,753	-
Surplus Part I 2010	35,811	3,029	6,437	544	412,422	34,883	285,233	24,125	739,903	62,581	-
Surplus Part II 2010	25,675	629	4,615	113	295,681	7,248	204,494	5,013	530,465	13,003	-
Returned to Member States 2012-2	-61,486	-3,659	-11,052	-658	-708,103	-42,131	-489,727	-29,138	-1,270,368	-75,585	-
Surplus Part I 2011	37,313	-2,111	7,377	-417	485,328	-27,462	327,755	-18,546	857,774	-48,536	790,794
Surplus Part II 2011	18,982	12,080	3,753	2,388	246,892	157,123	166,733	106,109	436,359	277,700	819,585
EFTA at three reallocation	-	-364	-	-1,215	253,592	89,143	-253,592	-87,564	-	-	-
Total available for distribution in 2013*	**56,295**	**9,605**	**11,130**	**756**	**985,812**	**218,804**	**240,896**	**-**	**1,294,132**	**229,164**	**1,610,379**
2012 Exchange Rate**	-	-	-	-	-	-	-	-	-	-	-36,666
Surplus Part I, 2012, EFTA at four	23,942	15,646	5,487	3,525	349,590	222,370	244,470	163,171	623,488	404,713	1,117,238
Surplus Part I, 2012, EFTA at three	-	334	-	137	-	10,963	-	-	-	11,433	13,948
Surplus Part II 2012	13,839	-2,832	3,171	-649	202,066	-41,357	141,305	-28,921	360,381	-73,759	270,395
Carryover for Part II in 2013	-7,680	-	-1,760	-	-112,140	-	-78,420	-	-200,000	-	-200,000
Total	**86,395**	**22,752**	**18,028**	**3,769**	**1,425,327**	**410,780**	**548,252**	**134,250**	**2,078,002**	**571,551**	**2,775,294**

SURPLUS ACCOUNTS, TRANSACTIONS IN CHRONOLOGICAL ORDER

	Iceland		Liechtenstein		Norway		Switzerland		Total			Balance		
Source	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**Cons.*** **	**CHF**	**EUR**	**Cons.*** **
Total 31 December 2011****	131,295	28,003	22,182	2,628	1,440,323	171,792	1,099,536	250,079	2,693,336	452,502	3,317,789	2,693,336	452,502	3,317,789
2012 Exchange Rate**	-	-	-	-	-	-	-	-	-	-	-72,400	2,693,336	452,502	3,245,388
Returned to Member States 2012-1	-13,515	-14,376	-	-	-	-	-115,321	-133,377	-128,836	-147,753	-309,095	2,564,500	304,749	2,936,294
Returned to Member States 2012-2	-61,486	-3,659	-11,052	-658	-708,103	-42,131	-489,727	-29,138	-1,270,368	-75,585	-1,362,581	1,294,132	229,164	1,573,713
EFTA at three reallocation	-	-364	-	-1,215	253,592	89,143	-253,592	-87,564	-	-	-	1,294,132	229,164	1,573,713
Surplus Part I, 2012, EFTA at four	23,942	15,646	5,487	3,525	349,590	222,370	244,470	163,171	623,488	404,713	1,117,238	1,917,621	633,877	2,690,951
Surplus Part I, 2012, EFTA at three	-	334	-	137	-	10,963	-	-	-	11,433	13,948	1,917,621	645,310	2,704,900
Surplus Part II 2012	13,839	-2,832	3,171	-649	202,066	-41,357	141,305	-28,921	360,381	-73,759	270,395	2,278,002	571,551	2,975,294
Carryover for Part II in 2013	-7,680	-	-1,760	-	-112,140	-	-78,420	-	-200,000	-	-200,000	2,078,002	571,551	2,775,294
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**86,395**	**22,752**	**18,028**	**3,769**	**1,425,327**	**410,780**	**548,252**	**134,250**	**2,078,002**	**571,551**	**2,775,294**	**-**	**-**	**-**

* Council decided in December 2012 that these amounts will be returned to Member States
** The exchange rate adjustments differ in the two tables due to the different order of returns to Member States in 2012
*** Consolidated total and consolidated balance are shown at then current year's exchange rate
**** As shown in the 2011 Statement of Account

13 Financial items

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

14 Taxation

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

Historically two types of taxes have been paid in Brussels in relation to rented real estate, namely a federal tax (précompte immobilier) and a regional tax. A third real estate tax was added in 2011, as the commune in which the Association's offices are located, Ville de Bruxelles, decided to levy a communal tax on office space in the years 2011 and 2012. Details can be found in the table below:

		2012		2011
	Cons.	Brussels	Cons.	Brussels
	CHF	EUR	CHF	EUR
Real Estate Tax	88,934	64,445	85,893	62,241
Regional Tax	26,435	19,156	25,885	18,757
Communal Tax*	31,572	22,878	51,767	37,512
Total	**146,941**	**106,479**	**163,544**	**118,510**

* 2011 amount was based on an estimate

Value added tax (VAT) is paid on invoices of less than EUR 120 in Belgium and Luxembourg and CHF 100 in Switzerland. In Belgium VAT is also paid on some items carrying a 6% tax.

15 Operating leases

The Association leases its office space in Geneva, Brussels and Luxembourg, and some office equipment.

In 2011 the lease for the offices in Brussels was renewed. The new lease, which starts at the termination of the current lease, i.e. on 1 December 2013, runs for six years, but will be prolonged for another three years if neither party terminates the lease six months before the end of the six-year period. Both the current lease and the new lease contain a "diplomatic clause" allowing for earlier termination under certain conditions.

The lease in Geneva is automatically renewed every five years if not terminated one year before the end of the relevant five-year period. The current period ends on 30 June 2015. The lease contains a "diplomatic clause" allowing for earlier termination under certain conditions.

The lease in Luxembourg is automatically renewed every three years if not terminated six months before the end of the relevant three-year period. The current period ends on 5 May 2014.

The total amount of the Association's future minimum lease payments (not taking into account any "diplomatic clauses") is as follows:

	2012	2011
Not later than one year	1,078,875	1,236,806
Later than one year and not later than five years	3,378,772	3,998,504
Later than five years	1,467,280	2,368,978
Total	5,924,927	7,604,288

The Association is not a party to any finance leases (see note 7).

16 Other unrecognised contractual commitments

Various commitments have been made in respect of cooperation programmes (Part II). The carrying value of EFTA standardisation commitments is estimated at CHF 3,137,459 / EUR 2,571,687 at 31 December 2012 (CHF 3,186,009 / EUR 2,308,702 in 2011) (see also note 10b)).

17 Contingent liabilities

The Association is not aware of any claims or possible claims against it except for those recorded in the Statement of Financial Position, those mentioned in notes 10b), 15 and 16, and the following: A staff member, dismissed in 2009, has brought a claim before the Administrative Tribunal of the International Labour Organization, claiming monetary loss and moral damages for a temporary withholding of a step increase. The Association does not believe that the claim has merit, but even in a worst case scenario, the associated costs would not be material.

18 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 2012 the Association contributed CHF 1,670,899 (CHF 1,845,156 in 2011) 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 SA Luxembourg (Zurich branch), DNB Luxembourg SA (new option as of May 2012) or Banca Monte Paschi Belgio SA (BMPB). In February 2013, following negative news and a credit rating downgrade, it was decided that new accounts would not be opened with BMPB and staff who already held savings with the bank were advised to consider the situation carefully.

At 31 December 2012 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)	-	1,308,487	-	1,579,606
SNB (deposits)	2,783,804	-	-	2,783,804
DNB (deposits)	59,624	460,799	2,184,269	1,080,369
Nordea, deposits (CHF, EUR, NOK)	2,342	539,412	3,019,046	1,295,497
Nordea, bonds	-	-	-	682,416
Nordea, equities	-	-	-	362,608
Total				**7,784,301**
Total deposits				6,739,276

The long-term obligations credit ratings according to the rating agency Moody's[3] for the parent companies (the local entities are not rated) of different banks are: Ba2 (Baa1 on 20 March 2012) for Banca Monte dei Paschi di Siena SpA[4], A1 for DNB Bank ASA[5], and Aa3 (Aa2 on 20 March 2012) for Nordea Bank AB.[6] The Association does not consider itself liable for the assets of the savings fund, whether deposits or securities.

19 Subsequent events

No significant events took place after 31 December 2012, except for the notification of the claim from a previous staff member mentioned in note 17, received on 20 March 2013.

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[3] Moody's Investor Service, www.moodys.com, 19 March 2013.

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

[5] DNB Bank ASA holds 100.0% of the shares of DNB Luxembourg SA.

[6] Nordea Bank AB holds 99.99% of the shares of Nordea SA Luxembourg.

EUROPEAN FREE TRADE ASSOCIATION

CHAIR OF THE EFTA COUNCIL

Ref. 33421

12 July 2013

Dear Mr Hansen,

I refer to your letter dated 24 June 2013 on the audit of the 2012 accounts of the EFTA Secretariat.

The Council welcomes your letter and takes due note of the matters raised therein.

Concerning the question of the Association's liability for the Savings Fund and the importance of harmonising the handling of the matter in financial statements of the EFTA institutions, the Council recalls its comments made in its letter of 9 December 2011 (ref. 29888). The Council is further aware that the Secretariat will continue to monitor relevant market conditions and provide information to staff. In that context, the Council notes that since 1 June 2013, all Savings Fund related deposits with commercial banks are covered under an official deposit guarantee scheme in the European Economic Area.

On the issue of IT security, the Council is aware that the Secretariat's IT infrastructure is undergoing substantial reorganisation and renovation, under which security is given high priority.

These matters and others mentioned in your letter will be further addressed as necessary by the Budget Committee during its upcoming work on the 2012 accounts and the budget for 2014.

Yours sincerely,

Chair of the EFTA Council
Norbert Frick

Mr Hans Conrad Hansen
Chairman
EFTA Board of Auditors
P.O.Box 8130-Dep.
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Cc: Mr Kristinn F. Árnason, Secretary-General