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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS

CONSOLIDATED ANNUAL ACCOUNTS OF THE EUROPEAN UNION - FINANCIAL YEAR 2012

CONTENTS

NOTE ACCOMPANYING THE CONSOLIDATED ACCOUNTS

THE CONSOLIDATED ANNUAL ACCOUNTS OF THE EUROPEAN UNION FOR THE YEAR 2012 HAVE BEEN PREPARED ON THE BASIS OF THE INFORMATION PRESENTED BY THE INSTITUTIONS AND BODIES UNDER ARTICLE 148.2 OF THE FINANCIAL REGULATION APPLICABLE TO THE GENERAL BUDGET OF THE EUROPEAN UNION. I HEREBY DECLARE THAT THEY WERE PREPARED IN ACCORDANCE WITH TITLE IX OF THIS FINANCIAL REGULATION AND WITH THE ACCOUNTING PRINCIPLES, RULES AND METHODS SET OUT IN THE NOTES TO THE FINANCIAL STATEMENTS.

I HAVE OBTAINED FROM THE ACCOUNTING OFFICERS OF THESE INSTITUTIONS AND BODIES, WHO CERTIFIED ITS RELIABILITY, ALL THE INFORMATION NECESSARY FOR THE PRODUCTION OF THE ACCOUNTS THAT SHOW THE EUROPEAN UNION'S ASSETS AND LIABILITIES AND THE BUDGETARY IMPLEMENTATION.

I HEREBY CERTIFY THAT BASED ON THIS INFORMATION, AND ON SUCH CHECKS AS I DEEMED NECESSARY TO SIGN OFF THE ACCOUNTS OF THE EUROPEAN COMMISSION, I HAVE A REASONABLE ASSURANCE THAT THE ACCOUNTS PRESENT FAIRLY, IN ALL MATERIAL ASPECTS, THE FINANCIAL POSITION, THE RESULTS OF THE OPERATIONS AND THE CASHFLOW OF THE EUROPEAN UNION.

[signed]

MANFRED KRAFF

Accounting Officer of the Commission

24 July 2013

EU BUDGET: FROM PREPARATION TO DISCHARGE

The consolidated annual accounts of the European Union (EU) provide information on the activities of the institutions, agencies and other bodies of the EU from a budgetary and accrual accounting perspective. These accounts do not comprise the annual accounts of Member States.

1. ANNUAL BUDGET

The EU Budget finances a wide range of policies and programmes throughout the EU. In accordance with the priorities set by the Member States in the multi-annual financial framework (MFF), the Commission carries out specific programmes, activities and projects in the field. These could range from supporting education projects for the mobility of students and teachers, to support for farmers, to productive investments creating or maintaining jobs, to development aid, to projects aimed at supporting better work environment for workers in the EU, to enhance the control of the external borders.

Over 90% of the EU budget goes to funding such EU policies and activities, which have been agreed by all the Member States. The direct link between the annual budget and the EU policies is ensured through activity-based budgeting (ABB). The activity-based budget nomenclature allows for clear identification of the policy areas of the EU and the total amount of resources allocated to each of these areas.

The policy areas are subdivided into some 200 activities of which over 110 include operating budget headings and are thus reflected in the budget nomenclature as budget chapters. These policy areas are predominantly operational, since their core activities are aimed at benefiting a third-party, each within their respective domains of activity. Other policy areas, however, are horizontal and assure the proper functioning of the Commission, such as 'Coordination and legal advice', and 'Budget'. The activity structure provides the common conceptual framework for priority setting, planning, budgeting, monitoring and reporting, with the principal aim of enhancing the economic, efficient and effective use of resources.

The budget is prepared by the Commission and agreed normally in mid-December by the Parliament and the Council in accordance with the procedure of Article 314 of the Treaty on the Functioning of the EU.

2. HOW IS THE EU FUNDED?

The EU has two main categories of funding: Own resources revenues and sundry revenues.

2.1 Own resource revenues

Own resource revenue accrues automatically to the EU to enable it to finance its budget without the need for a subsequent decision by national authorities. The overall amount of own resources needed to finance the budget is determined by total expenditure less other revenue. The total amount of own resources cannot exceed 1.23 % of the gross national income (GNI) of the EU. Own resources can be divided into traditional own resources, the own resource based on value added tax (VAT) and the resource based on gross national income (GNI).

2.2 Sundry revenues

Sundry revenues arising from the activities of the EU normally represent less than 10% of total revenue. These are, for instance, competition fines and recovery orders to private and public debtors with regard to the management of EU projects. Penalty payments imposed by the Court of Justice on Member States that fail to comply with a given judgment also fall into this category. Any debt not paid at the due date is subject to default interest. Where debts of third parties other than Member States remain unpaid, Commission (and Council) can adopt decisions imposing the obligation to pay which are directly enforceable in accordance with the rules of civil procedure in force in the territory where enforcement is to be carried out. Defaulting debtors are subject to debt collecting procedures launched by the Legal Service of the Commission with the help of external law firms.

3. HOW THE EU BUDGET IS MANAGED AND SPENT

3.1 Primary operational expenditure

The EU's operational expenditure covers the various headings of the financial framework and takes different forms, depending on how the money is paid out and managed. For the 2012 accounts, the Commission classifies its expenditure as follows:

Direct centralised management: this is where the budget is implemented directly by the Commission services.

Indirect centralised management: this refers to cases where the Commission confers tasks of implementation of the budget to bodies of EU law or national law, such as the EU agencies of public law or with public service missions.

Decentralised management: these are the cases where the Commission delegates certain tasks for implementation of the budget to third countries.

Shared management: under this method of management budget implementation tasks are delegated to Member States. The majority of the expenditure falls under this mode covering such areas as agricultural spending and Structural Actions.
Joint management: under this method, the Commission entrusts certain implementation tasks to an international organisation.

From 2014 onwards, these classifications will change following the coming into force of the updated Financial Regulation.

3.2 The different financial actors within the Commission

The **College of Commissioners** assumes collective political responsibility but in practice does not exercise itself the budget implementation powers vested in it. It delegates these tasks each year to individual civil servants accountable to the College and subject to the Financial Regulation and the Staff Regulations. The staff concerned – generally Directors-General and Heads of Service - are known as "Authorising Officers by delegation". They in turn may further delegate budget implementation tasks to "Authorising Officers by sub-delegation".

The responsibility of the **Authorising Officers** covers the entire management process, from determining what needs to be done to achieve the policy objectives set by the institution to managing the activities launched from both an operational and budgetary standpoint, including adopting legal commitments, monitoring performance, making payments and recovering funds, if necessary. Sound financial management and proper accountability are assured within each of the Services by the separation of management control (in the hands of the authorising officers) from internal audit and compliance control with clear internal control standards (based on international standards), ex-ante and ex-post controls, independent internal auditing on the basis of risk assessments, and regular reporting on activities to the individual Commissioners.
Each Authorising Officer is required to prepare an Annual Activity Report (AAR) on the activities under his responsibility. In this AAR, he reports on policy results and on the reasonable assurance he may have that the resources assigned to the activities described in his report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. On the basis of Article 66 of the Financial Regulation, the Commission adopts a summary report (synthesis report) on the AAR's, the overall opinion of the Internal Auditor, by which the Commission takes overall political responsibility for the management of the EU budget in line with Article 317 of the TFEU. This report and the AAR's are available at: http://ec.europa.eu/atwork/planning-and-preparing/synthesis-report/index_en.htm.

The **Accounting Officer** executes payment and recovery orders drawn up by authorising officers and is responsible for managing the treasury, laying down accounting rules and methods, validating accounting systems, keeping the accounts and drawing up the institution's annual accounts. Furthermore, the Accounting Officer is required to sign the annual accounts declaring that they present fairly, in all material aspects, the financial position, the results of the operations and the cashflows.

3.3 Committing to spend the EU budget

Before a legal commitment (for example a contract or grant agreement) can be entered into with a third party, there must be a budget line authorising the activity in question in the annual budget. There must also be sufficient funds on the budget line to cover the expenditure. If these conditions are met, the funds required must be reserved in the budget by means of a budgetary commitment made in the accounting system.
No money can be spent from the EU budget unless and until the Authorising Officer has adopted a legal commitment.
Once approved, the budgetary commitment is recorded in the budgetary accounting system and the appropriations are consumed accordingly. This, however, has no effect on the financial accounts (or general ledger) since no expense has yet been incurred.

3.4 Making a payment

3.4.1 General rules

No payment can be made unless a budgetary commitment has already been approved by the Authorising Officer dealing with the operation in question. Once a payment is approved in the accounting system, the next step is for the transfer to be made to the beneficiary's account. The Commission makes over 1.8 million payments a year. The Commission is a participant in SWIFT (Society for Worldwide Interbank Financial Telecommunication).

3.4.2 Pre-financing, cost statements and eligibility of expenditure

Pre-financing is a payment intended to provide the beneficiary with a cash advance, i.e. a float. It may be split into a number of payments over a period defined in the particular legal commitment. The float or advance is either used for the purpose for which it was provided during the period defined in the legal commitment or it is repaid – if the beneficiary does not incur eligible expenditures he has the obligation to return the pre-financing advance to the EU. Thus pre-financing paid is not a definitive expense until the relevant conditions are met and so is recorded as an asset on the EU balance sheet when the initial payment is made. The amount of the pre-financing asset is reduced (wholly or partially) by the acceptance of eligible costs and amounts returned.

Some time after the payment of the pre-financing, a cost claim will be received by the relevant EU body so as to justify how the pre-financing amount was spent by the beneficiary in accordance with the legal commitment. The rhythm of these cost claims sent during the year is variable depending on the type of action being funded and the conditions, and they are not necessarily received at year-end.

Eligibility criteria are defined in the basic act, in the calls for proposal, in other information documents for grant beneficiaries and/or in the contractual clauses of the grant agreements or in the grant decision. After analysis, the eligible amounts are taken into expenses and the beneficiary is informed about any non-eligible amounts.

4. Borrowing and lending activities

The EU is empowered by basic acts deriving from the EU Treaty to adopt borrowing programmes to mobilise the financial resources necessary to provide financial assistance to Member States and non-Member States. The European Commission, acting on behalf of the EU, currently operates three main programmes, the European Financial Stabilisation Mechanism (EFSM), Balance of payments (BOP) and Macro Financial Assistance (MFA), under which it may grant loans and fund these by issuing debt instruments in the capital markets or with financial institutions. Since the funds raised are back-to-back operations there is no direct impact on the EU budget, however, from a legal point of view, the debt service of the borrowings remains the obligation of the EU.

5. Protection of the EU budget: financial corrections and recoveries

The Financial Regulation and other applicable legislation, particularly concerning agriculture and cohesion policy, give the right to make checks on expenditure up to many years after it was incurred. Where errors, irregularities or fraud are detected, recoveries or financial corrections are applied. The detection of errors, irregularities or fraud and their corrections are the last stage in the operation of control systems, and are essential in order to demonstrate sound financial management.

In the case of grants, the eligibility of expenditure charged to the budget is verified by the relevant EU services, or in the case of shared management, by the Member States, on the basis of the supporting documents stipulated in the applicable legislation or in the conditions of each grant. With the aim of optimising the relationship between the costs and the benefits of control systems, checks on the supporting documents for final claims in direct centralised management tend to be more intense than those on interim claims, and thus may detect errors in interim payments which are corrected by adjustment of the final payment. Furthermore, the EU and/or the Member State has the obligation to verify the probity of the supporting documents by making checks on the claimant's premises, during the implementation of the action financed and/or afterwards (ex-post). There are various procedures foreseen in the applicable legislation for the process of dealing with errors, irregularities or fraud detected by the Commission and by the Member States – more detailed information is included in note **6** of the financial statements.

6. FINANCIAL REPORTING

The annual accounts of the EU comprise two separate but linked parts:

(a) Financial statements.

(b) Reports on implementation of the budget, which provide a detailed record of budget implementation.

The annual accounts are adopted by the Commission and presented to the Court of Auditors for audit and finally to the European Parliament and Council as part of the discharge process.

In addition to the above annual reporting, monthly budget implementation reports are also prepared.

6.1 Financial Statements

It is the responsibility of the Commission's Accounting Officer to prepare the EU's financial statements and ensure that they present fairly, in all material aspects, the financial position, the result of the operations and the cashflows of the EU. These are drawn up in accordance with EU Accounting Rules that are based on International Public Sector Accounting Standards (IPSAS). For more information, see note **1** of the financial statements.

6.2 Budgetary accounts

It is the responsibility of the Commission's Accounting Officer to prepare the reports on implementation of the budget both on a monthly and annual basis. Only the Commission budget contains administrative appropriations and operating appropriations. The other Institutions have only administrative appropriations. Furthermore, the budget distinguishes between two types of appropriation: non-differentiated appropriations and differentiated appropriations. Non-differentiated appropriations are used to finance operations of an annual nature (which comply with the principle of annuality). Differentiated appropriations were introduced in order to reconcile the principle of annuality with the need to manage multi-annual operations. They are intended to cover mainly multi-annual operations. Differentiated appropriations are split into commitment and payment appropriations:

- **commitment appropriations**: cover the total cost of the legal obligations entered into for the current financial year for operations extending over a number of years. However, budgetary commitments for actions extending over more than one financial year may be broken down over several years into annual instalments.

- **payment appropriations**: cover expenditure arising from commitments entered into in the current financial year and/or earlier financial years.

With the introduction of differentiated appropriations, a gap developed between commitments entered into and payments made: this gap, corresponding to outstanding commitments, represents the time-lag between when the commitments are entered into and when the corresponding payments are made. It is known as the RAL ("Reste à Liquider").

7. AUDIT AND DISCHARGE

7.1 Audit

The EU’s annual accounts and resource management are audited by its external auditor, the European Court of Auditors, which draws up an annual report for the European Parliament and the Council. The Court's main task is to conduct an external, independent audit of the EU's annual accounts. As part of its activities, the Court of Auditors produces:

(1) an annual report on the activities financed from the general budget, detailing its observations on the annual accounts and underlying transactions;

(2) an opinion, based on its audits and given in the annual report in the form of a statement of assurance, on (i) the reliability of the accounts and (ii) the legality and regularity of the underlying transactions involving both revenue collected from taxable persons and payments to final beneficiaries;

(3) special reports giving the findings of audits covering specific areas.

7.2 Discharge

The final step of a budget lifecycle is the discharge of the budget for a given financial year. The European Parliament is the discharge authority within the EU. This means that following the audit and finalisation of the annual accounts it falls to the Council to recommend and then to the European Parliament to give a discharge to the Commission and other EU bodies for implementing the EU budget for the preceding financial year. This decision is based on an examination of the annual accounts, the Commission's annual evaluation report and the annual report of the Court of Auditors and replies of the Commission, and also following questions and further information requests to the Commission.

The discharge represents the political aspect of the external control of budget implementation and is the decision by which the European Parliament, acting on a Council recommendation, "releases" the Commission (and other EU bodies) from its responsibility for management of a given budget by marking the end of that budget's existence. This discharge procedure may produce one of three outcomes: the granting, postponement or the refusal of the discharge. Integral part of the annual budgetary discharge procedure in the European Parliament are the hearings with Commissioners who are questioned by the Members of the European Parliament's Budgetary Control Committee regarding the policy areas under their responsibility. The final discharge report including specific request to the Commission for action is adopted in Plenary. The Council discharge recommendation is adopted by ECOFIN. Both, the European Parliament's discharge report as well as the Council discharge recommendations are subject to an annual follow up report in which the Commission outlines the concrete actions it has taken to implement the requests made by the European Parliament and the Council’s recommendations.

EUROPEAN UNION

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES*

FINANCIAL YEAR 2012

** It should be noted that due to the rounding of figures into millions of euros, some financial data in the tables below may appear not to add-up.*

CONTENTS

Page

PART I: CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

BALANCE SHEET

EUR millions

	Note	31.12.2012	31.12.2011
NON-CURRENT ASSETS			
Intangible assets	*2.1*	188	149
Property, plant and equipment	*2.2*	5 978	5 071
Investments accounted for using the equity method	*2.3*	392	374
Financial assets	*2.4*	62 311	43 672
Receivables and recoverables	*2.5*	564	289
Pre-financing	*2.6*	44 505	44 723
		113 938	**94 278**
CURRENT ASSETS			
Inventories	*2.7*	138	94
Financial assets	*2.8*	1 981	3 721
Receivables and recoverables	*2.9*	14 039	9 477
Pre-financing	*2.10*	13 238	11 007
Cash and cash equivalents	*2.11*	10 674	18 935
		40 070	**43 234**
TOTAL ASSETS		**154 008**	**137 512**
NON-CURRENT LIABILITIES			
Pension and other employee benefits	*2.12*	(42 503)	(34 835)
Provisions	*2.13*	(1 258)	(1 495)
Financial liabilities	*2.14*	(57 232)	(41 179)
Other liabilities	*2.15*	(2 527)	(2 059)
		(103 520)	**(79 568)**
CURRENT LIABILITIES			
Provisions	*2.16*	(806)	(270)
Financial liabilities	*2.17*	(15)	(51)
Payables	*2.18*	(90 083)	(91 473)
		(90 904)	**(91 794)**
TOTAL LIABILITIES		**(194 424)**	**(171 362)**
NET ASSETS		**(40 416)**	**(33 850)**
Reserves	*2.19*	4 061	3 608
Amounts to be called from Member States*	*2.20*	(44 477)	(37 458)
NET ASSETS		**(40 416)**	**(33 850)**

***** The European Parliament has adopted a budget on 13 December 2012 which provides for the payment of the Union's short-term liabilities from own resources to be collected by, or called up from, the Member States in 2013. Additionally, under Article 83 of the Staff Regulations (Council Regulation 259/68 of 29 February 1968 as amended), the Member States shall jointly guarantee the liability for pensions.

STATEMENT OF FINANCIAL PERFORMANCE

EUR millions

	Note	2012	2011
OPERATING REVENUE			
Own resource and contributions revenue	*3.1*	130 919	124 677
Other operating revenue	*3.2*	6 826	5 376
		137 745	**130 053**
OPERATING EXPENSES			
Administrative expenses	*3.3*	(9 320)	(8 976)
Operating expenses	*3.4*	(124 633)	(123 778)
		(133 953)	**(132 754)**
SURPLUS/(DEFICIT) FROM OPERATING ACTIVITIES		**3 792**	**(2 701)**
Financial revenue	*3.5*	2 157	1 491
Financial expenses	*3.6*	(1 942)	(1 355)
Movement in pension and other employee benefits liability		(8 846)	1 212
Share of net deficit of joint ventures and associates	*3.7*	(490)	(436)
ECONOMIC RESULT OF THE YEAR		**(5 329)**	**(1 789)**

CASHFLOW STATEMENT

EUR millions

	Note	2012	2011
Economic result of the year		(5 329)	(1 789)
Operating activities	*4.2*		
Amortisation		39	33
Depreciation		405	361
(Increase)/decrease in loans		(16 062)	(27 692)
(Increase)/decrease in receivables and recoverables		(4 837)	1 605
(Increase)/decrease in pre-financing		(2 013)	(1 534)
(Increase)/decrease in inventories		(44)	(3)
Increase/(decrease) in provisions		299	234
Increase/(decrease) in financial liabilities		16 017	27 781
Increase/(decrease) in other liabilities		468	(45)
Increase/(decrease) in payables		(1 390)	6 944
Prior year budgetary surplus taken as non-cash revenue		(1 497)	(4 539)
Other non-cash movements		260	(75)
Increase/(decrease) in pension and employee benefits liability		7 668	(2 337)
Investing activities	*4.3*		
(Increase)/decrease in intangible assets and property, plant and equipment		(1 390)	(693)
(Increase)/decrease in investments accounted for using the equity method		(18)	118
(Increase)/decrease in available for sale financial assets		(837)	(1 497)
NET CASHFLOW		**(8 261)**	**(3 128)**
Net increase/(decrease) in cash and cash equivalents		(8 261)	(3 128)
Cash and cash equivalents at the beginning of the year	*2.11*	18 935	22 063
Cash and cash equivalents at year-end	*2.11*	10 674	18 935

STATEMENT OF CHANGES IN NET ASSETS

EUR millions

	Reserves (A)		Amounts to be called from Member States (B)		Net Assets =(A)+(B)
	Fair value reserve	Other reserves	Accumulated Surplus/(Deficit)	Economic result of the year	
BALANCE AS AT 31.12.2010	**(61)**	**3 545**	**(48 163)**	**17 232**	**(27 447)**
Movement in Guarantee Fund reserve		165	(165)		0
Fair value movements	(47)				(47)
Other		2	(30)		(28)
Allocation of the 2010 economic result		4	17 228	(17 232)	0
2010 budget result credited to Member States			(4 539)		(4 539)
Economic result of the year				(1 789)	(1 789)
BALANCE AS AT 31.12.2011	**(108)**	**3 716**	**(35 669)**	**(1 789)**	**(33 850)**
Movement in Guarantee Fund reserve		168	(168)		0
Fair value movements	258				258
Other		21	(19)		2
Allocation of the 2011 economic result		6	(1 795)	1 789	0
2011 budget result credited to Member States			(1 497)		(1 497)
Economic result of the year				(5 329)	(5 329)
BALANCE AS AT 31.12.2012	**150**	**3 911**	**(39 148)**	**(5 329)**	**(40 416)**

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 LEGAL BASIS AND ACCOUNTING RULES

The accounts of the European Union (EU) are kept in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 (OJ L 298 of 26 October 2012), on the financial rules applicable to the general budget of the Union (hereinafter referred to as the 'Financial Regulation') and Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 laying down detailed rules of application of this Financial Regulation.

In accordance with article 143 of the Financial Regulation, the EU prepares its financial statements on the basis of accrual-based accounting rules that are based on International Public Sector Accounting Standards (IPSAS). These accounting rules, adopted by the Accounting Officer of the Commission, have to be applied by all the institutions and EU bodies falling within the scope of consolidation in order to establish a uniform set of rules for accounting, valuation and presentation of the accounts with a view to harmonising the process for drawing up the financial statements and consolidation. The accounts are kept in Euro on the basis of the calendar year.

1.2 ACCOUNTING PRINCIPLES

The objective of the financial statements is to provide information about the financial position, performance and cashflows of an entity that is useful to a wide range of users. For the EU as a public sector entity, the objectives are more specifically to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it. It is with these goals in mind that the present document has been drawn up.

The overall considerations (or accounting principles) to be followed when preparing the financial statements are laid down in EU accounting rule 2 and are the same as those described in IPSAS 1, that is: fair presentation, accrual basis, going concern, consistency of presentation, aggregation, offsetting and comparative information.

Preparation of the financial statements in accordance with the above mentioned rules and principles requires management to make estimates that affect the reported amounts of certain items in the balance sheet and statement of financial performance, as well as the disclosures of contingent assets and liabilities.

1.3 CONSOLIDATION

Scope of consolidation

The consolidated financial statements of the EU comprise all significant controlled entities (institutions and agencies), associates and joint ventures, this being 51 controlled entities, 5 joint ventures and 4 associates. The complete list of consolidated entities can be found in note **11.1**. In comparison with 2011, the scope of consolidation has been extended by 1 controlled entity (agency). The impact of the additions on the consolidated financial statements is not material.

Controlled entities

The decision to include an entity in the scope of consolidation is based on the control concept. Controlled entities are all entities over which the EU has, directly or indirectly, the power to govern the financial and operating policies so as to be able to benefit from these entities' activities. This power must be presently exercisable. Controlled entities are fully consolidated. The consolidation begins at the first date on which control exists, and ends when such control no longer exists.

The most common indicators of control within the EU are: creation of the entity through founding treaties or secondary legislation, financing of the entity from the general budget, the existence of voting rights in the governing bodies, audit by the European Court of Auditors and discharge by the European Parliament. It is clear that an assessment for each entity needs to be made in order to decide whether one or all of the criteria listed above are sufficient to trigger control.

Under this approach, the EU's institutions (except the ECB) and agencies (excluding the agencies of the former 2nd pillar) are considered as under the exclusive control of the EU and are therefore included in the consolidation scope. Furthermore the European Coal and Steel Community in Liquidation (ECSC) is also considered as a controlled entity.

All material inter-company transactions and balances between EU controlled entities are eliminated, while unrealised gains and losses on inter-entity transactions are not material and have therefore not been eliminated.

Joint ventures

A joint venture is a contractual arrangement whereby the EU and one or more parties (the "venturers") undertake an economic activity which is subject to joint control. Joint control is the contractually agreed sharing of control, directly or indirectly, over an activity embodying service potential.

Participations in joint ventures are accounted for using the equity method initially recognised at cost. The EU's interest in the results of its jointly controlled entities is recognised in the statement of financial performance, and its interest in the movements in reserves is recognised in the reserves. The initial cost plus all movements (further contributions, share of economic results and reserve movements, impairments, and dividends) give the book value of the joint venture in the accounts at the balance sheet date.

Unrealised gains and losses on transactions between the EU and its jointly controlled entities are not material and have therefore not been eliminated. The accounting policies of joint ventures may differ from those adopted by the EU for like transactions and events in similar circumstances.

Associates

Associates are entities over which the EU has, directly or indirectly, significant influence but not control. It is presumed that significant influence is given if the EU holds directly or indirectly 20% or more of the voting rights.

Participations in associates are accounted for using the equity method, initially recognised at cost. The EU's share of its associates' results is recognised in the statement of financial performance, and its share of movements in reserves is recognised in the reserves. The initial cost plus all movements (further contributions, share of economic results and reserve movements, impairments, and dividends) give the book value of the associate in the accounts at the balance sheet date. Distributions received from an associate reduce the carrying amount of the asset. Unrealised gains and losses on transactions between the EU and its associates are not material and have therefore not been eliminated.

The accounting policies of associates may differ from those adopted by the EU for like transactions and events in similar circumstances. In cases where the EU holds 20% or more of an investment capital fund, it does not seek to exert significant influence. Such funds are therefore treated as financial instruments and categorised as available-for-sale financial assets.

Non-consolidated entities the funds of which are managed by the Commission

The funds of the Sickness Insurance Scheme for staff of the EU, the European Development Fund and the Participant's Guarantee Fund are managed by the Commission on their behalf, however since these entities are not controlled by the EU they are therefore not consolidated in its accounts – see note **11.2** for further details on the amounts concerned.

1.4 BASIS OF PREPARATION

1.4.1 Currency and basis for conversion

Functional and reporting currency

The financial statements are presented in millions of euros, the euro being the EU's functional and reporting currency.

Transactions and balances

Foreign currency transactions are translated into euros using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance.

Different conversion methods apply to property, plant and equipment and intangible assets, which retain their value in euros at the rate that applied at the date when they were purchased.
Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the exchange rates applying on 31 December:

EURO Exchange Rates

Currency	31.12.2012	31.12.2011	Currency	31.12.2012	31.12.2011
BGN	1.9558	1.9558	**PLN**	4.0740	4.4580
CZK	25.1510	25.7870	**RON**	4.4445	4.3233
DKK	7.4610	7.4342	**SEK**	8.5820	8.9120
GBP	0.8161	0.8353	**CHF**	1.2072	1.2156
HUF	292.3000	314.5800	**JPY**	113.6100	100.2000
LVL	0.6977	0.6995	**USD**	1.3194	1.2939
LTL	3.4528	3.4528			

Changes in the fair value of monetary financial instruments denominated in a foreign currency and classified as available-for-sale that relate to a translation difference are recognised in the statement of financial performance. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in the statement of financial performance. Translation differences on non-monetary financial instruments classified as available-for-sale are included in the fair value reserve.

1.4.2 Use of estimates

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management based on the most reliable information available. Significant estimates include, but are not limited to, amounts for employee benefit liabilities, provisions, financial risk on inventories and accounts receivables, accrued income and charges, contingent assets and liabilities, and degree of impairment of intangible assets and property, plant and equipment. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

1.5 BALANCE SHEET

1.5.1 Intangible assets

Acquired computer software licences are stated at historical cost less accumulated amortisation and impairment losses. The assets are amortised on a straight-line basis over their estimated useful lives. Internally developed intangible assets are capitalised when the relevant criteria of the EU accounting rules are met. The costs capitalisable include all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Costs associated with research activities, non-capitalisable development costs and maintenance costs are recognised as expenses as incurred.

1.5.2 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition or construction of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the EU and its cost can be measured reliably. Repairs and maintenance costs are charged to the statement of financial performance during the financial period in which they are incurred.

Land and works of art are not depreciated as they are deemed to have an indefinite useful life. Assets under construction are not depreciated as these assets are not yet available for use. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Type of asset	Straight line depreciation rate
Buildings	4%
Plant, machinery and equipment	10% to 25%
Furniture	10% to 25%
Fixtures and fittings	10% to 33%
Vehicles	25%
Computer hardware	25%
Other tangible assets	10% to 33%

Gains or losses on disposals are determined by comparing proceeds less selling expenses with the carrying amount of the disposed asset and are included in the statement of financial performance.

Leases

Leases of tangible assets, where the EU has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The rental obligations, net of finance charges, are included in other liabilities (non-current and current.) The interest element of the finance cost is charged to the statement of financial performance over the lease period so as to produce a constant periodic interest rate on the remaining balance of the liability for each period. The assets held under finance leases are depreciated over the shorter of the assets' useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards inherent to ownership are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease.

1.5.3 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation/depreciation and are tested annually for impairment. Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use.

Intangible assets and property, plant and equipment residual values and useful lives are reviewed, and adjusted if appropriate, at least once per year. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. If the reasons for impairments recognised in previous years no longer apply, the impairment losses are reversed accordingly.

1.5.4 Investments

Participations in Associates and Joint Ventures

Participations in associates and joint ventures are accounted for using the equity method. The costs of equity are adjusted to reflect the share of increases or reductions in net assets of the associates and joint ventures that are attributable to the EU after initial recognition if there are indications of impairment and written down to the lower recoverable amount if necessary. The recoverable amount is determined as described under **1.5.3**. If the reason for impairment ceases to apply at a later date, the impairment loss is reversed to the carrying amount that would have been determined had no impairment loss been recognised.

Investments in Venture Capital Funds

Investments in Venture Capital Funds are classified as available-for-sale financial assets (see **1.5.5**) and accordingly, are carried at fair value with gains and losses arising from changes in the fair value (including translation differences) recognised in the fair value reserve.

Since they do not have a quoted market price in an active market, investments in Venture Capital Funds are valued on a line-by-line basis at the lower of cost or attributable net asset value (“NAV”). Unrealised gains resulting from the fair value measurement are recognised through reserves and unrealised losses are assessed for impairment so as to determine whether they are recognised as impairment losses in the statement of financial performance or as changes in the fair value reserve.

1.5.5 Financial assets

Classification

The EU classifies their financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available for sale financial assets. The classification of the financial instruments is determined at initial recognition and re-evaluated at each balance sheet date.

(i) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the EU. Derivatives are also categorised in this category. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the EU provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in non-current assets, except for maturities within 12 months of the balance sheet date.

(iii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the EU has the positive intention and ability to hold to maturity. During this financial year, the EU did not hold any investments in this category.

(iv) Available for sale financial assets
Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified as either current or non-current assets, depending on the time period in which the EU expects to dispose of them which is usually the remaining maturity at the balance sheet date. Investments in unconsolidated entities and other equity investments (e.g. Risk Capital Operations) that are not accounted for using the equity method are also classified as available for sale financial assets.

Initial recognition and measurement
Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognised on trade-date – the date on which the EU commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial instruments are initially recognised at fair value. For all financial assets not carried at fair value through profit or loss transactions costs are added to the fair value at initial recognition. Financial assets carried at fair value through profit or losses are initially recognised at fair value and transaction costs are expensed in the statement of financial performance.

The fair value of a financial asset on initial recognition is normally the transaction price (i.e. the fair value of the consideration received). However, when a long-term loan that carries no interest or an interest below market conditions is granted, its fair value can be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating.

Loans granted on borrowed funds are measured at their nominal amount, which is considered to be the fair value of the loan. The reasoning for this is as follows:

- The "market environment" for EU lending is very specific and different from the capital market used to issue commercial or government bonds. As lenders in these markets have the opportunity to choose alternative investments, the opportunity possibility is factored into market prices. However, this opportunity for alternative investments does not exist for the EU which is not allowed to invest money on the capital markets; it only borrows funds for the purpose of lending at the same rate. This means that there is no alternative lending or investment option available to the EU for the sums borrowed. Thus, there is no opportunity cost and therefore no basis of comparison with market rates. In fact, the EU lending operation itself represents the market. Essentially, since the opportunity cost "option" is not applicable, the market price does not fairly reflect the substance of the EU lending transactions. Therefore, it is not appropriate to determine the fair value of EU lending with reference to commercial or government bonds.

- Furthermore as there is no active market or similar transactions to compare with, the interest rate to be used by the EU for fair valuing its lending operations under EFSM, BOP and other such loans, should be the interest rate charged.

- In addition, for these loans, there are compensating effects between loans and borrowings due to their back-to-back character. Thus, the effective interest for the loan equals the effective interest rate for the related borrowings. The transaction costs incurred by the EU and then recharged to the beneficiary of the loan are directly recognised in the statement of financial performance.

Financial instruments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the EU has transferred substantially all risks and rewards of ownership.

Subsequent measurement
(i) Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the 'financial instruments at fair value through profit or loss' category are included in the statement of financial performance in the period in which they arise.

(ii) Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. In the case of loans granted on borrowed funds, the same effective interest rate is applied to both the loans and borrowings since these loans have the characteristics of 'back-to-back operations' and the differences between the loan and the borrowing conditions and amounts are not material. The transaction costs incurred by the EU and then recharged to the beneficiary of the loan are directly recognised in the statement of financial performance.

(iii) Held to maturity – the EU currently holds no held to maturity investments.

(iv) Available for sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in the fair value reserve. When assets classified as available for sale financial assets are sold or impaired, the cumulative fair value adjustments previously recognised in the fair value reserve are recognised in the statement of financial performance. Interest on available for sale financial assets calculated using the effective interest method is recognised in the statement of financial performance. Dividends on available for sale equity instruments are recognised when the EU's right to receive payment is established.
The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the EU establishes a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.
In cases where the fair value of investments in equity instruments that do not have quoted market price in an active market cannot be reliably measured, these investments are valued at cost less impairment losses.

Impairment of financial assets
The EU assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(a) Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of financial performance. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of financial performance.

(b) Assets carried at fair value
In the case of equity investments classified as available for sale financial assets, a significant or permanent (prolonged) decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of financial performance – is removed from reserves and recognised in the statement of financial performance. Impairment losses recognised in the statement of financial performance on equity instruments are not reversed through the statement of financial performance. If, in a subsequent period, the fair value of a debt instrument classified as available for sale financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of financial performance.

1.5.6 Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other directly attributable costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When inventories are held for distribution at no charge or for a

nominal charge, they are measured at the lower of cost and current replacement cost. Current replacement cost is the cost the EU would incur to acquire the asset on the reporting date.

1.5.7 Pre-financing amounts

Pre-financing is a payment intended to provide the beneficiary with a cash advance, i.e. a float. It may be split into a number of payments over a period defined in the particular pre-financing agreement. The float or advance is repaid or used for the purpose for which it was provided during the period defined in the agreement. If the beneficiary does not incur eligible expenditures, he has the obligation to return the pre-financing advance to the EU. The amount of the pre-financing is reduced (wholly or partially) by the acceptance of eligible costs (which are recognised as an expense) and amounts returned.
At year-end, outstanding pre-financing amounts are valued at the original amount(s) paid less: amounts returned, eligible amounts expensed, estimated eligible amounts not yet cleared at year-end, and value reductions.

Interest on pre-financing is recognised as it is earned in accordance with the provisions of the relevant agreement. An estimate of the accrued interest revenue, based on the most reliable information, is made at the year-end and included in the balance sheet.

1.5.8 Receivables

Receivables are carried at original amount less write-down for impairment. A write-down for impairment of receivables is established when there is objective evidence that the EU will not be able to collect all amounts due according to the original terms of receivables. The amount of the write-down is the difference between the asset’s carrying amount and the recoverable amount. The amount of the write-down is recognised in the statement of financial performance. A general write-down, based on past experience, is also made for outstanding recovery orders not already subject to a specific write-down. See note **1.5.14** below concerning the treatment of accrued income at year-end.

1.5.9 Cash and cash equivalents

Cash and cash equivalents are financial instruments and defined as current assets. They include cash at hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

1.5.10 Pension and other employee benefits

Pension obligations

The EU operates defined benefit pension plans. Whilst staff contribute from their salaries one third of the expected cost of these benefits, the liability is not funded. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated by actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of financial performance. Past-service costs are recognised immediately in statement of financial performance, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Post-employment sickness benefits

The EU provides health benefits to its employees through the reimbursement of medical expenses. A separate fund has been created for the day-to-day administration. Both current employees, pensioners, widowers and their beneficiaries benefit from the system. The benefits granted to the "inactives" (pensioners, orphans, etc.) are classified as "Post-Employment Employee Benefits". Given the nature of these benefits, an actuarial calculation is required. The liability in the balance sheet is determined on a similar basis as that for the pension obligations (see above).

1.5.11 Provisions

Provisions are recognised when the EU has a present legal or constructive obligation towards third parties as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses. The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation at the reporting date. Where the provision involves a large number of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities (“expected value” method).

1.5.12 Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss or as financial liabilities carried at amortised cost (borrowings). Borrowings are composed of borrowings from credit institutions and debts evidenced by certificates. They are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred, then subsequently carried at amortised cost using the effective interest method; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of financial performance over the period of the borrowings using the effective interest method.

They are classified as non-current liabilities, except for maturities less than 12 months after the balance sheet date. In the case of loans granted on borrowed funds, the effective interest method may not be applied to loans and borrowings, based on materiality considerations. The transaction costs incurred by the EU and then recharged to the beneficiary of the loan are directly recognised in the statement of financial performance.

Financial liabilities categorised at fair value through profit or loss include derivatives when their fair value is negative. They follow the same accounting treatment as financial assets at fair value through profit or loss, see note **1.5.5.**

1.5.13 Payables

A significant amount of the payables of the EU are not related to the purchase of goods or services – instead they are unpaid cost claims from beneficiaries of grants or other EU funding. They are recorded as payables for the requested amount when the cost claim is received. Upon verification and acceptance of the eligible costs, the payables are valued at the accepted and eligible amount.

Payables arising from the purchase of goods and services are recognised at invoice reception for the original amount and corresponding expenses are entered in the accounts when the supplies or services are delivered and accepted by the EU.

1.5.14 Accrued and deferred income and charges

According to the EU accounting rules, transactions and events are recognised in the financial statements in the period to which they relate. At the end of the accounting period, accrued expenses are recognised based on an estimated amount of the transfer obligation of the period. The calculation of accrued expenses is done in accordance with detailed operational and practical guidelines issued by the Commission which aim at ensuring that the financial statements reflect a true and fair view.

Revenue is also accounted for in the period to which it relates. At year-end, if an invoice is not yet issued but the service has been rendered, the supplies have been delivered by the EU or a contractual agreement exists (i.e. by reference to a treaty), an accrued income will be recognised in the financial statements.

In addition, at year-end, if an invoice is issued but the services have not yet been rendered or the goods supplied have not yet been delivered, the revenue will be deferred and recognised in the subsequent accounting period.

1.6 STATEMENT OF FINANCIAL PERFORMANCE

1.6.1 Revenue

Non-exchange revenue

This makes up the vast majority of the EU's revenue and includes mainly direct and indirect taxes and own resource amounts. In addition to taxes the EU may also receive payments from other parties, such as duties, fines and donations.

GNI based resources and VAT resources

Revenue is recognised for the period for which the European Commission sends out a call for funds to the Member States claiming their contribution. They are measured at their "called amount". As VAT and GNI resources are based on estimates of the data for the budgetary year concerned, they may be revised as changes occur until the final data are issued by the Member States. The effect of a change in estimate is included when determining the net surplus or deficit for the period in which the change occurred.

Traditional own resources

Receivables and related revenues are recognised when the relevant monthly A statements (including duties collected and amounts due that are guaranteed and not contested) are received from the Member States. At the reporting date, revenue collected by the Member States for the period but not yet paid to the European Commission is estimated and recognised as accrued revenue. The quarterly B statements (including duties neither collected nor guaranteed, as well as guaranteed amounts that have been contested by the debtor) received from the Member States are recognised as revenue less the collection costs to which they are entitled (25%). In addition, a value reduction is recognised for the amount of the estimated recovery gap in the statement of financial performance.

Fines
Revenue from fines is recognised when the EU's decision imposing a fine has been taken and it is officially notified to the addressee. If there are doubts about the undertaking's solvency, a value reduction on the entitlement is recognised. After the decision to impose a fine, the debtors have two months from the date of notification:

– either to accept the decision, in which case they must pay the fine within the time limit laid down and the amount is definitively collected by the EU;

– or not to accept the decision, in which case they lodge an appeal under EU law.

However, even if appealed, the principal of the fine must be paid within the time limit of three months laid down as the appeal does not have suspensory effect (Article 278 of the EU Treaty) or, under certain circumstances and subject to the agreement of the Commission's Accounting Officer, it may present a bank guarantee for the amount instead.

If the undertaking appeals against the decision, and has already provisionally paid the fine, the amount is disclosed as a contingent liability. However, since an appeal against an EU decision by the addressee does not have suspensory effect, the cash received is used to clear the receivable. If a guarantee is received instead of payment, the fine remains as a receivable. If it appears probable that the General Court may not rule in favour of the EU, a provision is recognised to cover this risk. If a guarantee had been given instead, then the receivable outstanding is written-down as required. The accumulated interest received by the European Commission on the bank accounts where received payments are deposited is recognised as revenue, and any contingent liability is increased accordingly.

Exchange revenue
Revenue from the sale of goods and services is recognised when the significant risk and rewards of ownership of the goods are transferred to the purchaser. Revenue associated with a transaction involving the provision of services is recognised by reference to the stage of completion of the transaction at the reporting date.

Interest income and expense
Interest income and expense are recognised in the statement of financial performance using the effective interest method. This is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. When calculating the effective interest rate, the EU estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

Dividend income
Dividend income is recognised when the right to receive payment is established.

1.6.2 Expense
Exchange expenses arising from the purchase of goods and services are recognised when the supplies are delivered and accepted by the EU. They are valued at original invoice cost. Non-exchange expenses are specific to the EU and account for the majority of its expenses. They relate to transfers to beneficiaries and can be of three types: entitlements, transfers under agreement and discretionary grants, contributions and donations.

Transfers are recognised as expenses in the period during which the events giving rise to the transfer occurred, as long as the nature of the transfer is allowed by regulation (Financial Regulation, Staff Regulations, or other regulation) or a contract has been signed authorising the transfer; any eligibility criteria have been met by the beneficiary; and a reasonable estimate of the amount can be made.

When a request for payment or cost claim is received and meets the recognition criteria, it is recognised as an expense for the eligible amount. At year-end, incurred eligible expenses due to the beneficiaries but not yet reported are estimated and recorded as accrued expenses.

1.7 CONTINGENT ASSETS AND LIABILITIES

1.7.1 Contingent assets

A contingent asset is a possible asset that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the EU. A contingent asset is disclosed when an inflow of economic benefits or service potential is probable.

1.7.2 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the EU; or a present obligation that arises from past events but is not recognised because: it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation or, in the rare circumstances where the amount of the obligation cannot be measured with sufficient reliability.

2. NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

2.1 INTANGIBLE ASSETS

EUR millions

	Amount
Gross carrying amount at 31.12.2011	301
Additions	89
Disposals	(11)
Other changes	0
Gross carrying amount at 31.12.2012	**379**
Accumulated amortisation at 31.12.2011	(152)
Amortisation charge for the year	(39)
Disposals	4
Other changes	(4)
Accumulated amortisation at 31.12.2012	**(191)**
Net carrying amount at 31.12.2012	**188**
Net carrying amount at 31.12.2011	*149*

The above amounts relate primarily to computer software.

2.2 PROPERTY, PLANT AND EQUIPMENT

Included under assets under construction at 31 December 2012 are EUR 660 million (2011: EUR 219 million) of assets relating to the Galileo project, the EU's Global Navigation Satellite System, being built with the assistance of the European Space Agency (ESA). When completed, the system will comprise 30 satellites, 2 control centres and 16 ground stations. The amount on the balance sheet reflects the capitalisable costs incurred by the Commission on this project since 22 October 2011, the date on which the first two satellites of the system were successfully launched. Prior to this date, and as explained in previous annual accounts, the Commission considered the project to be in a research phase, thus in accordance with the EU accounting rules all costs incurred were expensed. Since the beginning of the project and until the end of the current financial framework, the foreseen budget amounts to EUR 3 837 million. For the next financial framework, a further EUR 5 400 million is foreseen to be spent on; fully deploying the system, exploiting it, delivering Galileo services until 2020 and preparing the next generation of the constellation, and this will be entirely financed by the EU budget. In 2012 an amount of EUR 13 million of non-capitalisable development cost has been recognised as expenses.

At the balance sheet date four satellites in total have been launched since October 2011 and once the subsequent testing of these is complete, this will end the In-Orbit Validation ("IOV") phase of the project. This phase had been jointly funded by the EU and ESA and according to the grant agreement concluded between the two parties, ESA shall make an official transfer of the constructed assets to the EU. This legal transfer will require the ESA Council's agreement, noting that all except two Member States of ESA (Norway and Switzerland), are also EU Member States. At this time, the Commission has no reason to believe that such a transfer would be blocked by member(s) of ESA.

PROPERTY, PLANT AND EQUIPMENT

EUR millions

	Land and buildings	Plant and equipment	Furniture and vehicles	Computer hardware	Other tangible assets	Finance leases	Assets under construction	TOTAL
Gross carrying amount at previous year-end	4 118	528	229	557	228	2 685	645	8 990
Additions	96	42	22	52	11	511	583	1 317
Disposals	(26)	(23)	(21)	(54)	(11)	0	0	(135)
Transfers between asset categories	102	8	0	12	0	(14)	(111)	(3)
Other changes	24	3	3	11	3	(1)	1	44
Gross carrying amount at year-end	**4 314**	**558**	**233**	**578**	**231**	**3 181**	**1 118**	**10 213**
Accumulated depreciation at previous year-end	(1 999)	(425)	(166)	(396)	(137)	(796)		(3 919)
Depreciation charge for the year	(138)	(45)	(20)	(67)	(21)	(114)		(405)
Depreciation written back	0	0	0	0	0	1		1
Disposals	3	23	21	51	10	5		113
Transfers between asset categories	-	0	0	(11)	0	14		3
Other changes	(3)	(2)	(1)	(13)	(2)	(7)		(28)
Accumulated depreciation at year-end	**(2 137)**	**(449)**	**(166)**	**(436)**	**(150)**	**(897)**		**(4 235)**
NET CARRYING AMOUNT AT 31.12.2012	**2 177**	**109**	**67**	**142**	**81**	**2 284**	**1 118**	**5 978**
NET CARRYING AMOUNT AT 31.12.2011	2 119	103	63	161	91	1 889	645	5 071

Charges still to be paid in respect of finance leases and similar entitlements are shown in non-current and current liabilities in the balance sheet (see notes **2.15** and **2.18.1**). They break down as follows:

Finance Leases

EUR millions

Description	Cumulative charges (A)	Future amounts to be paid				Total Value	Subsequent expenditure on assets	Asset value	Depreciation	Net carrying amount
		< 1 year	> 1 year	> 5 years	Total Liability (B)	(A+B)	(C)	(A+B+C)	(D)	=(A+B+C+D)
Land and buildings	992	63	342	1 686	2 091	3 083	61	3 144	(877)	**2 267**
Other tangible assets	18	7	11	1	19	37	-	37	(20)	**17**
Total at 31.12.2012	**1 010**	**70**	**353**	**1 687**	**2 110**	**3 120**	**61**	**3 181**	**(897)**	**2 284**
Interest element		85	307	502	893					
Total future minimum lease payments at 31.12.2012		**155**	**660**	**2 189**	**3 003**					
Total future minimum lease payments at 31.12.2011		*153*	*608*	*1 859*	*2 620*					

2.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

EUR millions

	Note	31.12.2012	31.12.2011
Participations in joint ventures	*2.3.1*	42	62
Participations in associates	*2.3.2*	350	312
Total		**392**	**374**

2.3.1 Participations in joint ventures

EUR millions

	GJU	SESAR	ITER	IMI	FCH	Total
Amount at 31.12.2011	0	0	0	25	37	62
Contributions	-	70	116	98	54	338
Share of net result	-	(70)	(106)	(91)	(91)	(358)
Amount at 31.12.2012	**0**	**0**	**10**	**32**	**0**	**42**

Participations in joint ventures are accounted for using the equity method. The following carrying amounts are attributable to the EU based on its percentage of participation:

EUR millions

	31.12.2012	31.12.2011
Non-current assets	226	211
Current assets	106	123
Non-current liabilities	0	0
Current liabilities	(291)	(314)
Revenue	8	8
Expenses	(427)	(379)

Galileo Joint Undertaking (GJU) in liquidation
The Galileo Joint Undertaking (GJU) was put into liquidation at the end of 2006 and the process is still on-going. As the entity was inactive and still undergoing liquidation in 2012, there were no revenues or expenses incurred.

SESAR Joint Undertaking
The aim of this Joint Undertaking is to ensure the modernisation of the European air traffic management system and the rapid implementation of the European air traffic management Master Plan by coordinating and concentrating all relevant research and development efforts in the EU. At 31 December 2012, the Commission held 46.12 % of the ownership participation in SESAR. The total (indicative) Commission contribution foreseen for SESAR (from 2007 to 2013) is EUR 700 million. The cumulative unrecognised share of losses is EUR 157 million.

ITER International Fusion Energy Organisation (ITER)
ITER involves the EU and China, India, Russia, South Korea, Japan and USA. ITER was created to; manage the ITER facilities, to encourage the exploitation of the ITER facilities, to promote public understanding and acceptance of fusion energy, and to undertake any other activities that are necessary to achieve its purpose. The EU (Euratom) contribution to ITER International is given through the Fusion for Energy Agency, including also the contributions from Member States and from Switzerland. The total contribution is legally considered as a Euratom contribution to ITER since the Member States and Switzerland do not have ownership interests in ITER. As the EU legally holds the participation in the joint venture ITER International, the Commission must recognise the participation in its accounts. At 31 December 2012, the Commission held 44.25 % of the ownership participation in ITER. The total (indicative) Euratom contribution foreseen for ITER (from 2007 to 2041) is EUR 8 949 million.

Joint Technology Initiatives
Public private partnerships in the form of Joint Technology Initiatives, which were implemented through Joint Undertakings within the meaning of Article 187 of the Treaty, have been created in order to implement the objectives of the Lisbon Growth and Jobs Agenda. IMI and FCH are included under this heading but three others, ARTEMIS, Clean Sky and ENIAC, although legally referred to as joint undertakings, from an accounting perspective must be considered as associates (and so included as such in note **2.3.2**) because the Commission has a significant influence, not joint control, over them.

IMI Joint Technology Initiative on Innovative Medicines
The IMI Joint Undertaking supports pre-competitive pharmaceutical research and development in the Member States and associated countries, aiming at increasing the research investment in the biopharmaceutical sector and promotes the involvement of small and medium-sized enterprises (SME) in its activities. At 31 December 2012, the Commission held 78.58% of the ownership participation in IMI. The maximum indicative contribution of the Commission shall amount to EUR 1 billion up to 31.12.2017.

FCH Fuel Cells and Hydrogen Joint Undertaking
The objective of the FCH Joint Undertaking is to combine resources from the public and private sectors to strengthen research activities with a view to increasing the overall efficiency of European research efforts and accelerate the development and deployment of fuel cell and hydrogen technologies. At 31 December 2012, the Commission held 80.6% of the ownership participation in FCH. The maximum indicative contribution of the EU shall amount to EUR 470 million up to 31.12.2017. The cumulative unrecognised share of losses is EUR 12 million.

2.3.2 Participations in associates

EUR millions

	EIF	ARTEMIS	Clean Sky	ENIAC	Total
Amount at 31.12.2011	292	0	0	20	**312**
Contributions	-	22	97	16	**135**
Share of net surplus/(deficit)	9	(22)	(97)	(22)	**(132)**
Other equity movements	35	-	-	-	**35**
Amount at 31.12.2012	**336**	**0**	**0**	**14**	**350**

Participations in associates are accounted for using the equity method. The following carrying amounts are attributable to the EU based on its percentage of participation:

EUR millions

	31.12.2012	31.12.2011
Assets	505	460
Liabilities	(191)	(162)
Revenue	33	28
Deficit	(177)	(182)

European Investment Fund (EIF)
The European Investment Fund (EIF) is the EU's financial institution specialising in providing risk capital and guarantees to SMEs. The Commission has paid in 20% of its participation, the balance being uncalled corresponding to an amount of EUR 720 million.

EUR millions

EIF	Total EIF capital	Commission subscription
Total Share Capital	3 000	900
Paid-in	(600)	(180)
Uncalled	**2 400**	**720**

ARTEMIS Joint Undertaking
This entity was created to implement a Joint Technology Initiative with the private sector on Embedded Computing Systems. The maximum indicative contribution of the Commission shall amount to EUR 420 million. The cumulative unrecognised share of losses is EUR 5 million (95.2% ownership participation).

Clean Sky Joint Undertaking
The aim of this entity is to accelerate the development, validation and demonstration of clean air transport technologies in the EU and in particular to create a radically innovative Air Transport System with the target of reducing the environmental impact of air transport. The maximum indicative contribution of the Commission shall amount to EUR 800 million. The cumulative unrecognised share of losses is EUR 48 million (62.89% ownership participation).

ENIAC Joint Undertaking
The aim of ENIAC is to define a commonly agreed research agenda in the field of nano-electronics in order to set research priorities for the development and adoption of key competences in that area. These objectives will be pursued by pooling resources from the public and private sectors to support R&D

activities in the form of projects. The total commitment of the EU shall amount to EUR 450 million. At 31 December 2012, the Commission held 95.90% of the ownership participation in ENIAC.

2.4 NON-CURRENT FINANCIAL ASSETS

EUR millions

	Note	31.12.2012	31.12.2011
Available for sale financial assets	*2.4.1*	4 870	2 272
Loans	*2.4.2*	57 441	41 400
Total		**62 311**	**43 672**

2.4.1 Non-current available for sale financial assets

EUR millions

	31.12.2012	31.12.2011
Guarantee Fund*	1 327	1 475
ECSC in liquidation	1 102	-
BUFI investments	832	-
Risk Sharing Finance Facility (RSFF)	593	-
Loan Guarantee Instrument for TEN-T projects (LGTT)	52	-
European Chemicals Agency	52	-
European Bank for Reconstruction & Development	188	188
Risk Capital Operations	123	134
ETF Start up	305	234
Other available for sale investments	296	241
Total	**4 870**	**2 272**

** The Guarantee Fund holds EFSM bonds issued by the Commission, so these have been eliminated.*

In order to better present the economic reality, from 2012 onwards, all available for sale financial assets, are presented according to their remaining maturity at the balance sheet date. Assets with a maturity of greater than 1 year at the reporting date are shown as non-current, whereas assets maturing before end 2013 are shown as current (see note **2.8**). The above 2012 amount for the Guarantee Fund is, unlike in 2011, shown excluding cash and cash equivalents (2011: EUR 302 million) and the related liability (2011: EUR 1 million). Had the current approach been followed in the 2011 accounts, the comparatives would have been as follows:

EUR millions

	31.12.2012	31.12.2011
Guarantee Fund*	1 327	973
ECSC in liquidation	1 102	982
BUFI investments	832	588
Risk Sharing Finance Facility (RSFF)	593	365
Loan Guarantee Instrument for TEN-T projects (LGTT)	52	47
European Chemicals Agency	52	91
European Bank for Reconstruction & Development	188	188
Risk Capital Operations	123	134
ETF Start up	305	234
Other available for sale investments	296	241
Total	**4 870**	**3 843**

** The Guarantee Fund holds EFSM bonds issued by the Commission, so these have been eliminated.*

Guarantee Fund

The Guarantee Fund for external actions covers loans guaranteed by the EU as a result of a Council Decision, in particular European Investment Bank (EIB) lending operations outside the EU and loans under macro-financial assistance (MFA) and Euratom loans outside the EU. It is a long-term instrument to cover any defaulting loans guaranteed by the EU. The Fund is endowed by payments from the general budget of the EU equivalent to 9% of the capital value of the operations, the proceeds from interest on investments made from the Fund's assets, and sums recovered from defaulting debtors for whom the Fund has had to activate its guarantee. Any yearly surplus arising shall be paid back as revenue for the EU budget.

The EU is required to include a guarantee reserve to cover loans to third countries. This reserve is intended to cover the requirements of the Guarantee Fund and, where necessary, activated guarantees exceeding the amount available in the Fund, so that these amounts may be charged to the budget. This reserve corresponds to the target amount of 9% of the loans outstanding at year-end.

ECSC in liquidation

Regarding the ECSC in liquidation amounts, all available for sale financial assets are debt securities denominated in EUR and quoted in an active market. At 31 December 2012 debt securities (expressed at their fair value) reaching final maturity in the course of 2013 amount to EUR 490 million (2011: EUR 481 million).

BUFI investments

Provisionally cashed fines are since 1 January 2010 managed by the Commission in a specifically created fund (BUFI) and invested in financial instruments categorised as available for sale financial assets.

Risk-Sharing Finance Facility RSFF

The Risk-Sharing Finance Facility is managed by the EIB and the Commission's investment portfolio is used to provision financial risk for loans and guarantees given by the EIB to eligible research projects. In total, a Commission budget of up to EUR 1 billion is foreseen for the period 2007 to 2013, of which up to EUR 800 million are from the "Cooperation" and up to EUR 200 million from the "Capacities" specific programmes. The EIB has committed itself to provide the same amount.

At 31 December 2012 the Commission had contributed, including also EFTA and third country contributions, EUR 1 006 million to the RSFF. The contributions have been invested by the EIB in bonds (fair value of EUR 754 million at 31 December 2012) and cash & term deposits (EUR 314 million). The amount disclosed as a contingent liability (note **5.2.1**), EUR 948 million, represents the estimated maximum loss at 31 December 2012 that the Commission would suffer in case of defaults on loans or guarantees given by the EIB within the framework of the RSFF. It should be noted that the Commission's overall risk is limited to the amount it contributes to the Facility.

Loan Guarantee Instrument for TEN-T Projects (LGTT)

The Loan Guarantee Instrument for Ten-T Projects issues guarantees so as to mitigate revenue risk in the early years of TEN-Transport projects. Specifically the guarantee would fully cover stand-by credit lines, which would only be drawn upon in cases where project cash flows are insufficient to service senior debt. The instrument is a joint financial product of the Commission and the EIB and the TEN-T regulation has earmarked EUR 500 million from the EU budget to be allocated during the period 2007-2013. The EIB will allocate another EUR 500 million, so in total the amount available will be EUR 1 billion to the instrument.

At 31 December 2012 the Commission had contributed EUR 155 million to the LGTT. This has been invested by the EIB in bonds (fair value of EUR 75 million at 31 December 2012) and term deposits (EUR 88 million). At end 2012, EUR 523 million of loans have been signed and are thus covered by the guarantee. The amount disclosed as a contingent liability (note **5.2.1**), EUR 39 million, represents the estimated maximum loss at 31 December 2012 that the Commission would suffer in case of defaults on loans given by the EIB within the framework of the LGTT operations. This represents 7.4% of the total amounts guaranteed. It should be noted that the Commission's overall risk is limited to the amount it contributes to the Instrument.

European Bank for Reconstruction and Development (EBRD)

As the EBRD is not quoted on any stock exchange and in view of the contractual restrictions included in the EBRD's articles of incorporation relating, amongst others, to the sale of participating interests, capped at acquisition cost and only authorised to existing shareholders, the Commission's shareholding is valued at cost less any write-down for impairment.

EUR millions

EBRD	Total EBRD capital	Commission subscription
Total Share Capital	29 601	900
Paid-in	(6 202)	(188)
Uncalled	**23 399**	**712**

Risk Capital Operations

Under Risk Capital Operations amounts are granted to financial intermediaries to finance equity investments. They are managed by EIB and financed under the European Neighbourhood Policy.

ETF start up

The ETF start-up covers the Growth & Employment programme, the MAP programme, the CIP programme and the Technology Transfer Pilot Project, under the trusteeship of the EIF, supporting the creation and financing of start-up SMEs by investing in suitable specialised venture capital funds. At year-end, a further EUR 122 million relating to ETF Start-up had been committed to, but not yet been drawn down by the other parties.

Other available for sale investments

The main amounts included under other non-current available for sale investments above are the **European Fund for South East Europe** (EUR 113 million), the **Green for Growth Fund** (EUR 39 million) and the **GEEREF Fund** (EUR 68 million).

2.4.2 Non-current loans

EUR millions

	Note	31.12.2012	31.12.2011
Loans granted from the EU budget & ECSC	*2.4.2.1*	162	170
Loans granted from borrowed funds	*2.4.2.2*	57 279	41 230
Total		**57 441**	**41 400**

2.4.2.1 Loans granted from the European Union budget and the ECSC in Liquidation

EUR millions

	Loans with special conditions	ECSC housing loans	Total
Total at 31.12.2011	151	19	170
New loans	-	-	-
Repayments	(17)	(4)	(21)
Exchange differences	1	-	1
Changes in carrying amount	11	1	12
Total at 31.12.2012	**146**	**16**	**162**

Loans with special conditions are granted at preferential rates as part of co-operation with non-member countries. All amounts fall due more than 12 months after year-end. The effective interest rates on these loans vary between 7.73% and 14.507%.

2.4.2.2 Loans granted from borrowed funds

EUR millions

	MFA	Euratom	BOP	EFSM	ECSC in Liquidation	Total
Total at 31.12.2011	595	451	11 625	28 344	266	41 281
New loans	39	-	-	15 800	-	15 839
Repayments	(84)	(24)	-	-	(46)	(154)
Exchange differences	-	-	-	-	5	5
Changes in carrying amount	(1)	(2)	(2)	332	(4)	323
Total at 31.12.2012	549	425	11 623	44 476	221	57 294
Amount due < 1 year	15	-	-	-	-	15
Amount due > 1 year	**534**	**425**	**11 623**	**44 476**	**221**	**57 279**

The large increase in these amounts is due to the EFSM loans disbursed during 2012 and is mirrored by an increase in the EU's borrowings (see note **2.14**). For more information on borrowing and lending activities, see note **7**.

2.5 NON-CURRENT RECEIVABLES AND RECOVERABLES

EUR millions

	31.12.2012	31.12.2011
Member States	545	268
Other	19	21
Total	**564**	**289**

Of the above receivables, EUR 550 million (2011: EUR 273 million) relate to non-exchange transactions.

The increase in amounts due from Member States relates to EAGF and EAFRD rural development non-executed clearance of accounts decisions.

2.6 NON-CURRENT PRE-FINANCING

EUR millions

	Note	31.12.2012	31.12.2011
Pre-financing	*2.6.1*	40 790	40 625
Prepaid expenses	*2.6.2*	3 715	4 098
Total		**44 505**	**44 723**

2.6.1 Pre-financing

The timing of the recoverability or utilisation of the pre-financing governs whether it is disclosed as current or non-current pre-financing. The utilisation is defined by the project's underlying agreement. All repayments or utilisation due before twelve months of the reporting date is disclosed as current pre-financing.

Guarantees received in respect of pre-financing

These are guarantees that the Commission requests from beneficiaries that are not Member States, in certain cases when paying out advance payments (pre-financing). There are two values to disclose for this type of guarantee, the "nominal" and the "on-going" values. For the "nominal" value, the generating event is linked to the existence of the guarantee. For the "on-going" value, the guarantee's generating event is the pre-financing payment and/or subsequent clearings. At 31 December 2012 the "nominal" value of guarantees received in respect of pre-financing amounted to EUR 1 348 million while the "on-going" value of those guarantees was EUR 1 083 million (2011: EUR 1 330 million and EUR 1 083 million respectively).

Certain pre-financing amounts paid out under the 7th Research Framework Programme for research and technological development (FP7) are effectively covered by a Participants Guarantee Fund (PGF) – the amount of pre-financing paid out in 2012 totalled EUR 4 billion (2011: EUR 3.3 billion). This fund is a separate entity from the EU and is not consolidated in these accounts – note **11.2.3**.

EUR millions

Management Type	31.12.2012	31.12.2011
Direct centralised management	1 249	1 219
Indirect centralised management	1 042	774
Decentralised management	677	697
Shared management	37 214	37 249
Joint management	592	686
Implemented by other Institutions & Agencies	16	-
Total	**40 790**	**40 625**

The most significant non-current pre-financing amounts relate to Structural Actions for the 2007-2013 programming period: the regional development fund (ERDF) and the cohesion fund (CF) EUR 23.9 billion, the social fund (ESF) EUR 6.5 billion, the agricultural fund for rural development (EAFRD) EUR 6.1 billion and the fisheries fund (EFF) EUR 0.6 billion. As many of these projects are long-term in nature, it is necessary that the related advances are available for more than one year. Thus these pre-financing amounts are shown as non-current assets.

Pre-financing represents a large portion of the EU's total assets, and thus receives proper and regular attention. It should be noted that the level of pre-financing amounts in the various programmes must be sufficient to ensure the necessary float for the beneficiary to start the project, while also safeguarding the financial interests of the EU and taking into consideration legal, operational and cost-effectiveness constraints. All these elements have been given due consideration by the Commission in an effort to improve the follow-up of pre-financing.

2.6.2 Prepaid expenses

EUR millions

	31.12.2012	31.12.2011
Financial Engineering Instruments	2 717	3 378
Aid Schemes	998	720
Total	**3 715**	**4 098**

Under the framework of the structural funds programmes 2007-2013, payments can be made from the EU budget to Member States so as to contribute to Financial Engineering Instruments (be it in the form of loans, equity investments or guarantees) set up and managed under the responsibility of the Member States. Monies that are unused by these instruments at year-end are the property of the EU (as with standard pre-financing) and are thus treated as an asset on the Commission’s balance sheet. However, the basic legal acts do not oblige the Member States to provide periodic reports to the Commission on the use made of these advances, and in some cases not even identify them in the statements of expenditure submitted to the Commission. Thus, and on the basis of information received from Member States on the utilisation of funds, an estimation is made at each year-end of the value of this asset.

Amounts included under the Aid Schemes heading are the Commission’s estimate of open advances for various aid schemes (state aid, market measures of EAGF).

CURRENT ASSETS

2.7 INVENTORIES

EUR millions

	31.12.2012	31.12.2011
Scientific materials	81	78
Other	57	16
Total	**138**	**94**

2.8 CURRENT FINANCIAL ASSETS

EUR millions

	Note	31.12.2012	31.12.2011
Available for sale financial assets	*2.8.1*	1 858	3 619
Loans	*2.8.2*	123	102
Total		**1 981**	**3 721**

2.8.1 Current available for sale financial assets

Available for sale financial assets are purchased for their investment return or yield, or held to establish a particular asset structure or a secondary source of liquidity and may therefore be sold in response to needs for liquidity or changes in interest rates. The following table provides an overview of available for sale financial assets with a remaining maturity before end 2013:

EUR millions

	31.12.2012	31.12.2011
Guarantee Fund	268	-
ECSC in liquidation	490	1 463
BUFI investments	845	1 358
Risk Sharing Finance Facility (RSFF)	160	547
Loan Guarantee Instrument for TEN-T projects (LGTT)	23	97
European Chemicals Agency	69	151
Other available for sale investments	3	3
Total	**1 858**	**3 619**

As explained under note **2.4.1**, the presentation of available for sale financial assets has been changed from 2012 onwards. Had the same approach been followed in the 2011 accounts, the comparatives would have been as follows:

EUR millions

	31.12.2012	31.12.2011
Guarantee Fund	268	201
ECSC in liquidation	490	481
BUFI investments	845	770
Risk Sharing Finance Facility (RSFF)	160	182
Loan Guarantee Instrument TEN-T projects (LGTT)	23	49
European Chemicals Agency	69	60
Other available for sale investments	3	3
Total	**1 858**	**1 746**

2.8.2 Current loans

Included under this heading are loans with remaining final maturities less than 12 months after the balance sheet date (see note **2.4.2.2** above for more details). Also included under this heading are term deposits of the European External Action Service (EUR 42 million) and the ECSC in liquidation (EUR 22 million).

2.9 CURRENT RECEIVABLES AND RECOVERABLES

EUR millions

	Note	31.12.2012	31.12.2011
Fines	*2.9.1*	4 090	3 125
Member States	*2.9.2*	6 270	2 693
Accrued income and deferred charges	*2.9.3*	3 368	3 267
Other receivables & recoverables	*2.9.4*	311	392
Total		**14 039**	**9 477**

The total above contains an estimated EUR 13 729 million (2011: EUR 8 955 million) relating to non-exchange transactions.

2.9.1 Fines

This concerns amounts to be recovered relating to fines issued by the Commission of EUR 4 357 million (2011: EUR 3 369 million) less a write-down of EUR 267 million (2011: EUR 244 million).

Guarantees totalling EUR 2 513 million had been received for the fines outstanding at 31 December 2012 (2011: EUR 3 012 million) in respect of these receivables. It should be noted that EUR 1 471 million of the receivables were due for payment after 31 December 2012.

2.9.2 Member States

EUR millions

	31.12.2012	31.12.2011
EAGF and Rural Development receivables:		
EAGF	1 172	1 439
EAFRD	14	23
TRDI	44	37
SAPARD	136	142
Write-down	(814)	(771)
Total	**552**	**870**
VAT paid and recoverable	**44**	**41**
Own resources:		
Established in the A account	45	29
Established in the separate account	1 294	1 263
Own resourced to be received	3 617	-
Write-down	(773)	(779)
Other	16	114
Total	**4 199**	**627**
Other receivables from Member States:		
Pre-financing recovery expected	1 220	963
Other	255	192
Total	**1 475**	**1 155**
Total	**6 270**	**2 693**

EAGF and Rural Development receivables
This item primarily covers the amounts owed by Member States at 31 December, as declared and certified by the Member States at 15 October. An estimation is made for the receivables arising after this declaration and up to 31 December. The Commission also estimates a write-down for the amounts owed by beneficiaries that are unlikely to be recovered. The fact that such an adjustment is made does not mean that the Commission is waiving future recovery of these amounts. A deduction of 20% is also included in the adjustment, and corresponds to what Member States are allowed to retain to cover administrative costs.

Own resources receivables
The significant increase of receivables from Member States is mainly explained by EUR 3 617 million of own resources to be received at 31 December 2012 relating to the Amending Budgets 5 and 6/2012. These Amending Budgets were adopted on 21 November 2012 and 12 December 2012 respectively. According to Article 10 of Regulation 1150/2000 the entries corresponding to the readjustments of GNI contributions were carried out on the first working day of January 2013.

It should be noted that Member States are entitled to withhold 25% of traditional own resources as collection costs, thus the above figures are shown net of this deduction. Based on the estimations sent by Member States, a write-down has been deducted from receivables from Member States. However, this does not mean that the Commission is waiving recovery of the amounts covered by this value adjustment.

2.9.3 Accrued income and deferred charges

EUR millions

	31.12.2012	31.12.2011
Accrued income	3 002	2 952
Deferred charges	351	296
Other	15	19
Total	**3 368**	**3 267**

The main amount under this heading is accrued income:

EUR millions

	31.12.2012	31.12.2011
Own resources	2 388	2 644
Agricultural assigned revenue November & December	218	111
Cohesion, Regional & Rural Development Funds: financial corrections	276	16
Other accrued income	120	181
Total	**3 002**	**2 952**

2.9.4 Other receivables and recoverables

Included under this heading are mainly recoveries of pre-financing amounts, recovery of expenses as well as other revenue from administrative and operational actions.

2.10 CURRENT PRE-FINANCING

EUR millions

	Note	31.12.2012	31.12.2011
Pre-financing	*2.10.1*	9 548	8 089
Prepaid expenses	*2.10.2*	3 690	2 918
Total		**13 238**	**11 007**

2.10.1 Pre-financing

EUR millions

Management Type	31.12.2012	31.12.2011
Direct centralised management	3 289	3 048
Indirect centralised management	3 908	3 037
Decentralised management	301	330
Shared management	1 008	761
Joint management	844	803
Implemented by other Institutions & Agencies	198	110
Total	**9 548**	**8 089**

The current pre-financing balance has two distinct components: the gross pre-financing and the accruals made on this pre-financing (made to reflect the related expenditure estimated that has been incurred at year-end). Both elements have to be taken into consideration for a proper analysis of the variation of the current net pre-financing balance from one year to another.

On the one hand, the year 2012 marked a further decrease of EUR 3 billion in gross current pre-financing under shared management due to the significant advancement in the closure process of the previous programming period 2000-2006. On the other hand, the accruals on this pre-financing have decreased by EUR 3.3 billion, which led to an overall increase of EUR 0.3 billion in the net current pre-financing. The reason for these movements lies in the overlapping of the previous programming period 2000-2006 (which is now in its closure phase) with the current programming period 2007-2013. Whereas pre-financing related to the previous programming period is estimated to have been entirely used (i.e. net balance zero), the pre-financing of the current programming period is estimated to be only partially used as at 31 December 2012. The remaining part is estimated to be used in 2013 or later.

A similar situation is noted for direct centralised management, where the gross pre-financing has decreased by EUR 741 million, while the net pre-financing has slightly increased by EUR 241 million.

2.10.2 Prepaid expenses

EUR millions

	31.12.2012	31.12.2011
Financial Engineering Instruments	1 358	1 126
Aid Schemes	2 332	1 792
Total	**3 690**	**2 918**

2.11 CASH AND CASH EQUIVALENTS

EUR millions

	Note	31.12.2012	31.12.2011
Unrestricted cash:	*2.11.1*		
Accounts with Treasuries and Central Banks		2 203	7 450
Current accounts		967	1 099
Imprest accounts		38	43
Transfers (cash in transit)		(1)	(5)
Total		**3 207**	**8 587**
Cash belonging to financial instruments & term deposits	*2.11.2*	**2 345**	**2 028**
Restricted cash	*2.11.3*	**5 122**	**8 320**
Total		**10 674**	**18 935**

2.11.1 Unrestricted cash

Unrestricted cash covers all the funds which the EU keeps in its accounts in each Member State and EFTA country (treasury or central bank), as well as in current accounts, imprest accounts and petty cash.

The significant decrease in unrestricted cash was mainly caused by a decrease in the accounts with treasuries and central banks. The ending balance of 2012 was significantly lower than the ending balance of 2011 due to the high budget execution rate for 2012. Moreover, additional cash resources related to the Amending Budget 5/2012 and the Amending Budget 6/2012 were only received in 2013.

2.11.2 Cash belonging to financial instruments & term deposits

Amounts shown under this heading are mainly cash equivalents (EUR 1 845 million) managed by fiduciaries on behalf of the Commission for the purpose of implementing particular financial instruments programmes funded by the EU budget and other term deposits (EUR 500 million). The cash belonging to financial instruments can thus only be used in the financial instruments programme concerned. At year-end, EUR 100 million had been committed to financial instruments managed by fiduciaries, but not yet been drawn down by the other parties.

As explained under note **2.4.1**, the presentation of available for sale financial assets and the related cash and cash equivalents has been changed from 2012 onwards. In 2012, this heading includes the cash and cash equivalents of the Guarantee Fund whereas the 2011 total does not include the EUR 302 million cash and cash equivalents of the Guarantee Fund for 2011, which had been shown under non-current available for sale financial assets. Had the new presentation, including showing cash belonging to all financial instruments on a separate line, been followed in the 2011 accounts, the comparatives would have been EUR 963 million for current accounts and EUR 2 466 million for cash belonging to financial instruments & term deposits.

2.11.3 Restricted cash

Restricted cash refers to amounts received in connection with fines issued by the Commission for which the case is still open. These are kept in specific deposit accounts that are not used for any other activities. In case an appeal has been lodged or where it is unknown if an appeal will be made by the other party the underlying amount is shown as contingent liability in note **5.2**.

The decrease in restricted cash is due to two main reasons: on the one hand there were a number of final decisions by the Court of Justice which concerned significant amounts, and on the other hand, there was an increased use made of the specifically created fund for fines (BUFI). Since 1 January 2010 all provisionally cashed fines are managed by the Commission in this fund and invested in financial instruments categorised as available for sale financial assets (see note **2.4** and **2.8**).

NON-CURRENT LIABILITIES

2.12 PENSION AND OTHER EMPLOYEE BENEFITS

EUR millions

	31.12.2012	31.12.2011
Pensions – Staff	37 528	30 617
Pensions – Others	968	777
Joint Sickness Insurance Scheme	4 007	3 441
Total	**42 503**	**34 835**

The significant increase in the pension liability is explained by the sizeable decrease in the discount rate applied, resulting in a large actuarial loss for the year.

2.12.1 Pensions – Staff

In accordance with Article 83 of the Staff Regulations, the payment of the benefits provided for in the staff pension scheme (PSEO: Pension Scheme of European Officials) constitutes an expenditure in the EU's budget. The scheme is not funded, but the Member States guarantee the payment of these benefits collectively according to the scale fixed for the financing of this expenditure. In addition, officials contribute one third to the long-term financing of this scheme via a compulsory contribution.

The liabilities of the pension scheme were assessed on the basis of the number of staff and retired staff at 31 December 2012 and on the rules of the Staff Regulations applicable at this date. This valuation was carried out in accordance with the methodology of IPSAS 25 (and therefore also EU accounting rule 12). The method used to calculate this liability is the projected unit credit method. The main actuarial assumptions available at the valuation date and used on the valuation were as follows:

Staff pension liability	31.12.2012	31.12.2011
Nominal discount rate	3.6%	4.9%
Expected inflation rate	2.0%	1.8%
Real discount rate	1.6%	3.0%
Probability of marriage: Man/Woman	84%/38%	84%/38%
General Salary Growth/pension revaluation	0%	0%
2008 International Civil Servants Life Table	Yes	Yes

Movement in Gross Employee Benefits liability

EUR millions

	Staff pension liability	Sickness Insurance
Gross Liability at previous year-end	**34 233**	**3 711**
Service/normal cost	1 144	-
Interest cost	1 043	-
Benefits paid	(1 243)	-
Actuarial losses	6 691	567
Change due to newcomers	93	-
Gross Liability at year-end	**41 961**	**4 278**
Correction coefficients applied to pensions	1 022	N/A
Deduction of taxes on pensions	(5 455)	N/A
Plan assets	N/A	(271)
Net liability at year-end	**37 528**	**4 007**

2.12.2 Pensions – Others

This refers to the liability relating to the pension obligations towards Members and former Members of the Commission, the Court of Justice (and General Court) and the Court of Auditors, the Secretaries General of the Council, the Ombudsman, the European Data Protection Supervisor, and the European Union Civil

Service Tribunal. Also included under this heading is a liability relating to the pensions of Members of the European Parliament.

2.12.3 Joint Sickness Insurance Scheme

A valuation is also made for the estimated liability that the EU has regarding its contributions to the Joint Sickness Insurance Scheme in relation to its retired staff. The gross liability has been valued at EUR 4 278 million and plan assets of EUR 271 million are deducted from the gross liability to arrive at the net amount. The discount rate and the general salary growth used in the calculation are the same as those used in the staff pension valuation.

2.13 NON-CURRENT PROVISIONS

EUR millions

	Amount at 31.12.2011	Additional provisions	Unused amounts reversed	Amounts used	Transfer to current	Change in estimation	Amount at 31.12.2012
Legal cases	368	58	(241)	(53)	0	0	132
Nuclear site dismantling	1 005	0	0	(3)	(29)	24	997
Financial	100	38	0	0	(33)	3	108
Other	22	1	(1)	(1)	0	0	21
Total	**1 495**	**97**	**(242)**	**(57)**	**(62)**	**27**	**1 258**

Legal cases
This is the estimate of amounts that will probably have to be paid out more than 12 months after the year-end in relation to a number of on-going legal cases. The decrease in legal cases provisions is mainly due to the closure of an EAGF court case in 2012.

Nuclear site dismantlement
In 2008 a consortium of independent experts made an update of their 2003 study into the estimated costs of the decommissioning of the JRC nuclear facilities and waste management programme. Their revised estimate of EUR 1 222 million (previously EUR 1 145 million) is taken as the basis for the provision to be included in the financial statements. In accordance with the EU accounting rules, this estimate is indexed for inflation and then discounted to its net present value (using the Euro zero-coupon swap curve). In view of the estimated duration of this programme (around 20 years), it should be pointed out that there is some uncertainty about this estimate, and the final cost could be different from the amounts currently entered.

Financial provisions
These concern provisions which represent the estimated losses that will be incurred in relation to the guarantees given under the SME Guarantee Facility 1998, the SME Guarantee Facility 2001 and the SME Guarantee Facility 2007 under CIP and the European Progress Microfinance Facility (Guarantee), where the European Investment Fund (EIF) is empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission. The financial risk linked to the drawn and undrawn guarantees is, however, capped. Non-current financial provisions are discounted to their net present value (using the Euro Swap annual rate).

2.14 NON-CURRENT FINANCIAL LIABILITIES

EUR millions

	31.12.2012	31.12.2011
Non-current borrowings	57 252	41 200
Elimination Guarantee Fund*	(20)	(21)
Total	**57 232**	**41 179**

** The Guarantee Fund holds EFSM bonds issued by the Commission, so these need to be eliminated.*

Non-current borrowings

EUR millions

	MFA	Euratom	BOP	EFSM	ECSC in Liquidation	Total
Total at 31.12.2011	595	451	11 625	28 344	236	41 251
New borrowings	39	-	-	15 800	-	15 839
Repayments	(84)	(24)	-	-	(46)	(154)
Exchange differences	-	-	-	-	4	4
Changes in carrying amount	(1)	(2)	(2)	332	-	327
Total at 31.12.2012	549	425	11 623	44 476	194	57 267
Amount due < 1 year	15	-	-	-	-	15
Amount due > 1 year	**534**	**425**	**11 623**	**44 476**	**194**	**57 252**

This heading includes borrowings due by the EU maturing in over one year. Borrowings include debts evidenced by certificates amounting to EUR 57 026 million (2011: EUR 41 011 million). The changes in carrying amount correspond to the change in accrued interests. For more information on borrowing and lending activities, see note **7**.

2.15 OTHER NON-CURRENT LIABILITIES

EUR millions

	31.12.2012	31.12.2011
Finance Leasing debts	2 040	1 603
Buildings paid for in instalments	352	367
Other	135	89
Total	**2 527**	**2 059**

CURRENT LIABILITIES

2.16 CURRENT PROVISIONS

EUR millions

	Amount at 31.12.2011	Additional provisions	Unused amounts reversed	Amounts used	Transfers from non-current	Change in estimation	Amount at 31.12.2012
Legal cases	17	218	(2)	(9)	0	0	224
Nuclear site dismantlement	29	0	0	(29)	29	0	29
Financial	165	30	0	(43)	33	3	188
Other	59	342	(32)	(5)	1	0	365
Total	**270**	**590**	**(34)**	**(86)**	**63**	**3**	**806**

2.17 CURRENT FINANCIAL LIABILITIES

This heading relates to borrowings (see note **2.14**) that mature during the 12 months following the balance sheet date.

2.18 PAYABLES

EUR millions

	Note	31.12.2012	31.12.2011
Current portion of non-current liabilities	*2.18.1*	89	81
Payables	*2.18.2*	21 558	22 311
Accrued charges and deferred income	*2.18.3*	68 436	69 081
Total		**90 083**	**91 473**

2.18.1 Current portion of non-current liabilities

EUR millions

	31.12.2012	31.12.2011
Finance Leasing debts	70	66
Other	19	15
Total	**89**	**81**

2.18.2 Payables

EUR millions

	31.12.2012	31.12.2011
Member States	23 029	22 200
Suppliers and other	1 704	1 611
Estimated non-eligible amounts and pending pre-payments	(3 175)	(1 500)
Total	**21 558**	**22 311**

Payables include cost statements received by the Commission under the framework of the grant activities. They are credited for the amount being claimed from the moment the demand is received. If the counterpart is a Member State, they are classified as such. It is the same procedure for invoices and credit notes received under procurement activities. The cost claims concerned have been taken into account for the year-end cut off procedures. Following these cut off entries, estimated eligible amounts have therefore been recorded in the accounts as expenses, while the remaining part is disclosed as "Estimated non-eligible amounts and pending prepayments" (see below). In order not to overestimate assets and liabilities, it was decided to present the net amount under current liabilities.

Member States
The primary amounts here relate to unpaid cost claims for Structural Fund actions (EUR 5.6 billion for ESF and EUR 15.6 billion for ERDF and CF).

Suppliers and other
Included under this heading are sundry payables, amounts owed following grant and procurement activities, as well as amounts payable to public bodies and non-consolidated entities (e.g. the EDF).

Estimated non-eligible amounts and pending prepayments
Payables are reduced by that part of the requests for reimbursement received, but not yet checked, that was considered to be ineligible. The largest amounts concern the Structural Actions DGs. Payables are also reduced by the part of requests for reimbursement received corresponding to prepaid expenditure still to pay at year end (EUR 2.4 billion).

2.18.3 Accrued charges and deferred income

EUR millions

	31.12.2012	31.12.2011
Accrued charges	68 216	68 577
Deferred income	201	490
Other	19	14
Total	**68 436**	**69 081**

The split of accrued charges is as follows:

EUR millions

	31.12.2012	31.12.2011
Agriculture and Rural Development:		
EAGF: Direct aid period 16/10 to 31/12	33 040	33 774
EAGF: Direct Aid – other entitlements	11 492	10 701
EAGF: Sugar restructuring	0	224
EAGF: Other	1	23
EAFRD	12 497	12 127
Total	**57 030**	**56 849**
Structural Actions:		
EFF/FIFG	66	56
ERDF & Cohesion Fund	4 359	4 791
ISPA	382	172
ESF	1 378	1 687
Total	**6 185**	**6 706**
Other accrued charges:		
Research & Development	1 077	1 157
Other	3 924	3 865
Total	**5 001**	**5 022**
Total	**68 216**	**68 577**

NET ASSETS

2.19 RESERVES

EUR millions

	Note	31.12.2012	31.12.2011
Fair value reserve	*2.19.1*	150	(108)
Guarantee Fund reserve	*2.19.2*	2 079	1 911
Other reserves	*2.19.3*	1 832	1 805
Total		**4 061**	**3 608**

2.19.1 Fair value reserve

In accordance with the accounting rules, the adjustment to fair value of available for sale financial assets is accounted for through the fair value reserve. In 2012 a net EUR 5 million (2011: EUR 24 million) of accumulated fair value decreases have been taken out of the fair value reserve and recognised in the statement of financial performance relating to available for sale financial assets.

2.19.2 Guarantee Fund reserve

This reserve reflects the 9% target amount of the outstanding amounts guaranteed by the Fund that is required to be kept as assets.

2.19.3 Other reserves

The amount relates primarily to the ECSC in liquidation reserve (EUR 1 534 million) for the assets of the Research Fund for Coal and Steel and was created in the context of the winding-up of the ECSC.

2.20 AMOUNTS TO BE CALLED FROM MEMBER STATES

EUR millions

	Amount
Amounts to be called from Member States at 31.12.2011	37 458
Return of 2011 budget surplus to Member States	1 497
Movement in Guarantee Fund reserve	168
Other reserve movements	25
Economic result of the year	5 329
Total amounts to be called from Members States at 31.12.2012	**44 477**
Split between:	
Employee benefits	42 503
Other amounts	1 974

This amount represents that part of the expenses already incurred by the Commission up to 31 December 2012 that must be funded by future budgets. Many expenses are recognised under accrual accounting rules in the year N although they may be actually paid in year N+1 and funded using the budget of year N+1. The inclusion in the accounts of these liabilities coupled with the fact that the corresponding amounts are financed from future budgets, results in liabilities greatly exceeding assets at the year-end. The most significant amounts to be highlighted are the EAGF activities. The majority of the amounts to be called are in fact paid by the Member States in less than 12 months after the end of the financial year in question as part of the budget of the following year.

It is essentially only the employee benefits obligations of the Commission towards its staff which are paid out over a longer period, noting that the funding of the pension payments by the annual budgets is guaranteed by the Member States. For information purposes only, an estimate of the split of future employee benefit payments is given below:

EUR millions

	Amount
Amounts to be paid in 2013	1 399
Amounts to be paid after 2013	41 104
Total employee benefits liability at 31.12.2012	**42 503**

It should also be noted that the above has no effect on the budget result – budget revenue should always equal or exceed budget expenditure and any excess of revenue is returned to Member States.

3. NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE

3.1 OWN RESOURCE AND CONTRIBUTIONS REVENUE

EUR millions

	Note	2012	2011
GNI resources		98 061	88 442
Traditional own resources: Customs duties		16 087	16 528
Sugar levies		157	161
VAT resources		14 871	14 763
Own resource revenue	*3.1.1*	**129 176**	**119 894**
Budgetary adjustments	*3.1.2*	1 439	4 533
Contributions of third countries (incl. EFTA)		304	250
Total		**130 919**	**124 677**

3.1.1 Own resource revenue

Own resources is the primary element of the EU's operating revenue. Thus the bulk of expenditure is financed by own resources as other revenue represents only a minor part of the total financing. There are three categories of own resources: traditional own resources ("TOR"), the VAT-based resource and the GNI-based resource. Traditional own resources comprise sugar levies and customs duties. A correction mechanism in respect of budgetary imbalances (UK Rebate) as well as a gross reduction in the annual GNI-based contribution of Netherlands and Sweden are also part of the own resources system. Member States retain, by way of collection costs, 25% of traditional own resources, and the above amounts are shown net of this deduction.

It should be noted that in 2011 the Belgian authorities submitted a refund claim of approximately EUR 126 million (net) concerning amounts transferred to the EU budget under TOR. As inspections carried out by the Commission and audits performed by the Court of Auditors have highlighted some deficiencies in the Belgian clearance and accounting systems, which also impacted the reliability of amounts transferred to the EU budget under TOR, an external audit was conducted. An additional Commission services' inspection evaluating the results of the audit, including the refund claim and the corrective actions taken where necessary, has taken place in the first semester of 2013. The audit conclusions, supported by the Commission's inspection, confirmed that the refund claim is free of material error and that its calculation is reliable. Consequently a provision was booked at 31 December 2012 in the Commission's accounts to cover the reimbursement of the claim to the Belgian authorities, which will be processed in 2013.

3.1.2 Budgetary adjustments

The budgetary adjustments include the budget surplus from 2011 (EUR 1 497 million) which is indirectly refunded to Member States by deduction of the amounts of own resources they have to transfer to the EU in the following year – thus it is a revenue for 2012.

3.2 OTHER OPERATING REVENUE

EUR millions

	Note	2012	2011
Fines	*3.2.1*	**1 884**	**868**
Agricultural levies	*3.2.2*	**87**	**65**
Recovery of expenses:	*3.2.3*		
Direct centralised management		63	76
Indirect centralised management		30	17
Decentralised management		27	106
Joint management		8	3
Shared management		1 376	845
Total		**1 504**	**1 047**
Revenue from administrative operations:	*3.2.4*		
Staff		1 209	1 141
Property, plant and equipment related revenue		23	94
Other administrative revenue		59	119
Total		**1 291**	**1 354**
Miscellaneous operating revenue:	*3.2.5*		
Adjustments/provisions		280	59
Exchange gains		335	476
Other		1 445	1 507
Total		**2 060**	**2 042**
Total		**6 826**	**5 376**

3.2.1 Fines

These revenues relate to fines imposed by the Commission for infringement of competition rules. Receivables and related revenues are recognised when the Commission decision imposing a fine has been taken and it is officially notified to the addressee. The increase in fines revenue as compared to 2011 is due to a high value fine case in 2012 relating to TV and computer monitor tubes.

In March 2013 Microsoft has been fined EUR 561 million for failing to promote a range of web browsers, rather than just Internet Explorer, to users in the EU.

3.2.2 Agricultural levies

These amounts concern primarily milk levies which are a market management tool aimed at penalising milk producers who exceed their reference quantities. As it is not linked to prior payments by the Commission, it is in practice considered as revenue for a specific purpose.

3.2.3 Recovery of expenses

This heading represents the recovery orders issued by the Commission and the deduction from subsequent payments recorded in the Commission's accounting system, to recover expenditures previously paid out from the general budget, based on controls, closed audits or eligibility analysis, together with recovery orders issued by Member States to beneficiaries of EAGF expenditure. It also includes the variation of accrued income estimations from the previous year-end to the current.

It should be noted that these figures represent the accounting impact of EU corrective activities only, based on the EU accounting rules in force. For this reason, these figures cannot and do not show the full extent of the recovery of EU expenditure, particularly for the significant spending areas of Structural Actions where specific mechanisms are in place to ensure the return of ineligible monies, most of which do not involve the issuance of a recovery order and therefore do not impact the EU accounting system. Moreover, recoveries of pre-financing amounts are also not included as revenue, in accordance with the EU accounting rules. More details on financial corrections and recoveries of expenses are given in Note **6**.

Agriculture: EAGF and rural development

In the framework of the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD), amounts accounted for as revenue of the year under this heading are EUR 1 020 million, made up as follows:

- conformity corrections decided during the year, EUR 724 million;
- fraud and irregularities EUR 296 million: being reimbursements declared by Member States and recovered during the year of EUR 195 million plus the net increase in the outstanding amounts declared by Member States to be recovered at year-end concerning fraud and irregularities of EUR 101 million.

Structural Actions

- The recovery of expenditure under the Structural actions included under this heading amounted to EUR 356 million (2011: EUR 109 million). The main amounts in this sub-heading include recovery orders issued by the Commission to recover undue expenditure made in previous years for an amount of EUR 95 million (including EUR 5 million related to EAGGF Guidance) and the variation (increase) of the accrued income at year-end for EUR 261 million.

Recovery orders are issued only in the following cases:

- formal financial correction decisions by the Commission following the detection of irregular expenditure in the amounts claimed by Member States
- adjustments at closure of a programme leading to a reduction in the EU contribution where a Member State has not declared sufficient eligible expenditure to justify the total pre-financing and interim payments already made; such operations may be without a formal Commission decision if accepted by the Member State;
- repayment of amounts recovered after closure following the conclusion of legal proceedings which were pending at the time of closure.

Other recovery orders issued under Structural Actions concern the recovery of pre-financing – see note **6.5**. These amounts are not shown as revenue, but credited to the pre-financing heading on the balance sheet.

3.2.4 Revenue from administrative operations

This revenue arises from deductions from staff salaries and is made up primarily of two amounts – staff pension contributions and taxes on income.

3.2.5 Miscellaneous operating revenue

An amount of EUR 672 million (2011: EUR 535 million) relates to amounts received from accession countries. Exchange gains, except on financial activities dealt with in note **3.5** below, are also included under this heading. These arise from the everyday activities and related transactions made in currencies other than the Euro, as well as the year-end revaluation required to prepare the accounts. They contain both realised and unrealised gains. There was a net exchange gain for the year of EUR 52 million (2011: EUR 94 million).

3.3 ADMINISTRATIVE EXPENSES

EUR millions

	2012	2011
Staff expenses	5 708	5 416
Depreciation and impairment	451	412
Other administrative expenses	3 161	3 148
Total	**9 320**	**8 976**

Included under this heading are expenses of EUR 379 million (2011: EUR 358 million) relating to operating leases – amounts committed to be paid during the remaining term of these lease contracts are as follows:

EUR millions

	Future amounts to be paid			
	< 1 year	1- 5 years	> 5 years	Total
Buildings	340	947	575	1 862
IT materials and other equipment	5	7	0	12
Total	**345**	**954**	**575**	**1 874**

3.4 OPERATING EXPENSES

EUR millions

	Note	2012	2011
Primary operating expenses:	*3.4.1*		
Direct centralised management		9 883	10 356
Indirect centralised management		4 151	4 119
Decentralised management		1 019	766
Shared management		106 378	104 067
Joint management		1 819	1 714
Total		**123 250**	**121 022**
Other operating expenses:	*3.4.2*		
Adjustments/provisions		427	251
Exchange losses		281	382
Other		675	2 123
Total		**1 383**	**2 756**
Total		**124 633**	**123 778**

3.4.1 Primary operating expenses

The EU's operating expenditure covers the various headings of the financial framework and takes different forms, depending on how the money is paid out and managed. The majority of the expenditure falls under the heading "Shared Management" involving the delegation of tasks to Member States, covering such areas as EAGF spending and actions financed through the different Structural Actions (the regional development fund, the social fund, the agricultural fund for rural development, the cohesion fund and the fisheries fund).

The main elements of the operating expenses for above cover the following areas: agriculture and rural development (EUR 57 billion), regional development and cohesion (EUR 39 billion), employment and social affairs (EUR 11 billion), research and communication networks, content and technology (EUR 6 billion) and external relations (EUR 3 billion).

3.4.2 Other operating expenses

Exchange losses, except on financial activities dealt with in note **3.6** below, occur on the everyday activities and related transactions made in currencies other than the Euro, as well as the year-end revaluation required to prepare the accounts – they are both realised and unrealised.
The 2011 heading other (under other operating expenses) mainly comprised the correction of fines issued in previous years totalling EUR 1 471 million.

Research and Development costs

Included under both administrative expenses (note **3.3**) and operating expenses are research and non-capitalised development costs as follows:

EUR millions

	2012	2011
Research costs	331	327
Non-capitalised development costs	76	145
Recognised as an expense	**407**	**472**

3.5 FINANCIAL REVENUE

EUR millions

	2012	2011
Dividend income	**12**	**5**
Interest income:		
On pre-financing	28	40
On late payments	242	89
On available for sale financial assets	100	113
On loans	1 559	921
On cash and cash equivalents	26	132
Other	2	5
Total	**1 957**	**1 300**
Other financial income:		
Realised gain on sale of financial assets	18	3
Other	160	178
Total	**178**	**181**
Present value adjustments	**0**	**1**
Exchange gains	**10**	**4**
Total	**2 157**	**1 491**

The increase in financial revenue is mainly explained by an increase of the interest income on loans. This increase is in line with the increased balance of the EFSM loans (see notes **2.4.2** and **7**). As these loans are back-to-back loans, a corresponding increase was also noted in interest expenses on loans (see note **3.6** below). The decrease in income on cash and cash equivalents can be explained by significant diminution of market interest rates recorded in 2012. The category which was impacted most is interest from provisionally cashed fines. In this specific category, the combined effect of interest rate decrease and an important number of fines accounts closed in 2012 led to the diminution of interest income by approximately EUR 81 million.

3.6 FINANCIAL EXPENSES

EUR millions

	2012	2011
Interest expenses:		
Leasing	88	91
On borrowings	1 545	903
Other	23	30
Total	**1 656**	**1 024**
Other financial expenses:		
Adjustments to financial provisions	75	74
Expenses relating to financial instruments managed by fiduciaries	43	47
Impairment losses on available for sale financial assets	8	12
Realised loss on sale of financial assets	4	5
Other	143	144
Total	**273**	**282**
Exchange losses	**13**	**49**
Total	**1 942**	**1 355**

3.7 SHARE OF NET DEFICIT OF JOINT VENTURES AND ASSOCIATES

In accordance with the equity method of accounting, the Commission includes in its statement of financial performance its share of the net deficit of its joint ventures and associates (see also notes **2.3.1 & 2.3.2**).

3.8 REVENUE FROM NON-EXCHANGE TRANSACTIONS

In 2012 EUR 137 023 million (2011: EUR 130 391 million) revenue from non-exchange transactions have been recognised in the statement of financial performance.

3.9 SEGMENT REPORTING

The segment report gives the split of the operating revenues and expenses by policy area, based on the Activity Based Budget structure, within the Commission. These policy areas can be grouped under three larger headings – Activities within the European Union, Activities outside the European Union and Services & other. "Activities within the European Union" is the largest of these headings as it covers the many policy areas within the European Union. "Activities outside the European Union" concerns the policies operated outside the EU, such as trade and aid. "Services & other" are the internal and horizontal activities necessary for the functioning of the EU Institutions and bodies. Note that the information relating to Agencies is included under the relevant policy area. Note also that own resources and contributions are not split amongst the various activities as these are calculated, collected and managed by central Commission services.

EUR millions

	Activities within the EU	Activities outside the EU	Services & Other	ECSC in Liquidation	Other Institutions	Consolidation eliminations	Total
Fines	1 884	-	-	-	-	-	1 884
Agricultural levies	87	-	-	-	-	-	87
Recovery of expenses	1 444	59	1	-	-	-	1 504
Revenue from administrative operations	99	1	992	-	664	(465)	1 291
Miscellaneous operating revenue	2 692	90	440	7	8	(1 177)	2 060
Other operating revenue	**6 206**	**150**	**1 433**	**7**	**672**	**(1 642)**	**6 826**
Staff expenses	(2 256)	(318)	(1 352)	-	(1 802)	20	(5 708)
Intangible assets & PPE related expenses	(126)	1	(113)	-	(213)	-	(451)
Other administrative expenses	(1 003)	(311)	(880)	-	(1 594)	627	(3 161)
Administrative expenses	**(3 385)**	**(628)**	**(2 345)**	**-**	**(3 609)**	**647**	**(9 320)**
Direct centralised management	(6 996)	(3 572)	(159)	-	-	844	(9 883)
Indirect centralised management	(3 762)	(422)	(34)	-	-	67	(4 151)
Decentralised management	(494)	(525)	-	-	-	-	(1 019)
Shared management	(106 464)	83	3	-	-	-	(106 378)
Joint management	(269)	(1 550)	-	-	-	-	(1 819)
Other operating expenses	(774)	(3)	(634)	(48)	(8)	84	(1 383)
Operating expenses	**(118 759)**	**(5 989)**	**(824)**	**(48)**	**(8)**	**995**	**(124 633)**
TOTAL OPERATING EXPENSES	**(122 144)**	**(6 617)**	**(3 169)**	**(48)**	**(3 617)**	**1 642**	**(133 953)**
Net operating expenses	**(115 938)**	**(6 467)**	**(1 736)**	**(41)**	**(2 945)**	**0**	**(127 127)**
Own resource and contributions revenue							130 919
Surplus from operating activities							**3 792**
Net financial revenue							215
Movement in pension and other employee benefits liability							(8 846)
Share of net deficit of joint ventures and associates							(490)
Economic result for the year							**(5 329)**

SEGMENT REPORTING – ACTIVITIES WITHIN THE EU

EUR millions

	Economic & Financial	Enterprise & Industry	Competition	Employment	Agriculture	Transport & Energy	Environment	Research	Information Society
Other operating revenue:									
Fines	0	6	1 878	0	0	0	0	0	0
Agricultural levies	0	0	0	0	87	0	0	0	0
Recovery of expenses	0	1	0	48	1 025	10	3	21	18
Revenue from admin operations	0	18	0	0	0	16	0	7	0
Miscellaneous operating revenue	4	93	0	34	239	220	39	845	12
OTHER OPERATING REVENUE	**4**	**118**	**1 878**	**82**	**1 351**	**246**	**42**	**873**	**30**
Administrative expenses:	**(68)**	**(210)**	**(89)**	**(107)**	**(127)**	**(412)**	**(126)**	**(432)**	**(131)**
Staff expenses	(60)	(147)	(83)	(82)	(107)	(281)	(88)	(236)	(107)
Intangible assets & PPE expenses	0	(8)	0	(1)	0	(15)	(1)	(15)	0
Other administrative expenses	(8)	(55)	(6)	(24)	(20)	(116)	(37)	(181)	(24)
Operating expenses:	**(40)**	**394**	**(80)**	**(10 873)**	**(56 842)**	**(2 372)**	**(329)**	**(4 365)**	**(1 312)**
Centralised direct management	(40)	211	0	(169)	(48)	(1 061)	(307)	(2 906)	(1 285)
Centralised indirect management	0	352	0	(3)	0	(1 127)	(10)	(1 408)	(22)
Decentralised management	0	0	0	(61)	(38)	0	0	0	0
Shared management	0	0	0	(10 618)	(56 655)	0	0	0	0
Joint management	0	(130)	0	(7)	0	(123)	0	0	0
Other operating expenses	0	(39)	(80)	(15)	(101)	(61)	(12)	(51)	(5)
TOTAL OPERATING EXPENSES	**(108)**	**184**	**(169)**	**(10 980)**	**(56 969)**	**(2 784)**	**(455)**	**(4 797)**	**(1 443)**
NET OPERATING EXPENSES	**(104)**	**302**	**1 709**	**(10 898)**	**(55 618)**	**(2 538)**	**(413)**	**(3 924)**	**(1 413)**

	Joint Research Centre	Fisheries	Internal Market	Regional Policy	Taxation & Customs	Education & Culture	Health & Consumer protection	Justice, Freedom & Security	Total Activities within the EU
Other operating revenue:									
Fines	0	0	0	0	0	0	0	0	1 884
Agricultural levies	0	0	0	0	0	0	0	0	87
Recovery of expenses	0	6	0	303	0	6	2	1	1 444
Revenue from admin operations	39	0	2	0	0	0	16	1	99
Miscellaneous operating revenue	78	9	225	(3)	1	287	363	246	2 692
OTHER OPERATING REVENUE	**117**	**15**	**227**	**300**	**1**	**293**	**381**	**248**	**6 206**
Administrative expenses:	**(358)**	**(47)**	**(229)**	**(78)**	**(113)**	**(205)**	**(348)**	**(305)**	**(3 385)**
Staff expenses	(249)	(39)	(150)	(66)	(43)	(110)	(234)	(174)	(2 256)
Intangible assets & PPE expenses	(27)	0	(8)	0	(10)	(1)	(25)	(15)	(126)
Other administrative expenses	(82)	(8)	(71)	(12)	(60)	(94)	(89)	(116)	(1 003)
Operating expenses:	**(82)**	**(807)**	**(69)**	**(38 622)**	**(14)**	**(1 808)**	**(661)**	**(877)**	**(118 759)**
Centralised direct management	(60)	(175)	(36)	(41)	(14)	(229)	(436)	(400)	(6 996)
Centralised indirect management	0	0	0	0	0	(1 478)	(66)	0	(3 762)
Decentralised management	0	0	0	(395)	0	0	0	0	(494)
Shared management	0	(629)	0	(38 186)	0	0	0	(376)	(106 464)
Joint management	0	0	0	0	0	(2)	(7)	0	(269)
Other operating expenses	(22)	(3)	(33)	0	0	(99)	(152)	(101)	(774)
TOTAL OPERATING EXPENSES	**(440)**	**(854)**	**(298)**	**(38 700)**	**(127)**	**(2 013)**	**(1 009)**	**(1 182)**	**(122 144)**
NET OPERATING EXPENSES	**(323)**	**(839)**	**(71)**	**(38 400)**	**(126)**	**(1 720)**	**(628)**	**(934)**	**(115 938)**

SEGMENT REPORTING – ACTIVITIES OUTSIDE THE EU

EUR millions

	External Relations	Trade	Development	Enlargement	Humanitarian Aid	Total Activities outside the EU
Other operating revenue:						
Recovery of expenses	34	0	2	24	(1)	59
Revenue from admin operations	1	0	0	0	0	1
Miscellaneous operating revenue	5	0	87	(1)	(1)	90
OTHER OPERATING REVENUE	**40**	**0**	**89**	**23**	**(2)**	**150**
Administrative expenses:	**(102)**	**(72)**	**(342)**	**(80)**	**(32)**	**(628)**
Staff expenses	(15)	(65)	(165)	(49)	(24)	(318)
Intangible assets & PPE expenses	1	0	0	0	0	1
Other administrative expenses	(88)	(7)	(177)	(31)	(8)	(311)
Operating expenses:	**(2 876)**	**(11)**	**(1 091)**	**(863)**	**(1 148)**	**(5 989)**
Direct centralised management	(1 729)	(6)	(782)	(485)	(570)	(3 572)
Indirect centralised management	(350)	0	(19)	(53)	0	(422)
Decentralised management	(218)	0	(37)	(270)	0	(525)
Shared management	83	0	0	0	0	83
Joint management	(662)	(5)	(252)	(54)	(577)	(1 550)
Other operating expenses	0	0	(1)	(1)	(1)	(3)
TOTAL OPERATING EXPENSES	**(2 978)**	**(83)**	**(1 433)**	**(943)**	**(1 180)**	**(6 617)**
NET OPERATING EXPENSES	**(2 938)**	**(83)**	**(1 344)**	**(920)**	**(1 182)**	**(6 467)**

SEGMENT REPORTING – SERVICES & OTHER

EUR millions

	Press & Communication	Anti-Fraud Office	Co-ordination	Personnel & Admin	Eurostat	Budget	Audit	Languages	Other	Total Services & Other
Other operating revenue:										
Recovery of expenses	1	0	0	0	0	0	0	0	0	1
Revenue from admin operations	0	7	2	829	0	56	0	98	0	992
Miscellaneous operating revenue	(2)	5	1	53	0	9	0	47	327	440
OTHER OPERATING REVENUE	**(1)**	**12**	**3**	**882**	**0**	**65**	**0**	**145**	**327**	**1 433**
Administrative expenses:	**(124)**	**(51)**	**(184)**	**(1 424)**	**(91)**	**(58)**	**(11)**	**(441)**	**39**	**(2 345)**
Staff expenses	(79)	(38)	(159)	(632)	(70)	(45)	(10)	(358)	39	(1 352)
Intangible assets & PPE expenses	(2)	(1)	0	(109)	0	0	0	(1)	0	(113)
Other administrative expenses	(43)	(12)	(25)	(683)	(21)	(13)	(1)	(82)	0	(880)
Operating expenses:	**(124)**	**(22)**	**(2)**	**(14)**	**(32)**	**(341)**	**0**	**(16)**	**(273)**	**(824)**
Direct centralised management	(90)	(22)	0	(12)	(32)	(3)	0	0	0	(159)
Indirect centralised management	(34)	0	0	0	0	0	0	0	0	(34)
Shared management	0	0	0	0	0	3	0	0	0	3
Other operating expenses	0	0	(2)	(2)	0	(341)	0	(16)	(273)	(634)
TOTAL OPERATING EXPENSES	**(248)**	**(73)**	**(186)**	**(1 438)**	**(123)**	**(399)**	**(11)**	**(457)**	**(234)**	**(3 169)**
NET OPERATING EXPENSES	**(249)**	**(61)**	**(183)**	**(556)**	**(123)**	**(334)**	**(11)**	**(312)**	**93**	**(1 736)**

4. NOTES TO THE CASHFLOW STATEMENT

4.1 PURPOSE AND PREPARATION OF THE CASHFLOW STATEMENT

Cash flow information is used to provide a basis for assessing the ability of the EU to generate cash and cash equivalents, and its needs to utilise those cash flows.

The cashflow statement is prepared using the indirect method. This means that the net surplus or deficit for the financial year is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing cash flows.

Cash flows arising from transactions in a foreign currency are recorded in the EU's reporting currency (Euro), by applying to the foreign currency amount the exchange rate between the euro and the foreign currency at the date of the cash flow.

The cashflow statement presented reports cash flows during the period classified by operating and investing activities (the EU does not have financing activities).

4.2 OPERATING ACTIVITIES

Operating activities are the activities of the EU that are not investing activities. These are the majority of the activities performed. Loans granted to beneficiaries (and the related borrowings, when applicable) are not considered as investing (or financing) activities as they are part of the general objectives and thus daily operations of the EU. Operating activities also include investments such as EIF, EBRD and venture capital funds. Indeed, the objective of these activities is to participate in the achievement of policy targeted outcomes.

4.3 INVESTING ACTIVITIES

Investing activities are the acquisition and disposal of intangible assets and property, plant and equipment and of other investments which are not included in cash equivalents. Investing activities do not include loans granted to beneficiaries. The objective is to show the real investments made by the EU.

5. CONTINGENT ASSETS & LIABILITIES AND OTHER SIGNIFICANT DISCLOSURES

5.1 CONTINGENT ASSETS

EUR millions

	31.12.2012	31.12.2011
Guarantees received:		
Performance guarantees	337	300
Other guarantees	43	34
Other contingent assets	14	19
Total	**394**	**353**

Performance guarantees are requested to ensure that beneficiaries of EU funding meet the obligations of their contracts with the EU.

5.2 CONTINGENT LIABILITIES

EUR millions

	Note	31.12.2012	31.12.2011
Guarantees given	*5.2.1*	22 317	24 394
Fines	*5.2.2*	6 378	8 951
EAGF, rural development and pre-accession	*5.2.3*	1 188	2 345
Cohesion policy	*5.2.4*	546	318
Legal cases and other disputes	*5.2.5*	91	251
Other contingent liabilities		1	2
Total		**30 521**	**36 261**

All contingent liabilities, except those relating to fines, would be financed, should they fall due, by the EU budget in the years to come.

5.2.1 Guarantees given

EUR millions

	31.12.2012	31.12.2011
On loans granted by the EIB from its own resources:		
65% guarantee	18 683	20 362
70% guarantee	1 654	1 992
75% guarantee	383	534
100% guarantee	594	724
Total	**21 314**	**23 612**
Other guarantees given	**1 003**	**782**
Total	**22 317**	**24 394**

The EU budget guarantees loans signed and granted by the EIB from its own resources to third countries at 31 December 2012 (including loans granted to Member States before accession). However, the EU's guarantee is limited to a percentage of the ceiling of the credit lines authorised: 65% (for the mandate 2000-2007), 70%, 75% or 100%. For the mandate 2007-2013, the EU's guarantee is limited to 65% of the outstanding balances and not on the credit lines authorised. Where the ceiling is not reached, the EU guarantee covers the full amount. At 31 December 2012 the amount outstanding totalled EUR 21 314 million and this, therefore, is the maximum exposure faced by the EU.

The above 2011 amount for the 65% guarantee does not take the difference in calculation with regard to the 2000-2007 and 2007-2013 mandates into account. Had the 2011 amount been calculated based on this differentiation the amount to be disclosed would have been EUR 17 423 million.

Other guarantees given relate mainly to the Risk-Sharing Finance Facility (EUR 948 million) and the Loan Guarantee Instrument for TEN-T Projects (EUR 39 million). See for more information on these facilities note **2.4**.

5.2.2 Fines

These amounts concern fines imposed by the Commission for infringement of competition rules that have been provisionally paid and where either an appeal has been lodged or where it is unknown if an appeal will be made. The contingent liability will be maintained until a decision by the Court of Justice on the case is final. Interest earned on provisional payments is included in the economic result of the year and also as a contingent liability to reflect the uncertainty of the Commission's title to these amounts.

5.2.3 EAGF, rural development and pre-accession

These are contingent liabilities towards the Member States connected with the EAGF conformity decisions, rural development and pre-accession financial corrections pending judgement of the Court of Justice. The determination of the final amount of the liability and the year in which the effect of successful appeals will be charged to the budget will depend on the length of the procedure before the Court.

5.2.4 Cohesion policy

These are contingent liabilities towards the Member States in conjunction with actions under cohesion policy awaiting the oral hearing date or pending judgement of the Court of Justice.

5.2.5 Legal cases and other disputes

This heading relates to actions for damages currently being brought against the Commission and other EU bodies, other legal disputes and the estimated legal costs. It should be noted that in an action for damages under Article 288 EC the applicant must demonstrate a sufficiently serious breach by the institution of a rule of law intended to confer rights on individuals, real harm suffered by the applicant, and a direct causal link between the unlawful act and the harm.

5.3 OTHER SIGNIFICANT DISCLOSURES

5.3.1 Outstanding commitments not yet expensed

EUR millions

	31.12.2012	31.12.2011
Outstanding commitments not yet expensed	175 853	165 236

The amount disclosed above is the budgetary RAL ("Reste à Liquider") less related amounts that have been included as expenses in the 2012 statement of financial performance. The budgetary RAL is an amount representing the open commitments for which payments and/or de-commitments have not yet been made. This is the normal consequence of the existence of multi-annual programmes. At 31 December 2012 the budgetary RAL totalled EUR 217 810 million (2011: EUR 207 443 million).

5.3.2 SIGNIFICANT LEGAL COMMITMENTS

EUR millions

	31.12.2012	31.12.2011
Structural Actions	71 775	142 916
Protocol with Mediterranean countries	264	264
Fisheries agreements	173	37
Galileo programme	143	320
GMES programme	233	400
TEN-T	1 331	3 416
Other contractual commitments	3 884	4 493
Total	**77 803**	**151 846**

These commitments originated because the EU entered into long-term legal commitments in respect of amounts that were not yet covered by commitment appropriations in the budget. This can relate to multi-annual programmes such as Structural Actions or amounts that the EU is committed to pay in the future under administrative contracts existing at the balance sheet date (e.g. relating to the provision of services such as security, cleaning, etc, but also contractual commitments concerning specific projects such as building works).

Structural Actions

The table below shows a comparison between the legal commitments for which budget commitments have not yet been made and the maximum commitments in relation to the amounts foreseen in the financial framework 2007-2013.

EUR millions

	Financial perspective amounts 2007-2013 (A)	Legal commitments concluded (B)	Budget commitments 2007-2011 (C)	Legal commitments less budget commitments (=B-C)	Maximum commitment (=A-C)
Structural funds	347 552	347 521	293 050	54 471	54 502
Natural Resources	100 549	100 539	85 058	15 481	15 491
Instrument for Pre-Accession Assistance	11 255	9 895	9 473	422	1 782
Total	459 356	457 955	387 581	70 374	**71 775**

Protocols with Mediterranean countries

These commitments relate to financial protocols with Mediterranean non-member countries. The amount included here is the difference between the total amount of the protocols signed and the amount of the budget commitments entered in the accounts. These protocols are international treaties that cannot be wound up without the agreement of both parties, although the winding-up process is on-going.

Fisheries agreements

These are commitments entered into with third countries for operations under international fisheries agreements.

Galileo programme

These are amounts are committed to the Galileo programme developing a European Global Navigation Satellite System – see also note **2.2**.

GMES programme

The Commission has entered into a contract with the ESA for the period from 2008 to 2013 for the implementation of the space component of Global Monitoring for Environment and Security (GMES). The total indicative amount for that period is EUR 728 million.

TEN-T commitments

This amount relates to grants in the field of the trans-European transport network (TEN-T) for the period 2007 - 2013. The programme applies to projects identified for the development of a trans-European transport network to support both infrastructure projects and research and innovation projects to foster the integration of new technologies and innovative processes on the deployment of new transport infrastructure. The total indicative amount for this programme is EUR 7 900 million.

The decrease in legal commitments relating to TEN-T is the combined effect of reduced legal commitments following amendment decisions and increased budget commitments.

Other contractual commitments

The amounts included under this disclosure correspond to amounts committed to be paid during the term of the contracts. The largest amounts included here relate to procurement arrangements of the Fusion for Energy Agency in the context of ITER project and to building contracts of the European Parliament.

6. PROTECTION OF THE EU BUDGET

6.1 BACKGROUND

An important consideration in implementing the EU budget is the need to ensure the proper prevention or detection and subsequent correction of errors, irregularities and fraud. The objective of this note is to provide: (1) an overview of the preventive and corrective mechanisms foreseen in the applicable legislation which detail the process of identifying and then dealing with errors, irregularities and fraud detected by EU bodies and by Member States, and (2) a best estimate of the total amounts concerned so as to illustrate in real terms how the EU budget is protected.

Information is not only presented below concerning actions made at the EU level, but is also given on the corrections effected by Member States under shared management following their own controls and audits (for the programming period 2007-2013 only, since for previous programming periods, data presented by Member States is incomplete and/or unreliable). These corrections are not recorded in the Commission's accounting system because Member States can reuse, in most cases, these amounts for other eligible expenditure. Member States figures are reported in table **6.7** below.

Further details on the amounts presented below and the processes involved can be found in a specific communication prepared by the Commission and sent to the Discharge Authority and Court of Auditors every September as from 2013 – this is available on the DG Budget Europa website.

6.2 PREVENTIVE MECHANISMS OF THE EUROPEAN COMMISSION

In direct management, preventive actions include checks made by the responsible services on eligibility of expenditure being claimed by beneficiaries. These ex-ante controls are embedded in the programmes' management processes and are intended to provide reasonable assurance on the legality and regularity of expenditure being paid. The Commission services can also provide guidance, particularly on contractual issues, with the aim of ensuring a sound and efficient management of funding and therefore a lower risk of irregularities.

Under the shared management mode (i.e. agricultural and cohesion policy expenditure), Member States are primarily responsible throughout the expenditure life cycle for ensuring that expenditure paid out from the EU budget is legal and regular. Preventive mechanisms also exist at the level of the Commission in its role of supervising body. The Commission may:
- **interrupt** the payment deadline for a maximum period of 6 months for the 2007-2013 programmes if:
    (a) There is evidence to suggest a significant deficiency in the functioning of the management and control systems of the Member State concerned; or
    (b) The Commission services have to carry out additional verifications following information that expenditure in a certified statement of expenditure is linked to a serious irregularity which has not been corrected.
- **suspend** all or part of an interim payment to a Member State for the 2007-2013 programmes in the following three cases:
    (a) Where there is evidence of serious deficiency in the management and control system of the programme and the Member State has not taken the necessary corrective measures; or
    (b) Where expenditure in a certified statement of expenditure is linked to a serious irregularity which has not been corrected; or
    (c) If there has been a serious breach by a Member State of its management and control obligations.

Where the required measures are not taken by the Member State, the Commission may decide to impose a financial correction. Suspensions and interruptions figures are presented in note **6.4.1** below.

6.3 CORRECTIVE MECHANISMS OF THE EUROPEAN COMMISSION

6.3.1. Financial corrections

Under shared management, Member States are primarily responsible for preventing, detecting and correcting errors, irregularities or frauds committed by beneficiaries in the first instance, while the Commission ensures an overall supervisory role. Where serious failings in the management and control systems of Member States have led or could lead to individual or systemic errors, irregularities or fraud, the Commission can apply financial corrections. The processing of **financial corrections** follows these three main steps:

(1) Financial corrections ***in progress****:* these corrections are subject to change since they are not yet formally accepted by the Member States, for example in the case of an audit which has been finalised, but where the Commission is still in the contradictory phase with the Member State concerned.

(2) Financial correction ***confirmed/decided****:* these amounts are final, meaning that they have been either confirmed (i.e. agreed) by the Member State concerned or decided via a Commission decision. They are reported in tables **6.4.2.1** below.

(3) Financial corrections ***implemented****:* These amounts represent the final step of the process whereby the observed situation of undue expenditure is definitively corrected. Several correction mechanisms are foreseen in the sector-based regulatory frameworks. These figures are reported in tables **6.4.2.2** and **6.4.3.1** below.

6.3.2 Recoveries

Under direct management, and in accordance with the Financial Regulation, recovery orders should be established by the authorising officer for amounts unduly paid. Recoveries are then implemented by direct bank transfer from the debtor (e.g. Member State) or by offsetting from other amounts that the Commission owes to the debtor. The Financial Regulation foresees additional procedures to ensure the collection of recovery orders overdue, which are the object of a specific follow up by the Accounting Officer of the Commission.

Under shared management in the area of Agriculture, Member States are obliged to identify errors and irregularities and to recover amounts unduly paid in accordance with national rules and procedures. For the EAGF, amounts recovered from the beneficiaries are credited to the Commission, after deduction applied by Member States of 20% (on average), who book them as revenue. For EAFRD, recoveries are deducted from the next payment claim before it is sent to the Commission's services, and therefore the relevant amount can be reused for the programme. If a Member State does not pursue the recovery or is not diligent in its actions, the Commission may decide to intervene and to impose a financial correction on the Member State concerned. In the area of Cohesion Policy, Member States (and not the Commission) are primarily responsible for recovering from beneficiaries, amounts unduly paid increased, where applicable, by late payment interest. The amounts recovered by the Member States are disclosed in this note for information purpose, in addition to financial corrections imposed by the Commission. For the 2007-2013 period, Member States are legally required to provide the Commission with clear and structured data on amounts withdrawn from co-financing before the national recovery process is finalised and the amounts effectively recovered from beneficiaries at national level.

6.3.3 Recovery of unused pre-financing amounts

In almost all areas, the EU makes pre-financing, or advance payments to beneficiaries. As explained under note **1.5.7**, these are payments intended to provide the beneficiary with a cash advance or float. When a beneficiary has not used (spent) the totality of a pre-financing amount received from the EU, the Commission services issue a recovery order to ensure the return of the monies to the EU budget. This procedure represents an important step in the control system of the EU to ensure that no excess money is kept by the beneficiary without proper expense justification, thus contributing to the protection of the EU budget. These recoveries are presented in table **6.5** below.

Recoveries of unused pre-financing amounts should not be confused with irregular expenditure recovered. Where Commission services identify and recover such expenditure in relation to pre-financing amounts paid out, these are included in the normal financial correction or recovery processes described under **6.3.1** and **6.3.2** above.

6.3.4 Own resource revenue - recoveries

Regarding own resource revenues, which are the major fund source of the EU budget, recoveries concern the follow-up of: European Commission's inspection reports, European Court of Auditor's audits, financial responsibility cases resulting from Member States' administrative errors or lack of diligence in their recovery action, infringement proceedings, European Court of Justice's rulings and also amounts resulting from spontaneous payments from Member States and interest on late payments related to own resources. These amounts are reported in table **6.6** below.

6.4 FINANCIAL IMPACT OF PREVENTIVE AND CORRECTIVE MECHANISMS

6.4.1 Interruptions and suspensions in 2012

Interruptions:

The tables below present for the ERDF, the Cohesion Fund, the ESF and the EFF, a view on the evolution of the interruption cases both in number and in amount. The opening balance includes all the cases still open at end 2011, irrespective of the year when the interruption was notified to the Member State (for this reason certain figures are not directly comparable with those disclosed in the 2011 annual accounts). The new cases only refer to the interruptions notified in the year 2012. The closed cases represent the cases for which the payment of cost claims resumed in 2012, irrespective of the year when the interruption started. The cases still open at end 2012 represent the interruptions that remain active at 31 December 2012, i.e. the payment of cost claims is still interrupted pending corrective measures to be taken by the Member State concerned.

EUR millions

2007-2013 programming period	ERDF / Cohesion Fund							
	Total open cases at 31.12.2011		New cases 2012		Closed cases during 2012		Total open cases at 31.12.2012	
Member State	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Germany	3	17	2	163			**5**	**180**
Spain			49	1 495	41	1 319	**8**	**176**
France			6	51	5	24	**1**	**27**
Italy*	10	265	20	1 122	19	860	**11**	**526**
Latvia			5	94	5	94	**0**	**0**
Lithuania			4	164	4	164	**0**	**0**
Hungary			3	55			**3**	**55**
Poland			5	605			**5**	**605**
Romania			1	41			**1**	**41**
Slovenia			1	6	1	6	**0**	**0**
Slovakia	2	71			2	71	**0**	**0**
United Kingdom			1	22			**1**	**22**
Cross-border			11	59	8	52	**3**	**6**
Total	**15**	**353**	**108**	**3 878**	**85**	**2 592**	**38**	**1 639**

* The opening balance includes an adjustment of figures reported in 2011.

In addition to these interruption procedures, 119 warning letters (in cases where no payment claim was pending) have been sent in 2012 for ERDF, contributing to the further prevention of irregular amounts.

2007-2013 programming period	ESF							
	Total open cases at 31.12.2011		New cases 2012		Closed cases during 2012		Total open cases at 31.12.2012	
Member State	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Czech Republic			1	47			**1**	**47**
Germany			5	165	4	145	**1**	**19**
Spain	2	10	8	159	9	160	**1**	**9**
France	2	25	9	142	4	91	**7**	**76**
Italy	4	53	7	207	6	231	**5**	**30**
Latvia			2	26	2	26	**0**	**0**
Lithuania			1	1	1	1	**0**	**0**
Romania			1	21	1	21	**0**	**0**
Slovakia			1	45	1	45	**0**	**0**
United Kingdom	2	234	2	69	4	303	**0**	**0**
Total	**10**	**323**	**37**	**881**	**32**	**1 023**	**15**	**181**

2007-2013 programming period	EFF							
	Total open cases at 31.12.2011		New cases 2012		Closed cases during 2012		Total open cases at 31.12.2012	
Member State	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Czech Republic			1	1	1	1	**0**	**0**
Denmark	1	0			1	0	**0**	**0**
Germany	2	1					**2**	**1**
Estonia	1	0	3	0			**4**	**0**
Spain	1	62	2	32	2	84	**1**	**9**
France	2	3					**2**	**3**
Italy			6	38			**6**	**38**
Latvia			1	0			**1**	**0**
Netherlands			3	8	3	8	**0**	**0**
Poland			1	2	1	2	**0**	**0**
Portugal			3	16	2	12	**1**	**4**
Romania			5	35			**5**	**35**
Slovakia			2	2			**2**	**2**
Finland	2	0	3	0	5	1	**0**	**0**
Sweden	1	0	2	6			**3**	**6**
United Kingdom	1	34	4	7	2	33	**3**	**8**
Total	**11**	**100**	**36**	**149**	**17**	**141**	**30**	**108**

Suspensions:
Concerning **ERDF** and the **Cohesion Fund**, suspension decisions were taken for 2 programmes in Germany and in Italy. Both suspensions were still effective at 31 December 2012. Concerning **ESF**, 2 suspension decisions were adopted in 2012 and concerned the Czech Republic and Slovakia. Suspension was still on-going for Czech Republic at 31 December 2012. There were no suspension decisions taken in 2012 for **EFF**.

6.4.2 Financial corrections and recoveries made in 2012

6.4.2.1 Financial corrections and recoveries confirmed/decided in 2012

EUR millions

	Financial Corrections	Recoveries	2012 Total	*2011 Total*
Agriculture:				
EAGF	475	162	638	*839*
Rural Development	76	145	221	*228*
Cohesion Policy:				
ERDF	958	N/A	958	*424*
Cohesion Fund	203	N/A	203	*17*
ESF	425	N/A	425	*227*
FIFG/EFF	2	N/A	2	*3*
EAGGF Guidance	31	3	34	*1*
Other	N/A	19	19	*50*
Internal policy areas	1	252	253	*270*
External policy areas	N/A	107	107	*107*
Administration*	N/A	7	7	8
Total decided/confirmed in 2012	**2 172**	**695**	**2 867**	
Total decided/confirmed in 2011	*1 406*	*768*		**2 174**

** Figure for Administration was not reported before.*

6.4.2.2 Financial corrections and recoveries implemented in 2012

EUR millions

	Financial Corrections	Recoveries	2012 Total	2011 Total
Agriculture:				
EAGF	610	161	771	621
Rural Development	59	166	225	201
Cohesion Policy:				
ERDF	2 416	N/A	2 416	419
Cohesion Fund	207	N/A	207	115
ESF	430	N/A	430	178
FIFG/EFF	1	N/A	1	(90)
EAGGF Guidance	17	3	20	1
Other	N/A	11	11	48
Internal policy areas	1	229	230	268
External policy areas	N/A	99	99	77
Administration*	N/A	9	9	2
Total implemented in 2012	**3 742**	**678**	**4 419**	
Total implemented in 2011	*1 106*	*733*		**1 840**

** Figure for Administration was not reported before.*

6.4.2.3 Break-down per Member State of 2012 financial corrections implemented under shared management

EUR millions

Member State	EAGF	Rural Development	ERDF	Cohesion Fund	ESF	Other	Total 2012	*Total 2011*
Belgium	0	3	0	-	11	0	**14**	1
Bulgaria	15	7	0	6	1	-	**30**	25
Czech Republic	0	-	116	8	-	0	**125**	6
Denmark	22	-	0	-	-	-	**22**	0
Germany	(16)	3	23	-	0	0	**10**	1
Estonia	0	1	0	0	0	-	**1**	0
Ireland	(1)	10	-	-	-	-	**9**	2
Greece	85	5	0	13	159	0	**262**	448
Spain	47	2	1 952	81	84	7	**2 172**	159
France	64	1	20	-	37	2	**123**	33
Italy	209	0	57	-	3	7	**275**	50
Cyprus	8	0	-	-	-	0	**8**	3
Latvia	-	-	1	1	9	0	**12**	0
Lithuania	3	4	3	1	0	0	**10**	0
Luxembourg	0	-	0	-	-	-	**0**	0
Hungary	6	0	0	-	-	0	**6**	41
Malta	0	-	-	-	-	-	**0**	0
Netherlands	17	2	0	-	-	0	**20**	53
Austria	1	-	-	-	-	0	**1**	0
Poland	12	2	45	79	23	0	**162**	148
Portugal	15	1	117	0	-	0	**134**	26
Romania	24	12	22	-	81	-	**139**	53
Slovenia	0	0	-	-	-	0	**0**	4
Slovakia	0	-	29	17	11	-	**57**	5
Finland	1	0	0	-	-	0	**1**	0
Sweden	72	2	0	-	0	-	**74**	3
United Kingdom	27	4	4	-	12	2	**50**	44
Interreg/Cross-border	-	-	24	-	-	-	**24**	1
TOTAL IMPLEMENTED	**610**	**59**	**2 416**	**207**	**430**	**19**	**3 742**	1 106

6.4.2.4 Explanation of financial corrections and recoveries movements in 2012

Agriculture and Rural Development: The financial corrections confirmed/decided are mainly related to Commission conformity and clearance decisions, arising as a result of audits performed by the Commission. The amount effectively implemented is different from the amount decided due to a delay in cashing. For recoveries, amounts are quite stable in comparison to last year figures.

Cohesion Policy:
ERDF and the Cohesion Fund: Financial correction amounts both confirmed/decided and implemented have significantly increased compared to last year:
Amounts decided/confirmed:
- *Period 2007-2013*: more than half of the EUR 1 161 million financial corrections confirmed/decided in 2012 (EUR 631 million) concern the current programming period 2007-2013 as a result of stricter supervision by the Commission and a growing number of audits completed at this stage of implementation of the programmes. The amount of corrections decided/confirmed in 2012 related to the programming period 2007-2013 is mainly explained by corrections concerning Spain (EUR 267 million), the Czech Republic (EUR 111 million), Greece (EUR 82 million) and Poland (EUR 77 million). These amounts do not include corrections to expenditure declared by beneficiaries at Member State level and therefore not certified to the Commission as a result of its requested action plans.
- *Period 2000-2006:* The remaining amount (EUR 531 million) covers corrections related to the on-going closure process of the programming period 2000-2006. The corrections at closure result from the analysis of winding-up declarations, or the extrapolation of the residual error rate. The main corrections concern Spain (EUR 316 million), Italy (EUR 65 million) and Portugal (EUR 53 million). These corrections should continue in 2013 as the result of the finalisation of the closure exercise, with lower amounts though.

Amounts implemented:
The amounts reported this year concern the 2000-2006 period almost exclusively and financial corrections that were decided/accepted in previous years. A major correction for Spain (EUR 1.8 billion) has been reported as implemented following the completion of the verification of all closure documents, the full validation of the cost claims submitted by the Member State authorities from which the corrections were deducted, as well as the processing of the partial payment of the remaining balance to Spain. It should be noted that due to the lack of payment appropriations in the 2012 budget, at the end of the year (following the rejection by the budget authority of the proposal for an amending budget with higher payment appropriations), the Commission services could not make a full payment of the balance due to Spain.

ESF:
- *2000-2006*: most of the financial corrections reported relate to either the extrapolation of the residual error rate at closure (following the analysis of the winding-up declarations), or net corrections at closure. The closure audits are still on-going.
- *2007-2013*: the amounts reported relate to irregular amounts deducted from interim payment claims submitted by Member States during the life cycle of the programme. The increase in the amounts reported result from the joint audit strategy developed for this programming period.

6.4.3 Cumulative figures for financial corrections and recoveries implemented

6.4.3.1 Financial corrections implemented – cumulative figures

Information is given below showing the cumulative financial corrections reported by programming period:

EUR millions

Financial corrections	Programming Period			Cumulated EAGF decisions	Total as at end 2012	% Implemented / Decided-confirmed	Total not yet implemented As at end 2012	Implemented at end 2011
	1994-1999 Period	2000-2006 Period	2007-2013 Period					
Agriculture:	**-**	**93**	**81**	**7 728**	**7 902**	**92.7%**	**623**	**7 139**
EAGF	-	-	-	7 728	**7 728**	93.3%	558	7 024
*Rural Development**	-	93	81	-	**174**	72.8%	65	115
Cohesion Policy:	**2 535**	**6 359**	**779**	**-**	**9 673**	**89.7%**	**1 114**	
ERDF	1 764	4 626	154	-	**6 544**	89.6%	761	4 128
Cohesion Fund	264	464	87	-	**815**	82.8%	169	608
ESF	407	1 206	538	-	**2 150**	96.7%	74	1 720
FIFG/EFF	100	5	0	-	**105**	52.2%	96	104
*EAGGF Guidance**	0	58	-	-	**58**	80.6%	14	41
Other	**-**	**-**	**-**	**2**	**2**	**100,0%**	**-**	**0**
Total	**2 535**	**6 452**	**861**	**7 730**	**17 577**	**91,0%**	**1 737**	**13 741**

* *Certain amounts previously disclosed as financial corrections are now reported under recoveries.*

The amounts of financial corrections disclosed in this table for Agriculture represent gross amounts related to conformity clearance decisions. However the amounts disclosed in note **6.4.2.2** also take into account financial clearance decisions.

Concerning **EAGF**, the cumulated amount implemented of EUR 7 728 million covers all corrections made as from when the first decision was made in 1999. For **Rural Development**, the cumulated amount of EUR 174 million covers all corrections and recovery of irregularities as from 2007. It is to be noted that in some cases the date of implementation was deferred by several years, and some decisions are also reimbursed in deferred annual instalments. This is the case for Member States subject to financial assistance in accordance with the European Financial Stability Framework Agreement signed on 7 June 2010. As a consequence, there is an increasing discrepancy between the cumulative amounts decided and implemented.

Concerning **Cohesion policy**:
Period 2000-2006: The increase of the implementation rate for ERDF for the programming period 2000-2006 in 2012 (from 53% in 2011 to 92% in 2012) is explained by the sending to Member States of all but seven ERDF closure letters covering operational programmes by end 2012, followed by the authorisation of partial ERDF 2000-2006 final payment claims (within the limits of available credits). This high implementation rate at end 2012 also applies to **ESF**. For **FIFG**, closure documents and final payment claims are still being processed by the Commission services, which explains the low implementation rate for this programming period.
Period 2007-2013: As a result of stricter supervision by the Commission, a growing number of audits are completed at this stage of implementation of the programmes. The corrections confirmed/decided or implemented will continue to increase in the coming years, as a result of the Commission supervisory role and EU audits.

Included in the above table are financial corrections that are being challenged by certain Member States (noting that past experience has shown that the Commission has very rarely had to repay amounts following such cases). For more details, see note **5.2.4**.

6.4.3.2 Recoveries implemented – cumulative figures

For recoveries, reliable cumulative information is only available since 2008 when a specific functionality was introduced into the Commission's accounting system to better track and report such recoveries. The information below shows the breakdown of recoveries made per year:

EUR millions

Recoveries	Years					Total as at end 2012	Total as at end 2011
	2008	2009	2010	2011	2012		
Agriculture:							
EAGF	356	148	172	178	161	1 015	854
Rural Development	0	25	114	161	166	466	301
Cohesion	31	102	25	48	14	219	205
Internal policy areas	40	100	162	268	229	799	570
External policy areas	32	81	136	77	99	425	326
Administration	0	9	5	2	9	25	16
Total	**459**	**464**	**614**	**734**	**678**	**2 949**	**2 272**

6.5 RECOVERY OF UNUSED PRE-FINANCING AMOUNTS

EUR millions

	2012	2011
Agriculture:		
EAGF	0	0
Rural Development	0	0
Cohesion Policy:		
ERDF	38	13
Cohesion Fund	5	2
ESF	214	17
FIFG/EFF	0	0
EAGGF Guidance	5	10
Internal policy areas	207	212
External policy areas	104	72
Administration	2	0
Total recovered	**575**	**327**

The above amounts have been deducted in arriving at the pre-financing amounts included under notes **2.6** and **2.10**.

6.6 RECOVERIES RELATING TO OWN RESOURCE REVENUES

EUR millions

	2012	2011
Amounts recovered:		
- Principal	133	63
- Interest	160	312
Total recovered	**293**	**375**

6.7 ADDITIONAL CORRECTIONS (WITHDRAWALS AND RECOVERIES) REPORTED AS IMPLEMENTED BY MEMBER STATES FOR THE PERIOD 2007-2013

EUR millions

Member State	ERDF/CF	ESF	EFF	Total at end 2012
Belgium	3	11	-	**14**
Bulgaria	13	2	0	**15**
Czech Republic	191	37	-	**228**
Denmark	0	0	0	**0**
Germany	290	49	1	**340**
Estonia	4	0	0	**4**
Ireland	0	5	0	**5**
Greece	63	-	0	**63**
Spain	204	39	9	**252**
France	42	37	0*	**79**
Italy	141	27	0	**168**
Cyprus	0	0	0	**1**
Latvia	10	-	0	**10**
Lithuania	6	0	0	**6**
Luxembourg	-	0	-	**0**
Hungary	26	-	0	**26**
Malta	1	0	-	**1**
Netherlands	1	2	0	**3**
Austria	4	1	0	**5**
Poland	204	-	0	**204**
Portugal	46	28	1	**75**
Romania	43	-	0	**43**
Slovenia	5	5	-	**10**
Slovakia	33	4	0	**37**
Finland	1	0	0	**1**
Sweden	2	1	1	**4**
United Kingdom	38	13	1	**52**
Cross-border	8	-	-	**8**
TOTAL IMPLEMENTED	**1 377**	**261**	**14**	**1 652**

** Audit conclusions show that substantive improvements are needed in the French certifying authority reporting EFF recovery figures.*

The table above shows the cumulative financial corrections reported by each Member State since the beginning of the 2007-2013 programming period to end 2012. These are in addition to the corrections reported cumulatively by the Commission (see note **6.4.3**).

So as to gain additional assurance as to the completeness and reliability of the Member States' reporting on recoveries and withdrawals, the Commission started an audit of structural actions (ERDF, CF, ESF, EFF) in 2011 with the aim of ensuring that Member States' reporting is complete and reliable. Based on a risk analysis, a sample of 12 certifying authorities in 10 Member States was selected [1]. During 2012, the relevant Commission services obtained reasonable assurance that 11 of the 12 audited certifying authorities have satisfactory arrangements in place for keeping an account of amounts concerning for the recovery and withdrawal of undue payments and for the reporting of them to the Commission.

The Commission services will continue this audit in 2013 and beyond in other Member States, following analysis of the annual statements from the Member States on withdrawals and recoveries to be received in 2013.

[1] *Conclusions of this audit, based on the final reports and follow-up implemented by the concerned Member States, were communicated to the Discharge Authority.*

7. FINANCIAL SUPPORT MECHANISMS

This note intends to give a complete overview of the currently existing financial support mechanisms in the EU, and so provides further information to that reported under note **2**. The information included in the first part of this note (**7.1**) relates to borrowing and lending activities of the EU managed by the Commission. The information in the second part of this note (**7.2**) covers intergovernmental financial stability mechanisms outside the EU Treaty framework and thus without an impact on the EU budget.

7.1 BORROWING AND LENDING ACTIVITIES MANAGED BY THE COMMISSION

7.1.1 Borrowing and lending activities – Overview

Amounts at carrying value *EUR millions*

	MFA	Euratom	BOP	EFSM	ECSC in liquidation	Total 31.12.2012	Total 31.12.2011
Loans (note **2.4.2**)	549	425	11 623	44 476	221	**57 294**	41 281
Borrowing (note **2.14**)	549	425	11 623	44 476	194	**57 267**	41 251

The above amounts are at carrying value whereas the tables below are presented in nominal values.

The EU is empowered by the EU Treaty to adopt borrowing programmes to mobilise the financial resources necessary to fulfill its mandate. The European Commission, acting on behalf of the EU, currently operates three main programmes, Macro-Financial Assistance (MFA), Balance of Payments (BOP) assistance and the European Financial Stabilisation Mechanism (EFSM), under which it may grant loans and fund these by issuing debt instruments in the capital markets or with financial institutions.

The key points or characterisitics to note for these three instruments are:

- EU borrowing is raised on the capital markets or with financial institutions and not from the budget, as the EU is not permitted to borrow to finance its ordinary budgetary expenses or a budget deficit.
- The size of the borrowings varies from small private placements of single or double digit EUR million amounts to benchmark-size operations in the context of the BOP and the EFSM loans.
- The funds raised are lent back-to-back to the beneficiary country, i.e. with the same coupon, maturity and amount. Notwithstanding the back-to-back methodology, the debt service of the bond is a legal obligation of the EU, which will ensure that all bond payments are made timely and fully. To this effect, BOP beneficiares are required to deposit reimbursements 7 days in advance of the due dates and EFSM beneficiaries 14 days in advance, which allows the Commission sufficient time to ensure timely payment in all circumstances.
- For each country programme, the Council and Commission Decisions determine the overall granted amount, the instalments to be disbursed, its maximum individual maturity and maximum average maturity of the loan package. Subsequently, the Commission and the beneficiary country agree loan/funding parameters, including instalments and the payment of tranches. In addition, all but the first instalment of the loan depend on compliance with strict conditions, with agreed terms and conditions similar to IMF support, in the context of a joint EU/IMF financial assistance, which is another factor influencing the timing of funding.
- This implies that the timing and maturities of issuance are dependent on the related EU lending activity.
- Funding is exclusively denominated in euro and the maturity spectrum is 5 to 30 years.
- Borrowings are direct and unconditional obligations of the EU and guaranteed by the 28 Member States.
- Should a beneficiary country default, the debt service will be drawn from the available treasury balance of the Commission, if possible. If that would not be possible, the Commission would draw the necessary funds from the Member States. EU Member States are legally obliged, according to the EU own resources legislation (Article 12 of Council Regulation 1150/2000), to make available sufficient funds to meet the EU's obligations. Thus investors are only exposed to the credit risk of the EU, not to that of the beneficiary of loans funded.
- "Back-to-back" lending ensures that the EU budget does not assume any interest rate or foreign exchange risk.

Additionally, the **Euratom** legal entity (represented by the Commission) borrows money to lend to both Member and non-Member States to finance projects relating to energy installations. Finally, the European Coal & Steel Community (**ECSC**) in liquidation has, following a restructuring of debts of a defaulting debtor, acquired in 2002 and 2007 promissory notes from the EIB (rated AAA). At the balance sheet date, the book value of these promissory notes amounted to EUR 221 million.

More details on each of these instruments are given below. The effective interest rates (expressed as a range of interest rates) were as follows:

Loans	31.12.2012	31.12.2011
Macro Financial Assistance (MFA)	0.298%-4.54%	1.58513%-4.54%
Euratom	0.431%-5.76%	1.067%-5.76%
BOP	2.375%-3.625%	2.375%-3.625%
EFSM	2.375%-3.750%	2.375%-3.50%
ECSC in liquidation	5.2354%-5.8103%	1.158%-5.8103%

Borrowings	31.12.2012	31.12.2011
Macro Financial Assistance (MFA)	0.298%-4.54%	1.58513%-4.54%
Euratom	0.351%-5.6775%	0.867%-5.6775%
BOP	2.375%-3.625%	2.375%-3.625%
EFSM	2.375%-3.750%	2.375%-3.50%
ECSC in liquidation	6.92%-9.78%	1.158%-9.2714%

7.1.2 European Financial Stabilisation Mechanism (EFSM)

EFSM nominal value *EUR millions*

	Ireland	Portugal	Total
Total loans granted	**22 500**	**26 000**	**48 500**
Disbursed at 31.12.11	13 900	14 100	28 000
Disbursed in 2012	7 800	8 000	15 800
Loans disbursed at 31.12.12	**21 700**	**22 100**	**43 800**
Loans repaid at 31.12.12*	0	0	0
Loans outstanding at 31.12.12	**21 700**	**22 100**	**43 800**
Undrawn amounts at 31.12.12	800	3 900	4 700

A table showing the reimbursement schedule for these loans is given at the end of note **7.1.3.*

On 11 May 2010 the Council adopted the EFSM to preserve financial stability in Europe (Council Regulation (EU) n° 407/2010). The mechanism is based on Art. 122.2 of the TFEU and enables the granting of financial assistance to a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional circumstances beyond its control. The assistance may take the form of a loan or credit line. The Commission borrows funds on the capital markets or with financial institutions on behalf of the EU and lends these funds to the beneficiary Member State. For each country receiving a loan under the EFSM, a quarterly assessment on the fulfilment of the policy conditions attached to the loan is carried out before an instalment is disbursed.

The ECOFIN Council conclusions of 9 May 2010 restrict the facility to EUR 60 billion but the legal limit is provided in Article 2.2 of the Council Regulation no. 407/2010, which restricts the outstanding amount of loans or credit lines to the margin available under the own resources ceiling. Borrowings related to loans disbursed under the EFSM are guaranteed by the EU budget – thus at 31 December 2012, the budget is exposed to a maximum possible risk of EUR 44 476 million regarding these loans (the EUR 43.8 billion above being the nominal value). As the borrowings under the EFSM are guaranteed by the EU budget, the European Parliament scrutinises the Commission's EFSM actions and exercises control in the context of the budget and discharge procedure.

The Council decided by Implementing decision in December 2010 on a loan to Ireland of maximum EUR 22.5 billion, and in May 2011 on a loan to Portugal of maximum EUR 26 billion. The initial implementing decisions fixed interest with a margin to result in conditions similar to those of the IMF support. With the adoption of Council Implementing Decisions no. 682/2011 and 683/2011 of 11 October 2011, the Council suppressed the interest margin retroactively and extended the maximum average maturity from 7.5 years to 12.5 years and the maturity of individual tranches up to 30 years. On 12 April 2013, the ECOFIN agreed to further lengthen the maximum average maturity of the EFSM loans to Ireland and Portugal by 7 years to 19.5 years. The extension would smooth the debt redemption profile of both countries and lower their refinancing needs in the post-programme period.

Under the EFSM, the EU intends to issue further bonds in the last quarter of 2013 for a total amount of EUR 3 billion for loans to Ireland and Portugal. The EFSM will no longer engage in new financing programmes or enter into new loan facility agreements, but will remain active in financing the on-going programmes for Portugal and Ireland (see also note **7.2.2** below).

7.1.3 Balance of Payments (BOP)

The BOP facility, a policy-based financial instrument, provides medium-term financial assistance to Member States of the EU. It enables the granting of loans to Member States which are experiencing, or are seriously threatened with, difficulties in their balance of payments or capital movements. Only Member States which have not adopted the Euro may benefit from this facility. The maximum outstanding amount of loans granted under the instrument is limited to EUR 50 billion. Borrowings related to these BOP loans are guaranteed by the EU budget – thus at 31 December 2012, the budget is exposed to a maximum possible risk of EUR 11 623 million regarding these loans (EUR 11.4 billion below being the nominal value).

BOP nominal value *EUR millions*

	Hungary	Latvia	Romania	Total
Total loans granted	**6 500**	**3 100**	**6 400**	**16 000**
Disbursed in 2008	2 000	-	-	2 000
Disbursed in 2009	3 500	2 200	1 500	7 200
Disbursed in 2010	-	700	2 150	2 850
Disbursed in 2011	-	-	1 350	1 350
Disbursed in 2012	-	-	-	-
Loans disbursed 31.12.2012	**5 500**	**2 900**	**5 000**	**13 400**
Loans repaid at 31.12.2012	(2 000)	-	-	(2 000)
Outstanding amount at 31.12.2012	**3 500**	**2 900**	**5 000**	**11 400**
Undrawn amounts 31.12.2012	0	0	1 400	1 400

**A table showing the reimbursement schedule for these loans is given at the end of this note.*

Between November 2008 and end 2012, loans amounting to EUR 16 billion were granted to Hungary, Latvia and Romania, of which EUR 13.4 billion had been disbursed by the end of 2012. It should be noted that the BOP assistance programme for Hungary expired in November 2010 (with EUR 1 billion undrawn) and a first repayment of EUR 2 billion was received as scheduled in December 2011. The BOP assistance programme for Latvia expired in January 2012 (with EUR 200 million undrawn). The BOP first assistance programme for Romania expired in May 2012 with all the amount granted being disbursed.

In February 2011, Romania requested a follow-up precautionary financial assistance programme under the BOP Facility to support the re-launch of economic growth. On 12 May 2011 the Council decided to make available precautionary EU BOP assistance for Romania of up to EUR 1.4 billion (Council Decision 2011/288/EU) that if requested, should be provided in a form of a loan with a maximum maturity of seven years. This precautionary assistance expired at end-March 2013 without being drawn.

The following table provides an overview of the planned reimbursement schedule in nominal value for outstanding EFSM and BOP loan amounts at the date of signature of these accounts:

EUR Billions

Year	BOP				EFSM			Total
	Hungary	Latvia	Romania	Total	Ireland	Portugal	Total	
2014	2.0	1.0		3.0				3.0
2015		1.2	1.5	2.7	5.0		5.0	7.7
2016	1.5			1.5		4.75	4.75	6.25
2017			1.15	1.15				1.15
2018			1.35	1.35	3.9	0.6	4.5	5.85
2019		0.5	1.0	1.5				1.5
2021					3.0	6.75	9.75	9.75
2022						2.7	2.7	2.7
2025		0.2		0.2				0.2
2026					2.0	2.0	4.0	4.0
2027					1.0	2.0	3.0	3.0
2028					2.3		2.3	2.3
2032					3.0		3.0	3.0
2038						1.8	1.8	1.8
2042					1.5	1.5	3.0	3.0
Total	**3.5**	**2.9**	**5.0**	**11.4**	**21.7**	**22.1**	**43.8**	**55.2**

7.1.4 MFA, EURATOM & ECSC in Liquidation

MFA is a policy-based financial instrument of untied and undesignated balance of payment and/or budget support to partner third-countries geographically close to the EU territory. It takes the form of medium/long term loans or grants or an appropriate combination of both and generally complements financing provided in the context of an IMF-supported adjustment and reform program. At 31 December 2012, a further EUR 100 million of loan agreements have been entered into by the Commission but not yet drawn down by the other party before the year-end. The Commission has not received third-party guarantees for these loans, but they are guaranteed by the Guarantee Fund (see note **2.4**).

Euratom is a legal entity of the EU and is represented by the European Commission. It grants loans to Member States for the purpose of financing investment projects in the Member States relating to the industrial production of electricity in nuclear power stations and to industrial fuel cycle installations. It also grants loans to non-Member States for improving the level of safety and efficiency of nuclear power stations and installations in the nuclear fuel cycle which are in service or under construction. Guarantees from third-parties of EUR 423 million (2011: EUR 447 million) have been received covering these loans.

ECSC loans are granted by the ECSC in liquidation on borrowed funds in accordance with articles 54 and 56 of the ECSC Treaty as well as three unquoted debt securities issued by the EIB as substitute of a defaulted debtor. These debt securities will be held till their final maturity (2017 and 2019) in order to cover the service of related borrowings. The changes in carrying amount correspond to the change in accrued interests plus the amortisation of the year of premiums paid and transaction cost incurred at inception, calculated according to the effective interest rate method.

7.2 INTER-GOVERMENTAL FINANCIAL STABILITY MECHANISMS OUTSIDE THE EU TREATY FRAMEWORK

7.2.1 European Financial Stability Facility (EFSF)

The European Financial Stability Facility ("EFSF") was created by the Eurozone Member States following the decisions taken on 9 May 2010 by the ECOFIN Council. Its mandate is to safeguard financial stability in Europe by providing financial assistance to Eurozone Member States. The EFSF does not provide new lending after 1 July 2013 (see note **7.2.2** below), in keeping with the current Framework Agreement. In accordance with an agreement by the Euro-area Heads of State/Governments reached in July 2011, the EFSF is authorised to use the following instruments linked to appropriate conditionality:

- Provide loans to countries in financial difficulties
- Intervene in the debt primary and secondary markets. Intervention in the secondary market will be only on the basis of an ECB analysis recognising the existence of exceptional financial market circumstances and risks to financial stability
- Act on the basis of a precautionary programme
- Finance recapitalisations of financial institutions through loans to governments
- Provide partial risk protection certificates alongside new issuances of vulnerable Member States

The EFSF is backed by guarantee commitments from the Eurozone Member States for a total of EUR 780 billion and has a lending capacity of EUR 440 billion. It is not guaranteed by the EU budget. The EFSF is a Luxembourg-registered commercial company owned by euro-area Member States outside the EU Treaty framework and thus is not an EU body and is entirely separate from and not consolidated in the EU accounts. Consequently it has no impact on the EU accounts, aside from the possible sanctions revenue described below.

The Commission is responsible for negotiating the policy conditionality attached to the financial assistance and the monitoring of compliance with that conditionality. Regulation 1173/2011 of the Parliament and Council allows for the imposition of sanctions in the form of fines on Member States whose currency is the Euro. These fines, being 0.2% of the Member State's GDP in the preceding year, can be applied in cases where a Member State has not taken appropriate actions to correct an excessive budget deficit, or where there has been manipulation of statistics. Similarly, Regulation 1174/2011 on macroeconomic imbalances makes provision for an annual fine on a Eurozone Member State of 0.1% of GDP in the cases where a Member State has not taken the requested corrective action or in case an insufficient corrective action plan has been submitted. Regulation 1177/2011 updated Regulation 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure. This updated Regulation also foresees the possibility of issuing fines to Eurozone Member States (equal to 0.2% of GDP plus a variable component). According to all three Regulations, any fines collected by the Commission shall be passed to the EFSF, or its successor mechanism. Presently, it is foreseen that such fines will transit through the EU Budget and then be transferred to the EFSF. This would mean that such amounts would appear as both a budget revenue and expense, thus having no impact on the overall budget result. Likewise they would have no impact on the economic result as presented in the EU financial statements.

EFSF nominal value *EUR millions*

	Ireland	Portugal	Greece*	Total
Total loans granted	**17 700**	**26 000**	**109 100**	**152 800**
Loans disbursed at 31.12.2012	12 000	18 200	73 700	103 900
Loans repaid at 31.12.2012	-	-	-	-
Loans outstanding at 31.12.2012	**12 000**	**18 200**	**73 700**	**103 900**
Undrawn amounts at 31.12.2012	5 700	7 800	35 400	48 900

*2nd programme

7.2.2 European Stability Mechanism (ESM)

The European Council agreed on 17 December 2010 on the need for Eurozone Member States to establish a permanent stability mechanism: the European Stability Mechanism ("ESM"), an intergovernmental organisation under public international law outside the EU Treaty framework. The ESM Treaty was signed by the 17 Eurozone Member States on the 2nd of February 2012 and became operational in October 2012. The ESM has assumed the tasks fulfilled by the EFSM and, as from 1 July 2013, the tasks fulfilled by the EFSF becoming the sole and permanent mechanism for responding to new requests for financial assistance to Eurozone Member States. Consequently, the EFSF and the EFSM will no longer engage in new financing programmes or enter into new loan facility agreements, but will remain active in financing the on-going programmes for Portugal, Ireland and Greece. Loans granted under the EFSM will therefore continue to be disbursed and repaid under EFSM rules and so the related borrowings will still be guaranteed by the EU budget and will remain on the EU balance sheet. The creation of the ESM will thus not have an impact on the existing commitments under the EFSM. It must also be noted that the EU budget will not guarantee ESM borrowings.

The ESM is backed by a robust capital structure, with a total subscribed capital of EUR 700 billion, of which EUR 80 billion in the form of paid-in capital provided by the Eurozone Member States. With such capital, its lending capacity in principle should reach EUR 500 billion. The assistance provided under the ESM will be accompanied by conditionality, appropriate to the assistance instrument chosen. Loans to beneficiary Member States will be conditional on the implementation of a strict economic and fiscal adjustment programme, in line with existing arrangements. As this mechanism has its own legal personality and is funded directly by the Eurozone Member States, it is not an EU body and it has no impact on either the EU accounts or the EU budget, aside from the possible sanctions revenue described below. The Commission is responsible for negotiating the policy conditionality attached to the financial assistance and the monitoring of compliance with that conditionality (as with the EFSF above). Each country receiving financial assistance from the ESM will be subject to regular assessments on the fulfilment of the policy conditionality before each instalment is disbursed.

As stated above, fines collected under Regulations 1173/2011, 1174/2011 and 1177/2011 will pass through the EU budget and be transferred to the ESM once the EFSF is no longer operational. Furthermore, the Treaty on Stability, Coordination and Governance signed by 25 Member States (excluding the UK and Czech Republic) foresees penalty payments on any of the "Contracting Parties" where that Member State has not taken necessary measures to address a breach of deficit criterion. Penalties imposed (which cannot exceed 0.1% of GDP) will be payable to the ESM if applied to Eurozone Member States (thus with no impact on the EU budget result, as with the EFSF above), or to the EU budget for non-Euro Member States – see Article 8 paragraph 2 of the Treaty. In the latter case, the sanction amount will be revenue for the EU budget and reflected as such in its accounts.

ESM nominal value *EUR millions*

	Spain
Total loans granted	**100 000**
Loans disbursed at 31.12.2012	39 468
Loans repaid at 31.12.2012	-
Loans outstanding at 31.12.2012	**39 468**
Undrawn amounts at 31.12.2012	60 532

8. FINANCIAL RISK MANAGEMENT

The following disclosures with regard to the financial risk management of the EU relate to:

- lending and borrowing activities carried out by the European Commission through: European Financial Stabilty Mechanism (EFSM), Balance of Payments (BOP), Macro Financial Assistance (MFA), Euratom actions and the European Coal & Steel Community (in Liquidation);

- the treasury operations carried out by the European Commission in order to implement the EU budget, including the receipt of fines; and

- the Guarantee Fund for external actions.

8.1 TYPES OF RISK

Market risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate, because of changes in market prices. Market risk embodies not only the potential for loss, but also the potential for gain. It comprises currency risk, interest rate risk and other price risk (the EU has no significant other price risk).

1. **Currency risk** is the risk that the EU's operations or its investments' value will be affected by changes in exchange rates. This risk arises from the change in price of one currency against another.
2. **Interest rate risk** is the possibility of a reduction in the value of a security, especially a bond, resulting from an increase in interest rates. In general, higher interest rates will lead to lower prices of fixed rate bonds, and vice versa.

Credit risk is the risk of loss due to a debtor's/borrower's non-payment of a loan or other line of credit (either the principal or interest or both) or other failure to meet a contractual obligation. The default events include a delay in repayments, restructuring of borrower repayments and bankruptcy.

Liquidity risk is the risk that arises from the difficulty of selling an asset, for example, the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss or meet an obligation.

8.2 Risk management policies

Borrowing & Lending activities
The lending and borrowing transactions, as well as related treasury management, are carried out by the EU according to the respective Council Decisions, if applicable, and internal guidelines. Written procedure manuals covering specific areas such as borrowings, loans and treasury management have been developed and are used by the relevant operating units. As a general rule, there are no activities to compensate interest rate variations or foreign currency variations ("hedging" activities) carried-out as lending operations are generally financed by "back-to-back" borrowings, which thus do not generate open interest rate or currency positions. The application of the "back-to-back" character is checked regularly.

The European Commission manages the liquidation of the liabilities and no new loans or corresponding funding is foreseen for the ECSC in liquidation. New ECSC borrowings are restricted to refinancing with the aim of reducing the cost of funds. As far as treasury operations are concerned, the principles of prudent management with a view to limiting financial risks are applied.

Treasury

The rules and principles for the management of the Commission's treasury operations are laid down in the Council Regulation 1150/2000 (amended by Council Regulations 2028/2004 and 105/2009) and in the Financial Regulation (Council Regulation 1605/2002, amended by Council Regulations 1995/2006, 1525/2007 and 1081/2010) and its Implementing Rules (Commission Regulation 2342/2002, amended by Commission Regulations 1261/2005, 1248/2006 and 478/2007).

As a result of the above regulations the following main principles apply:

- Own resources are paid by the Member States in accounts opened for this purpose in the name of the Commission with the Treasury or the body appointed by each Member State. The Commission may draw on the above accounts solely to cover its cash requirements.
- Own Resources are paid by Member States in their own national currencies, while the Commission's payments are mostly denominated in EUR.
- Bank accounts opened in the name of the Commission may not be overdrawn. This restriction does not apply to the Commission's own resource accounts in case of a default on loans contracted or guaranteed pursuant to EU Council regulations and decision and under certain conditions in case the cash resource requirements are in excess of the assets of the accounts.
- Funds held in bank accounts denominated in other currencies than EUR are either used for payments in the same currencies or periodically converted in EUR.

In addition to the own resources accounts, other bank accounts are opened by the Commission, with central banks and commercial banks, for the purpose of executing payments and receiving receipts other than the Member State contributions to the budget.

Treasury and payment operations are highly automated and rely on modern information systems. Specific procedures are applied to guarantee system security and to ensure segregation of duties in line with the Financial Regulation, the Commission's internal control standards, and audit principles.

A written set of guidelines and procedures regulates the management of the Commission's treasury and payment operations with the objective of limiting operational and financial risk and ensuring an adequate level of control. They cover the different areas of operation (for example: payment execution and cash management, cashflow forecasting, business continuity, etc.), and compliance with the guidelines and procedures is checked regularly. Additionally, information is exchanged between DG BUDGET and DG ECFIN on risk management and best exposures.

Fines

Provisionally cashed fines: deposits

Amounts received before 2010 remain in bank accounts with banks specifically selected for the deposit of provisionally cashed fines. The selection of banks is conducted in compliance with tender procedures defined by the Financial Regulation. Placement of funds with specific banks is determined by the internal risk management policy defining the credit rating requirements and the amount of funds which could be placed in proportion to the counterparty equity. Financial and operational risks are identified and evaluated and compliance with internal policies and procedures is checked regularly.

Provisionally cashed fines: BUFI portfolio

From 2010 onwards provisionally cashed fines amounts are invested in a specifically created fund, BUFI. The asset management for provisionally cashed fines is carried out by the Commission in accordance with internal guidelines and the asset management guidelines. Procedural manuals covering specific areas such as treasury management have been developed and are used by the relevant operating units. Financial and operational risks are identified and evaluated and compliance with internal guidelines and procedures is checked regularly.

The objectives of the asset management activities are to invest the fines paid to the Commission in such a way as to:
(a) ensure that the funds are easily available when needed, while
(b) aiming at delivering under normal circumstances a return which on average is equal to the return of the BUFI Benchmark minus costs incurred.

Investments are restricted basically to the following categories: term deposits with Eurozone Central Banks, Eurozone sovereign debt agencies, fully state-owned or state-guaranteed banks or supranational institutions; bonds, bills and Certificates of Deposit issued by sovereign entities creating a direct Eurozone sovereign exposure or which are issued by supranational institutions.

Bank guarantees

Significant amounts of guarantees issued by financial institutions are held by the Commission in relation to the fines it imposes to companies breaching EU competition rules (see note **2.9.1**). These guarantees are provided by fined companies as an alternative to making provisional payments. The guarantees are managed in compliance with the internal risk management policy. Financial and operational risks are identified and evaluated and compliance with internal policies and procedures is checked regularly.

Guarantee Fund

The rules and principles for the asset management of the Guarantee Fund (see note **2.4**) are laid out in the Convention between the European Commission and the EIB dated 25 November 1994 and the subsequent amendments dated 17/23 September 1996, 8 May 2002, 25 February 2008 and 9 November 2010. The Guarantee Fund operates only in EUR. It exclusively invests in this currency in order to avoid any foreign currency risk. Management of the assets is based upon the traditional rules of prudence adhered to for financial activities. It is required to pay particular attention to reducing the risks and to ensuring that the managed assets can be sold or transferred without significant delay, taking into account the commitments covered.

8.3 CURRENCY RISKS

Borrowing & Lending activities

Most financial assets and liabilities are in EUR, so in these cases the EU has no foreign currency risk. However, the EU does give loans in USD through the financial instrument Euratom, which are financed by borrowings with an equivalent amount in USD (back-to-back operation). At the balance sheet date the EU has no foreign currency risk with regard to Euratom. The ECSC in liquidation has a small foreign currency net exposure of EUR equivalent 1.35 million arising from EUR equivalent 1.13 million housing loans and EUR equivalent 0.22 million current account balances.

Treasury

Own resources paid by Member States in currencies other than EUR are kept on the own resources accounts, in accordance with the Own Resources Regulation. They are converted into EUR when they are needed to cover for the execution of payments. The procedures applied for the management of these funds are dictated by the above Regulation. In a limited number of cases these funds are directly used for payments to be executed in the same currencies.

A number of accounts in EU currencies other than EUR, and in USD and CHF, are held by the Commission with commercial banks, for the purpose of executing payments denominated in these same currencies. These accounts are replenished depending on the amount of payments to be executed, as a consequence their balances do not represent exposure to currency risk.

When miscellaneous receipts (other than own resources) are received in currencies other than EUR, they are either transferred to Commission's accounts held in the same currencies, if they are needed to cover for the execution of payments, or converted into EUR and transferred to accounts held in EUR. Imprest accounts held in currencies other than EUR are replenished depending on the estimated short term local payments needs in the same currencies. Balances on these accounts are kept within their respective ceilings.

Fines

Provisionally cashed fines (deposits and BUFI portfolio) and bank guarantees

Since all fines are imposed and paid in EUR, there is no foreign currency risk.

Guarantee Fund

The financial assets are in EUR so there is no currency risk.

8.4 INTEREST RATE RISK

Borrowing & Lending activities

Borrowings and loans with variable interest rates

Due to the nature of its borrowing and lending activities, the EU has significant interest-bearing assets and liabilities. MFA and Euratom borrowings issued at variable rates expose the EU to interest rate risk. However, the interest rate risks that arise from borrowings are offset by equivalent loans in terms and conditions (back-to-back). At the balance sheet date, the EU has loans (expressed in nominal amounts) with variable rates of EUR 0.7 billion (2011: EUR 0.8 billion), with a re-pricing taking place every 6 months.

Borrowings and loans with fixed interest rates

The EU also has MFA and Euratom loans with fixed rates totalling EUR 271 million in 2012 (2011: EUR 236 million) and which have a final maturity date between one and five years (EUR 25 million) and more than five years (EUR 246 million). More significantly, the EU has ten loans under the financial instrument BOP with fixed interest rates totalling EUR 11.4 billion in 2012 (2011: EUR 11.4 billion) and with a final maturity between one and five years (EUR 8.4 billion) and more than five years (EUR 3.0 billion). Under the financial instrument EFSM, the EU has 18 loans with fixed interest rates totalling EUR 43.8 billion in 2012 and with a final maturity between one and five years (EUR 9.8 billion) and more than five years (EUR 34 billion).

Due to the nature of its activities, the ECSC in liquidation is exposed to interest rate risk. The interest rate risks that arise from borrowings are generally offset by equivalent loans in terms and conditions. As regards asset management operations, there are bonds with variable interest rates represent 4% of the ECSC portfolio. Zero coupon bonds represented 8% of the bond portfolio at the balance sheet date.

Treasury

The Commission's treasury does not borrow any money; as a consequence it is not exposed to interest rate risk. It does, however, earn interest on balances it holds on its different banks accounts. The Commission has therefore put in place measures to ensure that interest earned on its bank accounts regularly reflects market interest rates, as well as their possible fluctuation.

Accounts opened with Member States Treasuries or National Central Banks for own resources receipts are non-interest bearing and free of charges. For all other accounts held with National Central Banks the remuneration depends on the specific conditions offered by each bank; interest rates applied are variable and adjusted to market fluctuations.

Overnight balances held on commercial bank accounts earn interest on a daily basis. This is based on variable market rates to which a contractual margin (positive or negative) is applied. For most of the accounts the interest calculation is linked to the EONIA (Euro over night index average), and is adjusted to reflect any fluctuations of this rate. For some other accounts the interest calculation is linked to the ECB marginal rate for its main refinancing operations. As a result no risk exists that the Commission earns interest at rates lower than market rates.

Fines

Provisionally cashed fines (deposits, BUFI portfolio) and bank guarantees

Depositis and bank guarantees are not exposed to interest rate risks. Interest earned by deposits reflect market interest rates as well as their possible fluctuation. There are no bonds with variable interest rates in the BUFI portfolio.

Guarantee Fund

Debt securities within the Guarantee Fund issued at variable interest rates are subject to the volatility effects of these rates, whereas debt securities at fixed rates have a risk with regard to their fair value. Fixed rate bonds represent approximately 67% of the investment portfolio at the balance sheet date (2011: 83%).

8.5 CREDIT RISK

Borrowing & Lending activities

Exposure to credit risk is managed firstly by obtaining country guarantees in the case of Euratom, then through the Guarantee Fund (MFA & Euratom), then by the possibility of drawing the necessary funds from the Commission's own resource accounts with the Member States and ultimately through the Budget of the EU. The Own Resource legislation fixes the ceiling for own resource payments at 1.23% of Member States' GNI and during 2012 0.93% was actually used to cover payment appropriations. This means that at 31 December 2012 there existed an available margin of 0.3% to cover these guarantees. The Guarantee Fund for external actions was set up in 1994 to cover default risks related to borrowings which finance loans to countries outside the EU. In any case, the exposure to credit risk is mitigated by the possibility to draw on the Commission's own resource accounts with Member States in excess of the assets on those accounts in case a debtor would be unable to reimburse the amounts due in full. To this end the EU is entitled to call upon all the Member States to ensure compliance with the EU's legal obligation towards its lenders.

As far as treasury operations are concerned, guidelines on the choice of counterparties must be applied. Accordingly, the operating unit will be able to enter into deals only with eligible banks having sufficient counterparty limits.

ECSC's exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations. Exposure to credit risk is also managed by obtaining collateral as well as country, corporate and personal guarantees. As far as treasury operations are concerned, guidelines on the choice of counterparties must be applied. The operating unit is only allowed to enter into deals with eligible banks having sufficient counterparty limits.

Treasury

Most of the Commission's treasury resources are kept, in accordance with Council Regulation 1150/2000 on own resources, in the accounts opened by Member States for the payment of their contributions (own resources). All such accounts are held with Member States' treasuries or national central banks. These institutions carry the lowest credit (or counterparty) risk for the Commission as the exposure is with its Member States. For the part of the Commission's treasury resources kept with commercial banks in order to cover the execution of payments, replenishment of these accounts is instructed on a just-in-time basis and is automatically managed by the treasury cash management system. Minimum cash levels, proportional to the average amount of daily payments executed from it, are kept on each account. As a consequence the amounts kept overnight on these accounts remain constantly at low levels (overall between EUR 20 million and EUR 100 million on average, spread over more than 20 accounts) and so ensure the Commission's risk exposure is limited. These amounts should be viewed with regard to the overall treasury balances which fluctuate between EUR 1 billion and EUR 35 billion, and with an overall amount of payments executed in 2012 that equals EUR 139.5 billion.

In addition, specific guidelines are applied for the selection of commercial banks in order to further minimise counterparty risk to which the Commission is exposed:

- All commercial banks are selected by call for tenders. The minimum short term credit rating required for admission to the tendering procedures is Moody's P-1 or equivalent (S&P A-1 or Fitch F1). A lower level may be accepted in specific and duly justified circumstances.

- The credit ratings of the commercial banks where the Commission has accounts are reviewed at least on a monthly basis, or with higher frequency if and when needed. Intensified monitoring measures and daily reviews of commercial banks' ratings were adopted in the context of the financial crisis, and kept in place during 2012.

- In delegations outside the EU imprest accounts are held with local banks selected by a simplified tendering procedure. Rating requirements depend on the local situation and may significantly differ from one country to another. In order to limit risk exposure, balances on these accounts are kept at the lowest possible levels (taking into account operational needs); they are regularly replenished, and the applied ceilings are reviewed on a yearly basis.

Fines

Provisionally cashed fines: deposits

The banks holding deposits for the fines provisionaly cashed before 2010 are selected in tender procedure in compliance with the risk management policy defining the credit rating requirements and the amount of funds which could be placed in proportion to the counterparty equity.

For commercial banks that have been specifically selected for the deposit of provisionally cashed fines (restricted cash), a minimum long-term rating A (S&P or equivalent) in all the three main rating agencies and a minimum short term rating A-1 (S&P or equivalent) is required as a general rule. Specific measures are applied in case banks in this group are subject to downgrade. In addition the amount deposited with each bank is limited to a certain percentage of its own funds, which varies depending on the rating level of each institution. The calculation of such limit also takes into account the amount of outstanding guarantees issued to the Commission by the same institution. The compliance of outstanding deposits with the applicable policy requirements is reviewed regularly.

Provisionally cashed fines: BUFI portfolio

For investments from provisionally cashed fines the Commission takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The highest concentration of exposure is towards France and Germany as each of these countries represents respectively 53% and 24% of the total volume of the portfolio.

Bank guarantees

Significant amounts of guarantees issued by financial institutions are also held by the Commission in relation to the fines it imposes to companies breaching EU competition rules (see note **2.9.1**). These guarantees are provided by fined companies as an alternative to making provisional payments. The risk management policy applied for the acceptance of such guarantees has been reviewed in 2012 and a new combination of credit rating requirements and limited percentages per counterpart (proportional to each counterpart's own funds) has been defined in the light of the current financial environment in the EU. It continues to ensure a high credit quality for the Commission. The compliance of the outstanding guarantees with the applicable policy requirements is reviewed regularly.

Guarantee Fund

In accordance with the agreement between the EU and the EIB on the management of the Guarantee Fund, all interbank investments should have a minimum rating from Moody's or equivalent of P-1. As at 31 December 2012 fixed term deposits of EUR 242 million were made with such counterparties (2011: EUR 300 million).

8.6 Liquidity risk

Borrowing & Lending activities

The liquidity risk that arises from borrowings is generally offset by equivalent loans in terms and conditions (back-to-back operations). For MFA and Euratom, the Guarantee Fund serves as a liquidity reserve (or safety net) in case of payment default and payment delays of borrowers. For BOP, the Council Regulation 431/2009 provides for a procedure allowing sufficient time to mobilise funds through the Commission's own resource accounts with the Member States. For EFSM, the Council Regulation 407/2010 provides for a similar procedure.

For the asset and liability management of ECSC in liquidation, the Commission manages liquidity requirements based on disbursement forecasts obtained through consultations with the responsible Commission services.

Treasury

EU budget principles ensure that overall cash resources for the year are always sufficient for the execution of all payments. In fact, the total Member States contributions equal the amount of payment appropriations for the budgetary year. Member States contributions, however, are received in twelve monthly instalments throughout the year, while payments are subject to certain seasonality. Moreover, in accordance with the Council Regulation 1150/2000 (Own Resources Regulation), Member States contributions relating to (amending) budgets approved after the 16^{th} of a given month (N) become only available in month N+2, while the related payment appropriations are immediately available. In order to ensure that treasury resources are always sufficient to cover the payments to be executed in any given month, procedures regarding regular cash forecasting are in place, and own resources or additional funding can be called up in advance from Member States if needed, and under certain conditions. In addition to the above, in the context of the Commission's daily treasury operations, automated cash management tools ensure that sufficient liquidity is available on each of the Commission's bank accounts, on a daily basis.

Guarantee Fund

The fund is managed according to the principle that the assets shall have a sufficient degree of liquidity and mobilisation in relation to the relevant commitments. The fund must maintain a minimum of EUR 100 million in a portfolio with a maturity of < 12 months which is to be invested in monetary instruments. As at 31 December 2012 these investments including cash amounted to EUR 250 million. Furthermore a minimum of 20% of the fund's nominal value shall comprise monetary instruments, fixed-rate bonds with a remaining maturity of no more than one year and floating-rate bonds. As at 31 December 2012 this ratio stood at 52%.

9. RELATED PARTY DISCLOSURES

9.1 RELATED PARTIES

The related parties of the EU are the other EU consolidated entities and the key management personnel of these entities. Transactions between these entities take place as part of the normal operations of the EU and as this is the case, no specific disclosure requirements are necessary for these transactions in accordance with the EU accounting rules.

9.2 KEY MANAGEMENT ENTITLEMENTS

For the purposes of presenting information on related party transactions concerning the key management of the EU, such persons are shown here under five categories:

Category 1: the Presidents of the European Council, the Commission and the Court of Justice

Category 2: the Vice-president of the Commission and High Representative of the EU for Foreign Affairs and Security Policy and the other Vice-presidents of the Commission

Category 3: the Secretary-General of the Council, the Members of the Commission, the Judges and Advocates General of the Court of Justice, the President and Members of the General Court, the President and Members of the European Civil Service Tribunal, the Ombudsman and the European Data Protection Supervisor

Category 4: the President and Members of the Court of Auditors

Category 5: the highest ranking civil servants of the Institutions and Agencies

A summary of their entitlements are given below – further information can be found in the Official Journal of the EU [L187 8/8/1967 last modified by Council Regulation (EU, Euratom) No. 904/2012 of 24/9/2012 (L269 4/10/2012) and L268 20/10/1977 last modified by Council Regulation (EC, Euratom) no. 1293/2004 of 30/4/2004 (L243 15/7/2004)]. Other information is also available in the Staff Regulations published on the Europa website which is the official document describing the rights and obligations of all officials of the EU. Key management personnel have not received any preferential loans from the EU.

KEY MANAGEMENT FINANCIAL ENTITLEMENTS *EUR*

Entitlement (per employee)	Category 1	Category 2	Category 3	Category 4	Category 5
Basic salary (per month)	25 351.76	22 963.55 –23 882.09	18 370.84 – 20 667.20	19 840.51 – 21 126.47	11 681.17 –18 370.84
Residential/Expatriation allowance	15%	15%	15%	15%	16%
Family allowances:					
Household (% salary)	2%+170.52	2%+170.52	2%+170.52	2%+170.52	2%+170.52
Dependent child	372.61	372.61	372.61	372.61	372.61
Pre-school	91.02	91.02	91.02	91.02	91.02
Education, or	252.81	252.81	252.81	252.81	252.81
Education outside place of work	505.39	505.39	505.39	505.39	505.39
Presiding judges allowance	N/A	N/A	500 - 810.74	N/A	N/A
Representation allowance	1 418.07	0 - 911.38	500 - 607.71	N/A	N/A
Annual travel costs	N/A	N/A	N/A	N/A	Yes
Transfers to Member State:					
Education allowance*	Yes	Yes	Yes	Yes	Yes
% of salary*	5%	5%	5%	5%	5%
% of salary with no cc	max 25%	max 25%	max 25%	max 25%	max 25%
Representation expenses	reimbursed	reimbursed	reimbursed	N/A	N/A
Taking up duty:					
Installation expenses	50 703.52	45 927.10 –47 764.18	36 741.68 – 41 334.40	39 681.02 – 42 252.94	reimbursed
Family travel expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Moving expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Leaving office:					
Resettlement expenses	25 351.76	22 963.55 –23 882.09	18 370.84 – 20 667.20	19 840.51 – 21 126.47	reimbursed
Family travel expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Moving expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Transition (% salary)**	40% - 65%	40% - 65%	40% - 65%	40% - 65%	N/A
Sickness insurance	covered	covered	covered	covered	optional
Pension (% salary, before tax)	Max 70%	Max 70%	Max 70%	Max 70%	Max 70%
Deductions:					
Community tax	8% - 45%	8% - 45%	8% - 45%	8% - 45%	8% - 45%
Sickness insurance (% salary)	1.8%	1.8%	1.8%	1.8%	1.8%
Special levy on salary	5.5%	5.5%	5.5%	5.5%	5.5%
Pension deduction	N/A	N/A	N/A	N/A	11.6%
Number of persons at year-end	**3**	**8**	**91**	**27**	**109**

* with correction coefficient ("cc") applied
** paid for the first 3 years following departure

10. EVENTS AFTER THE BALANCE SHEET DATE

At the date of signing of these accounts no material issues had come to the attention of the Accounting Officer of the Commission or were reported to him that would require separate disclosure under this section. The annual accounts and related notes were prepared using the most recently available information and this is reflected in the information presented.

11. SCOPE OF CONSOLIDATION

11.1 CONSOLIDATED ENTITIES

A. CONTROLLED ENTITIES (51)	
1. Institutions and consultative bodies (11)	
European Parliament	European Data Protection Supervisor
European Council	European Economic and Social Committee
European Commission	European Ombudsman
Committee of the Regions	European Court of Auditors
Court of Justice of the European Union	Council of the European Union
European External Action Service	
2. EU Agencies (38)	
2.1. Executive Agencies (6)	
Education, Audiovisual & Culture Executive Agency	Executive Agency for Competitiveness and Innovation
Executive Agency for Health and Consumers	Trans-European Transport Network Executive Agency
Research Executive Agency	European Research Council Executive Agency
2.2. Decentralised Agencies (32)	
European Maritime Safety Agency	European Food Safety Authority
European Medicines Agency	European Railway Agency
European GNSS Supervisory Authority	Community Plant Variety Office
European Chemicals Agency	European Fisheries Control Agency
Fusion for Energy (European Joint Undertaking for ITER and the Development of Fusion Energy)	European Monitoring Centre for Drugs and Drug Addiction
Eurojust	European Police College (CEPOL)
European Institute for Gender Equality	European Police Office (EUROPOL)
European Agency for Safety and Health at Work	European Aviation Safety Agency
European Centre for Disease Prevention and Control	European Network and Information Security Agency
European Environment Agency	European Union Agency for Fundamental Rights
European Centre for the Development of Vocational training	European Insurance and Occupational Pensions Authority
European Agency for Cooperation of Energy Regulators	Translation Centre for the Bodies of the European Union
European Banking Authority	European Securities and Markets Authority
European Asylum Support Office*	European Training Foundation
Office for the Body of European Regulators for Electronic Communication	European Foundation for the Improvement of Living and Working Conditions
European Agency for the Management of Operational Co-operation at External Borders of the Member States of the EU	EU Office for Harmonisation in the Internal Market (Trade Marks and Designs)
3. Other controlled entities (2)	
European Coal and Steel Community (in liquidation)	European Institute of Innovation and Technology
B. JOINT VENTURES (5)	
ITER International Fusion Energy Organisation	Galileo Joint Undertaking in liquidation
SESAR Joint Undertaking	IMI Joint Undertaking
FCH Joint Undertaking	
C. ASSOCIATES (4)	
European Investment Fund	ARTEMIS Joint Undertaking
Clean Sky Joint Undertaking	ENIAC Joint Undertaking

* *Consolidated for the first time in 2012*

11.2 NON-CONSOLIDATED ENTITIES

Although the EU manages the assets of the below mentioned entities, they do not meet the requirements to be consolidated and so are not included in the EU accounts.

11.2.1 The European Development Fund (EDF)

The European Development Fund (EDF) is the main instrument for providing EU aid for development cooperation to the African, Caribbean and Pacific (ACP) States and Overseas Countries and Territories (OCTs). The 1957 Treaty of Rome made provision for its creation with a view to granting technical and financial assistance, initially limited to African countries with which some Member States had historical links.

The EDF is not funded from the EU's budget but from direct contributions from the Member States, which are agreed in negotiations at intergovernmental level. The Commission and the EIB manage the resources of the EDF. Each EDF is usually concluded for a period of around five years. Since the conclusion of the first partnership convention in 1964, the EDF programming cycles have generally followed the partnership agreement/convention cycles.

The EDF is governed by its own Financial Regulation (OJ L 78 of 19/03/2008) which foresees the presentation of its own financial statements, separately from those of the EU. The EDF annual accounts and resource management are subject to the external control of the European Court of Auditors and the European Parliament. For information purposes, the balance sheet and the statement of financial performance of the 8th, 9th and 10th EDFs are shown below:

BALANCE SHEET – 8th, 9th and 10th EDFs

EUR millions

	31.12.2012	31.12.2011
Non-current assets	438	380
Current assets	2 094	2 510
TOTAL ASSETS	**2 532**	**2 890**
Current liabilities	(1 057)	(1 033)
Non-current liabilities	(40)	-
TOTAL LIABILITIES	**(1 097)**	**(1 033)**
NET ASSETS	**1 435**	**1 857**
FUNDS & RESERVES		
Called fund capital	29 579	26 979
Other reserves	2 252	2 252
Economic result carried forward from previous years	(27 374)	(24 674)
Economic result of the year	(3 023)	(2 700)
NET ASSETS	**1 435**	**1 857**

STATEMENT OF FINANCIAL PERFORMANCE – 8th, 9th and 10th EDFs

EUR millions

	2012	2011
Operating revenue	124	99
Operating expenses	(3 017)	(2 702)
Administrative expenses	(107)	(75)
DEFICIT FROM OPERATING ACTIVITIES	**(3 001)**	**(2 679)**
Financial activities	(22)	(21)
ECONOMIC RESULT OF THE YEAR	**(3 023)**	**(2 700)**

11.2.2 The Sickness Insurance Scheme

The Sickness Insurance Scheme is the scheme that provides medical assurance to the staff of the various EU bodies. The funds of the Scheme are its own property and are not controlled by the EU, although its financial assets are managed by the Commission. The Scheme is funded by contributions from its members (staff) and from the employers (the Institutions/Agencies/Bodies.) Any surplus remains within the scheme.

The scheme has four separate entities – the main scheme covering staff of the Institutions, Agencies of the EU, and three smaller schemes covering staff in the European University Institute, the European schools and staff working outside the EU such as staff in the EU delegations. The total assets of the Scheme at 31 December 2012 totalled EUR 296 million (2011: EUR 294 million).

11.2.3 The Participants Guarantee Fund (PGF)

Certain pre-financing amounts paid out under the 7th Research Framework Programme for research and technological development (FP7) are effectively covered by a Participants Guarantee Fund (PGF) - the amount of pre-financing paid out in 2012 totalled EUR 4 billion (2011: EUR 3.3 billion). This fund is a separate entity from the European Commission and is not consolidated in these accounts.

The PGF is a mutual benefit instrument set up to cover the financial risks incurred by the EU and the participants during the implementation of the indirect actions of FP7, its capital and interests constituting a performance security. All participants of indirect actions taking the form of a grant contribute 5% of the total EU contribution to the PGF's capital for the duration of the action. As such the participants are the owners of the PGF, the EU (represented by the Commission) acting as their executive agent. At the end of an indirect action, participants shall recover their contribution to the capital in full, except where the PGF incurs losses due to defaulting beneficiaries – in this case participants shall recover, at a minimum, 80% of their contribution. The PGF thus guarantees the financial interest of both the EU and the participants.

As at 31 December 2012 the PGF had total assets of EUR 1 452 million (2011: EUR 1 171 million). The funds of the PGF are its own property and are not controlled by the EU, and its financial assets are managed by the EIB.

EUROPEAN UNION

AGGREGATED REPORTS ON THE IMPLEMENTATION OF THE BUDGET AND EXPLANATORY NOTES*

FINANCIAL YEAR 2012

*** It should be noted that due to the rounding of figures into millions of euros, some financial data in these budgetary tables may appear not to add-up.**

CONTENTS

Page

PART II: AGGREGATED REPORTS ON THE IMPLEMENTATION OF THE BUDGET AND EXPLANATORY NOTES

RESULT OF IMPLEMENTATION OF THE EU BUDGET

1.1 EU BUDGET RESULT

EUR millions

	2012	2011
Revenue for the financial year	139 541	130 000
Payments against current year appropriations	(137 738)	(128 043)
Payment appropriations carried over to year N+1	(936)	(1 019)
Cancellation of unused payment appropriations carried over from year N-1	92	457
Exchange differences for the year	60	97
Budget result*	**1 019**	**1 492**

***** *Of which EFTA result is EUR (4) million in 2012 and EUR (5) million in 2011.*

The budget surplus for the EU (EUR 1 023 million) is returned to the Member States during the following year through deduction of their amounts due for that year.

1.2 RECONCILIATION OF ECONOMIC RESULT WITH BUDGET RESULT

EUR millions

	2012	2011
ECONOMIC RESULT OF THE YEAR	**(5 329)**	**(1 789)**
Revenue		
Entitlements established in current year but not yet collected	(2 000)	(371)
Entitlements established in previous years and collected in current year	4 582	2 072
Accrued revenue (net)	(38)	(236)
Expenses		
Accrued expenses (net)	(1 933)	3 410
Expenses prior year paid in current year	(2 695)	(936)
Net-effect pre-financing	1 210	1 131
Payment appropriations carried over to next year	(4 666)	(1 211)
Payments made from carry-overs & cancellation of unused payment appropriations	4 768	2 000
Movement in provisions	7 805	(2 109)
Other	(670)	(378)
Economic result Agencies and ECSC	(15)	(91)
BUDGET RESULT OF THE YEAR	**1 019**	**1 492**

1.3 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

1.3.1 REVENUE

EUR millions

	Initial Budget	Final Budget	Actual Revenue
1. Own resources	127 512	128 655	128 886
Of which Customs duties	*19 171*	*16 701*	*16 261*
Of which VAT	*14 499*	*14 546*	*14 648*
Of which GNI	*93 719*	*97 284*	*97 856*
3. Surpluses, balances and adjustments	0	1 994	2 041
4. Revenue accruing from persons working with the institutions and with other Union bodies	1 312	1 312	1 236
5. Revenue accruing from the administrative operation of the institutions	60	68	612
6. Contributions and refunds in connection with Union agreements and programmes	50	50	2 928
7. Interest on late payments and fines	123	3 648	3 807
8. Borrowing and lending operations	0	0	0
9. Miscellaneous revenue	30	30	31
Total	**129 088**	**135 758**	**139 541**

1.3.2 COMMITMENTS BY FINANCIAL FRAMEWORK HEADING

EUR millions

	Initial Budget	Final Budget*	Commitments
1. Sustainable growth	67 506	70 842	69 000
2. Preservation & mgt of natural resources	59 976	62 198	60 817
3. Citizenship, freedom, security, justice	2 065	2 994	2 892
4. The EU as a global player	9 406	9 931	9 753
5. Administration	8 280	9 113	8 822
6. Compensations	0	0	0
Total	**147 232**	**155 077**	**151 284**

1.3.3 COMMITMENTS BY POLICY AREA

EUR millions

	Initial Budget	Final Budget*	Commitments
01 Economic and financial affairs	611	536	535
02 Enterprise	1 148	1 276	1 236
03 Competition	92	96	94
04 Employment and social affairs	11 581	11 818	11 782
05 Agriculture and rural development	58 587	60 877	59 514
06 Mobility and transport	1 664	1 754	1 713
07 Environment and Climate action	493	508	496
08 Research	5 930	7 618	7 059
09 Information society and media	1 678	1 985	1 878
10 Direct research	411	932	494
11 Maritime affairs and Fisheries	1 033	1 011	1 007
12 Internal market	101	107	101
13 Regional policy	42 045	42 662	42 647
14 Taxation and customs union	143	147	144
15 Education and culture	2 697	3 292	3 088
16 Communication	262	271	265
17 Health and consumer protection	687	653	639
18 Home affairs	1 264	1 322	1 290
19 External relations	4 817	4 969	4 872
20 Trade	104	106	104
21 Development and relations with ACP States	1 498	1 733	1 719
22 Enlargement	1 088	1 166	1 135
23 Humanitarian aid	900	1 299	1 294
24 Fight against fraud	79	79	79
25 Commission's policy coordination & legal advice	194	204	196
26 Commission's administration	1 017	1 200	1 149
27 Budget	69	63	61
28 Audit	12	12	12
29 Statistics	134	144	135
30 Pensions and related expenditure	1 335	1 321	1 318
31 Language Services	399	477	435
32 Energy	718	764	731
33 Justice	218	233	222
40 Reserves	759	461	0
90 Other Institutions	3 464	3 983	3 841
Total	**147 232**	**155 077**	**151 284**

** Including amending budgets, appropriations carried over and assigned revenue.*

1.3.4 EXPENDITURE BY FINANCIAL FRAMEWORK HEADING

EUR millions

	Initial Budget	Final Budget*	Payments made
1. Sustainable growth	55 337	63 753	61 585
2. Preservation & management of natural resources	57 034	60 409	59 096
3. Citizenship, freedom, security and justice	1 484	2 477	2 375
4. The EU as a global player	6 955	7 182	7 064
5. Administration	8 278	9 824	8 564
6. Compensations	0	0	0
Total	**129 088**	**143 644**	**138 683**

1.3.5 EXPENDITURE BY POLICY AREA

EUR millions

	Initial Budget	Final Budget*	Payments made
01 Economic and financial affairs	511	493	484
02 Enterprise	1 079	1 395	1 271
03 Competition	92	103	92
04 Employment and social affairs	9 075	11 755	11 699
05 Agriculture and rural development	55 880	59 242	57 948
06 Mobility and transport	1 079	1 156	1 105
07 Environment and Climate action	393	409	382
08 Research	4 218	6 245	5 307
09 Information society and media	1 357	1 776	1 501
10 Direct research	404	893	466
11 Maritime affairs and Fisheries	806	757	745
12 Internal market	98	112	99
13 Regional policy	35 538	38 282	38 254
14 Taxation and customs union	110	140	130
15 Education and culture	2 112	3 059	2 761
16 Communication	253	278	256
17 Health and consumer protection	592	652	635
18 Home affairs	756	860	835
19 External relations	3 276	3 271	3 233
20 Trade	102	111	105
21 Development and relations with ACP States	1 310	1 475	1 429
22 Enlargement	921	976	943
23 Humanitarian aid	842	1 141	1 128
24 Fight against fraud	74	83	71
25 Commission's policy coordin. & legal advice	193	219	195
26 Commission’s administration	1 001	1 343	1 149
27 Budget	69	73	61
28 Audit	12	13	12
29 Statistics	122	148	128
30 Pensions and related expenditure	1 335	1 321	1 318
31 Language Services	399	501	433
32 Energy	1 339	782	723
33 Justice	187	206	190
40 Reserves	90	0	0
90 Other Institutions	3 464	4 376	3 596
Total	**129 088**	**143 644**	**138 683**

** Including amending budgets, appropriations carried over and assigned revenue.*

In the initial adopted budget, signed by the President of the European Parliament on 1 December 2011, the amount of payment appropriations was EUR 129 088 million and the amount to be financed by own resources totalled EUR 127 512 million. The revenue and expenditure estimates in the initial budget are typically adjusted during the budgetary year, such modifications being presented in amending budgets. Adjustments in the GNI-based own resources ensure that budgeted revenue matches exactly budgeted expenditure. In accordance with the principle of equilibrium, budget revenue and expenditure (payment appropriations) must be in balance.

Revenue:
During 2012 six amending budgets were adopted. Taking them into account, the total final revenue in the 2012 budget amounted to EUR 135 758 million. This was financed by own resources totalling EUR 128 655 million (thus EUR 1 143 million more than initially forecasted) and the remainder by other revenue. The increased need for financing payment appropriations was covered mainly from the inclusion of EUR 3 525 million relating to fines and interest on late payments in the Amending Budget No. 6/2012 under other revenue.

As far as the own resources result is concerned, the collection of traditional own resources was close to the forecasted amounts. Namely because the budget estimates that were modified at the time the Amending Budget No. 4/2012 was established (they were decreased by EUR 1 520 million according to the new macroeconomic forecasts of spring 2012), were once again amended in the Amending Budget No. 6/2012 to take into account the actual rhythm of collection. Thus they were once again decreased by EUR 950 million.

The final Member States' VAT and GNI payments also correspond closely to the final budgetary estimate. The differences between the forecasted amounts and the amounts actually paid are due to the differences between the euro rates used for budgetary purposes and the rates in force at the time when the Member States outside the EMU actually made their payments.

Expenditure:
The year 2012 was the sixth and penultimate year of the current programming period 2007-2013. All major programmes were at cruising speed, and the inflow of payment claims increased significantly, as is normal as the cycle draws to a close. In the general context of fiscal consolidation in the Member States, the voted budget for 2012 was rather conservative. This, combined with a significant amount of unpaid payment claims from 2011, and the mounting requests for reimbursements, created a high pressure on payment appropriations, which had to be addressed during the year through careful budgetary management, and ultimately through an amending budget.

For commitments, the authorised budget, and hence the political targets set, were fully implemented (99.6%). The most notable adjustments by means of amending budgets during the year concerned increases of EUR 650 million for ITER, in line with the December 2011 agreement on its financing, and EUR 688 million for the mobilisation of the European Union Solidarity Fund, unforeseeable expenditure by its very nature. Commitments were reduced by EUR 142 million in Amending Budget 6/2012, by returning unused amounts to the margin, in particular in relation to the reserve for international fisheries agreements, and animal disease eradication and monitoring programmes.

The total level of payment appropriations was increased at the end of the year through Amending Budget 6/2012 for an amount EUR 6 billion, increasing the initial budget by 4.8%. The shortage of payments affected nearly all headings, and in particular heading 1b Cohesion for Growth and Employment. It must also be recalled that the EUR 6 billion agreed was EUR 3 billion less that the amount requested by the Commission. Finally, the year 2012 ended with outstanding payment claims of EUR 16.2 billion for the current programming period of Cohesion Policy (2007-2013), and a further EUR 1.1 billion related to the closure of 2000-2006 programmes. These amounts will need to be paid in 2013. As in the case of commitments, the budget line for the European Union Solidarity Fund was reinforced by EUR 688 million in payment appropriations during the course of the year. The unused voted payment appropriations amounted to EUR 1 102 million (2011: EUR 1 582 million) and after the carryover to 2013, a total of EUR 166 million (2011: EUR 562 million) lapses.

A more detailed analysis of budgetary adjustments, their relevant context, their justification and their impact is presented in Commission's Report on Budgetary and Financial Management 2012, Part A "Overview at budget level" and Part B dealing with each heading of the multi-annual financial framework.

EXPLANATORY NOTES ON THE IMPLEMENTATION OF THE EU BUDGET

1. General overview

The budgetary accounts are kept in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 (OJ L 298 of 26 October 2012), on the financial rules applicable to the general budget of the Union (hereinafter referred to as the 'Financial Regulation') and Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 laying down detailed rules of application of this Financial Regulation.The general budget, the main instrument of the Union's financial policy, is the instrument which provides for and authorises the Union's revenue and expenditure every year.

Every year, the Commission estimates all the Institutions' revenue and expenditure for the year and draws up a draft budget which it sends to the budgetary authority. On the basis of this draft budget, the Council draws its position which is then the subject of negotiations between the two arms of the budgetary authority. The President of Parliament declares that the joint draft has been finally adopted making the budget enforceable. The task of executing the budget is mainly the responsibility of the Commission.

The **budget structure** consists for the Commission of administrative and operational appropriations. The other Institutions have only administrative appropriations. Furthermore, the budget distinguishes between two types of appropriation: non-differentiated appropriations and differentiated appropriations. Non-differentiated appropriations are used to finance operations of an annual nature (which comply with the principle of annuality). Differentiated appropriations were introduced in order to reconcile the principle of annuality with the need to manage multi-annual operations. They are intended to cover mainly multi-annual operations. Differentiated appropriations are split into commitment and payment appropriations:

- **commitment appropriations**: cover the total cost of the legal obligations entered into for the current financial year for operations extending over a number of years. However, budgetary commitments for actions extending over more than one financial year may be broken down over several years into annual instalments where the basic act so provides.

- **payment appropriations**: cover expenditure arising from commitments entered into in the current financial year and/or earlier financial years.

Origin of Appropriations

The main source of appropriations is the Union's budget for the current year. However, there are other types of appropriations resulting from the provisions of the Financial Regulation. They come from previous financial years or outside sources:

- **Initial budget appropriations** adopted for the current year can be supplemented with **transfers** between lines and by amending budgets.

- **Appropriations carried over** from previous year or made available again also supplement the current budget. These are (i) non-differentiated payment appropriations which may be carried over automatically for one financial year only; (ii) appropriations carried over by decision of the Institutions in one of two cases: if the preparatory stages have been completed or if the legal base is adopted late. Appropriations made available again as a result of decommitments: This involves the re-entry of commitment appropriations concerning structural funds which have been decommitted. Amounts can be re-entered by way of exception in the event of error by the Commission or if they are indispensable for completion of the programme.

- **Assigned revenue** which is made up of

  - (i) refunds where the amounts are assigned revenue on the budget line which incurred the initial expenditure and may be carried over without limit;

- (ii) EFTA appropriations: The agreement on the European Economic Area (EEA) provides for financial contribution by its members to certain activities in the EU budget. The budget lines concerned and the amounts projected are published in Annex III of the EU budget. The lines concerned are increased by the EFTA contribution. Appropriations not used at the year-end are cancelled and returned to the EEA countries;

- (iii) Revenue from third parties/ other countries that have concluded agreements with the EU involving a financial contribution to EU activities. The amounts received are considered to be revenue from third parties which is allocated to the budget lines concerned (often in the field of research) and may be carried over without limit;

- (iv) Work for third parties: As part of their research activities, the EU research centres may work for outside bodies. Like the revenue from third parties, the work for third parties is assigned to specific budget lines and may be carried over without limit; and

- (v) Appropriations made available again as a result of repayment of payments on account: These are EU funds which have been repaid by the beneficiaries and may be carried over without limit.

Composition of Appropriations Available

- Initial budget = appropriations voted in December of year N-1;

- *Final budget appropriations* = initial budget appropriations adopted + amending budget appropriations + transfers + additional appropriations;

- *Additional appropriations* = assigned revenue (see above) + appropriations carried over from the previous financial year or made available again following decommitments.

1.1 BUDGET RESULT FOR THE YEAR

The amounts of own resources entered in the accounts are those credited in the course of the year to the accounts opened in the Commission's name by the governments of the Member States. Revenue comprises also, in the case of a surplus, the budget result for the previous financial year. The other revenue entered in the accounts is the amount actually received in the course of the year.

For the purposes of calculating the budget result for the year, expenditure comprises payments made against the year's appropriations for payments plus any of the appropriations for that year that are carried over to the following year. Payments made against the year's appropriations for payments means payments that are made by the accounting officer by 31 December of the financial year. In the case of the European Agricultural Guarantee Fund, the payments are those effected by the Member States between 16 October N-1 and 15 October N, provided that the accounting officer was notified of the commitment and authorisation by 31 January N+1. EAGF expenditure may be subject to a conformity decision following controls in the Member States.

The budget result comprises two elements: the result of the EU and the result of the participation of the EFTA countries belonging to the EEA. In accordance with Article 15 of Regulation No 1150/2000 on own resources, this result represents the difference between:

- total revenue received for that year;

- and total payments made against that year's appropriations plus the total amount of that year's appropriations carried over to the following year.

The following are added to or deducted from the resulting figure:

- the net balance of cancellations of payment appropriations carried over from previous years and any payments which, because of fluctuations in the euro rate, exceed non-differentiated appropriations carried over from the previous year;

- the balance of exchange-rate gains and losses recorded during the year.

The budget result is returned to the Member States the following year through deduction of their amounts due for that financial year.

Appropriations carried over from the previous financial year in respect of contributions by and work for third parties, which by definition never lapse, are included with the additional appropriations for the financial year. This explains the difference between carryovers from the previous year in the 2012 budget implementation statements and those carried over to the following year in the 2011 budget implementation statements. The payment appropriations for re-use and appropriations made available again following the repayment of payments on account are disregarded when calculating the result for the year.

The payment appropriations carried over include: automatic carryovers and carryovers by decision. The cancellation of unused payment appropriations carried over from the previous year shows the cancellations on appropriations carried over automatically and by decision. It also includes the decrease in assigned revenue appropriations carried over to the next year in comparison with 2011.

1.2 RECONCILIATION OF THE ECONOMIC RESULT WITH THE BUDGET RESULT

The economic result of the year is calculated on the basis of accrual accounting principles. The budget result is however based on modified cash accounting rules, in accordance with the Financial Regulation. As both are the result of the same underlying transactions, it is a useful control to ensure that they are reconcilable. The table below shows this reconciliation, highlighting the key reconciling amounts, split between revenue and expenditure items.

Reconciling items - Revenue
The actual budgetary revenue for a financial year corresponds to the revenue collected from entitlements established in the course of the year and amounts collected from entitlements established in previous years. Therefore the **entitlements established in the current year but not yet collected** are to be deducted from the economic result for reconciliation purposes as they do not form part of budgetary revenue. On the contrary the **entitlements established in previous years and collected in current year** must be added to the economic result for reconciliation purposes.

The **net accrued revenue** mainly consists of accrued revenue for agricultural levies, own resources and interests and dividends. Only the net-effect, i.e. accrued revenue for current year minus reversal accrued revenue from previous year, is taken into consideration.

Reconciling items - Expenditure
The **net accrued expenses** mainly consist of accruals made for year-end cut-off purposes, i.e. eligible expenses incurred by beneficiaries of Community funds but not yet reported to the Commission.

While accrued expenses are not considered as budgetary expenditure, the payments made in the **current year relating to invoices registered in prior years** are part of current year's budgetary expenditure.

The **net effect of pre-financing** is the combination of (1) the new pre-financing amounts paid in the current year and recognised as budgetary expenditure of the year and (2) the clearing of the pre-financing paid in current year or previous years through the acceptance of eligible costs. The latter represent an expense in accrual terms but not in the budgetary accounts since the payment of the initial pre-financing had already been considered as a budgetary expenditure at the time of its payment.

Besides the payments made against the year's appropriations, the appropriations for that year that are **carried to the next year** also need to be taken into account in calculating the budget result for the year (in accordance with Article 15 of Regulation No 1150/2000). The same applies for the budgetary payments made in the current year from **carry-overs and the cancellation of unused payment appropriations**.

The **movement in provisions** relates to year-end estimates made in the accrual accounts (employee benefits mainly) that do not impact the budgetary accounts. **Other reconciling amounts** comprise different elements such as asset depreciation, asset acquisitions, capital lease payments and financial participations for which the budgetary and accrual accounting treatments differ.

2. BUDGETARY IMPLEMENTATION REPORTS: REVENUE

The budgetary implementation reports are presented following these explanatory notes.

The vast majority of revenue comes from own resources. This is laid down in Article 311 of the Treaty on the Functioning of the EU, which states that: "Without prejudice to other revenue, the budget shall be financed wholly from own resources." The main bulk of budgetary expenditure is financed by own resources. Other revenue represents only a minor part of total financing.

Own resources can be divided into the following categories:

(1) Traditional own resources (TOR) consist of customs duties and sugar levies. These own resources are levied on economic operators and collected by Member States on behalf of the EU. However, Member States keep 25% as a compensation for their collection costs. Customs duties are levied on imports of products coming from third countries, at rates based on the Common Customs Tariff. Sugar levies are paid by sugar producers to finance the export refunds for sugar. TOR usually account for +/- 13% of own resource revenue.

(2) The own resource based on value added tax (VAT) is levied on Member States' VAT bases, which are harmonised for this purpose in accordance with EU rules. The same percentage is levied on the harmonised base of each Member State. However, the VAT base to take into account is capped at 50% of each Member State’s GNI. The VAT-based resource usually accounts for around 12% of own resource revenue.

(3) The resource based on gross national income (GNI) is used to balance budget revenue and expenditure, i.e. to finance the part of the budget not covered by any other sources of revenue. The same percentage rate is levied on each Member States' GNI, which is established in accordance with EU rules. The GNI-based resource usually accounts for +/- 75% of own resource revenue.

The allocation of own resources is made in accordance with the rules laid down in the Council Decision No. 2007/436/EC, Euratom of 7 June 2007 on the system of the European Communities' own resources (ORD 2007). On 1 March 2009 the ORD 2007 entered into force. However it took effect on 1 January 2007. Consequently the retroactive effects have been taken in account in the budgetary year 2009.

2.1 Traditional own resources

Traditional own resources: All established amounts of traditional own resources must be entered in one or other of the accounts kept by the competent authorities.

– In the ordinary account provided for in Article 6(3)(a) of Regulation No 1150/2000: all amounts recovered or guaranteed.
– In the separate account provided for in Article 6(3)(b) of Regulation No 1150/2000: all amounts not yet recovered and/or not guaranteed; amounts guaranteed but challenged may also be entered in this account.

For the separate account, the Member States quarterly statement to the Commission includes:

– the balance to be recovered during the previous quarter,
– the established entitlements during the quarter in question,
– rectifications of the base (corrections/cancellations) during the quarter in question,
– amounts written off (which cannot be made available according to Article 17(2) of Regulation 1150/2000),
– the amounts recovered during the quarter in question,
– the balance to be recovered at the end of the quarter in question.

Traditional own resources must be entered in the Commission's account with the Treasury or the body appointed by the Member State at the latest on the first working day following the 19th day of the second month following the month during which the entitlement was established (or recovered in the case of the separate account). Member States retain, by way of collection costs, 25% of traditional own resources. The contingent own resources entitlements are adjusted on the basis of the likelihood of their recovery.

2.2 VAT-based resources and GNI-based resources

VAT-based own resources derive from the application of a uniform rate, for all Member States, to the harmonised VAT base determined in accordance with the rules of Article 2(1)(b) of the ORD 2007. The uniform rate is fixed at 0.30% except for the period 2007-2013 in which the rate of call for Austria is fixed at 0.225, for Germany at 0.15% and for Netherlands and Sweden at 0.10%. The VAT base is capped at 50% of GNI for all Member States.

The GNI-based resource is a variable resource intended to supply the revenue required, in any given year, to cover expenditure exceeding the amount collected from traditional own resources, VAT resources and miscellaneous revenue. The revenue derives from the application of a uniform rate to the aggregate GNI of all the Member States. VAT and GNI-based resources are determined on the basis of forecasts of VAT and GNI bases made when the draft budget is being prepared. These forecasts are subsequently revised; the figures are updated during the budget year in question by means of an amending budget.

The actual figures for the VAT and GNI bases are available in the course of the year following the budget year in question. The Commission calculates the differences between the amounts due by the Member States by reference to the actual bases and the sums actually paid on the basis of the (revised) forecasts. These VAT and GNI balances, either positive or negative, are called in by the Commission from the Member States for the first working day of December of the year following the budget year in question. Corrections may still be made to the actual VAT and GNI bases during the subsequent four years, unless a reservation is issued. The balances calculated earlier are adjusted and the difference is called in at the same time as the VAT and GNI balances for the previous budget year.
When conducting controls of VAT statements and GNI data, the Commission may notify reservations to the Member States regarding certain points which may have consequences to their own resources contributions. These points, for example, may result from an absence of acceptable data, or a need to develop a suitable methodology. These reservations have to be seen as potential claims on the Member States for uncertain amounts as their financial impact cannot be estimated with accuracy. When the exact amount can be determined, the corresponding VAT and GNI-based resources are called either in connection with VAT and GNI balances or by individual calls for funds.

2.3 UK correction

This mechanism reduces the own resources payments of the UK in proportion to what is known as its "budgetary imbalance" and increases the own resources payments of the other Member States correspondingly. The budgetary imbalance correction mechanism in favour of the United Kingdom was instituted by the European Council in Fontainebleau (June 1984) and the resulting Own Resources Decision of 7 May 1985. The purpose of the mechanism was to reduce the budgetary imbalance of the UK through a reduction in its payments to the EU. Germany, Austria, Sweden and Netherlands benefit from a reduced financing of the correction (restricted to one fourth of their normal share).

2.4 Gross reduction

The European Council of 15 and 16 December 2005 concluded that the Netherlands and Sweden shall benefit from gross reductions in their annual GNI-based contributions during the period 2007-2013. Thus this mechanism of compensation stipulates that the Netherlands shall benefit from a gross reduction in its annual GNI contribution of EUR 605 million and Sweden from a gross reduction in its annual GNI contribution of EUR 150 million, measured in 2004 prices.

3. BUDGETARY IMPLEMENTATION REPORTS: EXPENDITURE

The budgetary implementation reports can be found after these explanatory notes.

3.1 Financial Framework 2007-2013

EUR millions

	2007	2008	2009	2010	2011	2012	2013
1. Sustainable Growth	53 979	57 653	61 696	63 555	63 974	67 614	70 147
2. Preservation & management of natural resources	55 143	59 193	56 333	59 955	59 888	60 810	61 289
3. Citizenship, freedom, security & justice	1 273	1 362	1 518	1 693	1 889	2 105	2 376
4. EU as a global player	6 578	7 002	7 440	7 893	8 430	8 997	9 595
5. Administration	7 039	7 380	7 525	7 882	8 091	8 523	9 095
6. Compensations	445	207	210	0	0	0	0
Commitment appropriations:	**124 457**	**132 797**	**134 722**	**140 978**	**142 272**	**148 049**	**152 502**
Total payment appropriations:	**122 190**	**129 681**	**120 445**	**134 289**	**133 700**	**141 360**	**143 911**

This section describes the main categories of EU expenditure, classified by heading of the financial framework 2007-2013. The 2012 financial year was the sixth covered by the financial framework 2007-2013. The overall ceiling on commitments appropriations for 2012 comes to EUR 148 049 million, equivalent to 1.13% of GNI. The corresponding ceiling on the appropriations for payments comes to EUR 141 360 million, i.e. 1.08 % of GNI. The above table shows the financial framework at current prices.

Heading 1 – Sustainable growth
This heading is divided into two separate, but interlinked components:

- 1a. Competitiveness for growth and employment, encompassing expenditure on research and innovation, education and training, trans-European networks, social policy, the internal market and accompanying policies.
- 1b. Cohesion for growth and employment, designed to enhance convergence of the least developed Member States and regions, to complement the EU strategy for sustainable development outside the less prosperous regions and to support inter regional cooperation..

Heading 2 – Preservation and management of natural resources
Heading 2 includes the common agricultural and fisheries policies, rural development and environmental measures, in particular Natura 2000. The amount earmarked for the common agricultural policy reflects the agreement reached at the European Council in October 2002.

Heading 3 – Citizenship, freedom, security and justice
The new heading 3 (Citizenship, freedom, security and justice) reflects the growing importance attached to certain fields where the EU has been assigned new tasks – justice and home affairs, border protection, immigration and asylum policy, public health and consumer protection, culture, youth, information and dialogue with citizens. It is split in two components:

- 3a. Freedom, Security and Justice
- 3b. Citizenship

Heading 4 – The EU as a global player
Heading 4 covers all external action, including pre-accession instruments. Whereas the Commission had proposed to integrate the European Development Fund (EDF) into the financial framework, the European Council and the European Parliament agreed to leave it outside.

Heading 5 - Administration
This heading covers administrative expenditure for all institutions, pensions and the European Schools. For the Institutions other than the Commission, these costs make up the total of their expenditure, but the Agencies and other bodies make both administrative and operational expenditure.

Heading 6 - Compensations
In accordance with the political agreement that the new Member States should not become net-contributors to the budget at the very beginning of their membership, compensation was foreseen under this heading. This amount was available as transfers to them to balance their budgetary receipts and contributions.

3.2 Policy areas

As part of its use of Activity Based Management (ABM) the Commission implements Activity Based Budgeting (ABB) in its planning and management processes. ABB involves a budget structure where budget titles correspond to policy areas and budget chapters to activities. ABB aims to provide a clear framework for translating the Commission's policy objectives into action, either through legislative, financial or any other public policy means. By structuring the Commission's work in terms of activities, a clear picture is obtained of the Commission's undertakings and simultaneously a common framework is established for priority setting. Resources are allocated to priorities during the budget procedure, using the activities as the building blocks for budgeting purposes. By establishing such a link between activities and the resources allocated to them, ABB aims to increase efficiency and effectiveness in the use of resources in the Commission.

A policy area may be defined as a homogeneous grouping of activities constituting parts of the Commission's work, which are relevant for the decision-making process. Each policy area corresponds, in general, to a DG, and encompassing an average of about 6 or 7 individual activities. Policy areas are mainly operational, since their core activities aim at benefiting a third-party beneficiary within their respective domains of activity. The operational budget is completed with the necessary administrative expenditure for each policy area.

4. INSTITUTIONS AND AGENCIES

The budgetary implementation reports can be found after these explanatory notes.

The consolidated reports on the implementation of the general budget of the EU include, as in previous years, the budget implementation of all Institutions since within the EU budget a separate budget for each Institution is established. Agencies do not have a separate budget inside the EU budget and they are partially financed by a Commission budget subsidy.

Concerning the EEAS, it should be noted that, in addition to its own budget, it also receives contributions from the Commission of EUR 212 million (2011: EUR 202 million) and the EDF of EUR 53 million (2011: EUR 50 million). These budget credits are put at the disposal of the EEAS (as assigned revenue) so as to cover primarily the costs of Commission staff working in the EU delegations, these delegations being administratively managed by the EEAS.

In order to provide all relevant budgetary data for the Agencies, the budgetary part of the consolidated annual accounts include separate reports on the implementation of the individual budgets of the traditional agencies consolidated.

AGGREGATED REPORTS ON THE IMPLEMENTATION OF THE BUDGET*

** It should be noted that due to the rounding of figures into millions of euros, some financial data in these budgetary tables may appear not to add-up.*

2. SUMMARY OF THE IMPLEMENTATION OF BUDGET REVENUE

EUR millions

Title	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current year	Carried over	Total	On entitlements current year	On entitlements carried over	Total		
1. Own resources	127 512	128 655	128 902	29	128 931	128 883	2	128 886	100.18%	45
3. Surpluses, balances and adjustments	0	1 994	1 939	102	2 041	1 939	102	2 041	102.34%	0
4. Revenue accruing from persons working with the institutions & with other EU bodies	1 312	1 312	1 235	6	1 241	1 230	6	1 236	94.15%	5
5. Revenue from administrative operations of institutions	60	68	619	22	641	594	18	612	896.16%	29
6. Contributions and refunds in connection with community agreements & programmes	50	50	3 163	291	3 453	2 776	152	2 928	5856.15%	525
7. Interest on late payments and fines	123	3 648	1 821	12 761	14 582	13	3 795	3 807	104.37%	10 775
8. Borrowing and lending operations	0	0	63	159	222	0	0	0		222
9. Miscellaneous revenue	30	30	29	10	39	26	5	31	101.61%	9
Total	**129 088**	**135 758**	**137 771**	**13 379**	**151 150**	**135 460**	**4 080**	**139 541**	**102.79%**	**11 610**

Detail Title 1: Own resources

Chapter	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current year	Carried over	Total	On entitlements current year	On entitlements carried over	Total		
11. Sugar levies	123	123	193	0	193	193	0	193	156.04%	0
12. Customs duties	19 171	16 701	16 277	29	16 306	16 258	2	16 261	97.37%	45
13. VAT	14 499	14 546	14 648	0	14 648	14 648	0	14 648	100.70%	0
14. GNI	93 719	97 284	97 856	0	97 856	97 856	0	97 856	100.59%	0
15. Correction of budgetary imbalances	0	0	(74)	0	(74)	(74)	0	(74)		0
16. Reduction GNI-based contributions NL, S	0	0	2	0	2	2	0	2		0
Total	**127 512**	**128 655**	**128 902**	**29**	**128 931**	**128 883**	**2**	**128 886**	**100.18%**	**45**

Detail Title 3: Surpluses, balances and adjustments

Chapter	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current year	Carried over	Total	On entitlements current year	On entitlements carried over	Total		
30. Surplus from previous year	0	1 497	1 497	0	1 497	1 497	0	1 497	100.00%	0
31. VAT balances	0	218	223	23	246	223	23	246	112.94%	0
32. GNI balances	0	280	204	80	284	204	80	284	101.42%	0
34. Adjustment for non-participation in JHAP	0	0	(3)	0	(3)	(3)	0	(3)		0
35. UK correction-adjustments	0	0	3	0	3	3	0	3		0
36. UK correction- intermediate calculation	0	0	15	0	15	15	0	15		0
Total	**0**	**1 994**	**1 939**	**102**	**2 041**	**1 939**	**102**	**2 041**	**102.34%**	**0**

3.1 BREAKDOWN & CHANGES IN COMMITMENT & PAYMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Commitment appropriations						Payment appropriations					
	Appropriations adopted	Modifications (Transfers & AB)	Carried over	Assigned revenue	Total additional	Total authorised	Appropriations adopted	Modifications (Transfers & AB)	Carried over	Assigned revenue	Total additional	Total authorised
	1	2	3	4	5=3+4	6=1+2+5	7	8	9	10	11=9+10	12=7+8+11
1 Sustainable growth	67 506	636	36	2 664	2 700	70 842	55 337	5 137	187	3 092	3 279	63 753
2 Preservation and management of natural resources	59 976	(126)	23	2 325	2 348	62 198	57 034	982	78	2 315	2 393	60 409
3 Citizenship, freedom, security and justice	2 065	688	41	199	240	2 994	1 484	729	47	216	263	2 477
4 The EU as global player	9 406	(2)	178	349	527	9 931	6 955	(178)	52	354	405	7 182
5 Administration	8 280	0	22	811	833	9 113	8 278	0	711	835	1 546	9 824
6 Compensations												
Total	**147 232**	**1 196**	**300**	**6 348**	**6 649**	**155 077**	**129 088**	**6 670**	**1 074**	**6 812**	**7 886**	**143 644**

3.2 IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Commitment appropriations authorised	Commitments made					Appropriations carried over				Appropriations lapsing				
		From the year's appropriations	From carry-overs	From assigned revenue	Total	%	Assigned revenue	Carry-overs by decision	Total	%	From the year's budget appropriations	From carry overs	Assigned revenue	Total	%
	1	2	3	4	5=2+3+4	6=5/1	7	8	9=7+8	10=9/1	11	12	13	14=11+12+13	15=14/1
1 Sustainable growth	70 842	67 653	36	1 311	69 000	97.40%	1 354	28	1 381	1.95%	461	0	0	461	0.65%
2 Preservation and management of natural resources	62 198	59 825	23	969	60 817	97.78%	1 356	2	1 357	2.18%	24	0	0	24	0.04%
3 Citizenship, freedom, security and justice	2 994	2 741	41	110	2 892	96.62%	89	0	89	2.96%	13	0	0	13	0.42%
4 The EU as a global player	9 931	9 364	178	211	9 753	98.21%	138	2	140	1.41%	38	0	0	38	0.38%
5 Administration	9 113	8 184	22	617	8 822	96.81%	195	0	195	2.14%	96	0	0	96	1.05%
6 Compensations															
Total	**155 077**	**147 766**	**300**	**3 218**	**151 284**	**97.55%**	**3 131**	**31**	**3 162**	**2.04%**	**631**	**0**	**0**	**631**	**0.41%**

3.3 IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Payment Approp-riations authorised	Payments made					Appropriations carried over					Appropriations lapsing				
		From the year's appropri ations	From carry-overs	From assigned revenue	Total	%	Automat ic carry-overs	Carry-overs by decision	Assigned revenue	Total	%	From the year's appropri ations	From carry overs	Assigned revenue	Total	%
	1	2	3	4	5=2+3 +4	6=5/1	7	8	9	10=7 +8+ 9	11=10 /1	12	13	14	15=12+ 13+14	16= 15/1
1 Sustainable growth	63 753	60 288	168	1 129	61 585	96.60%	128	26	1 963	2 117	3.32%	32	19	0	51	0.08%
2 Preservation & management of natural resources	60 409	57 960	72	1 064	59 096	97.83%	32	4	1 251	1 287	2.13%	20	5	0	26	0.04%
3 Citizenship, freedom, security & justice	2 477	2 192	46	136	2 375	95.86%	8	1	80	88	3.57%	13	1	0	14	0.57%
4 The EU as a global player	7 182	6 741	31	291	7 064	98.35%	26	4	63	92	1.28%	6	20	0	26	0.37%
5 Administration 6 Compensations	9 824	7 475	628	461	8 564	87.18%	706	1	373	1 081	11.01%	95	83	0	178	1.81%
Total	**143 644**	**134 656**	**946**	**3 081**	**138 683**	**96.55%**	**900**	**36**	**3 730**	**4 666**	**3.25%**	**166**	**128**	**0**	**295**	**0.21%**

3.4 MOVEMENTS IN COMMITMENTS OUTSTANDING - BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Commitments outstanding at the end of the previous year				Commitments of the year				
	Commitments carried forward from previous year	Decommitments /Revaluations/ Cancellations	Payments	Commitments outstanding at year-end	Commitments made during the year	Payments	Cancellation of commitments which cannot be carried over	Commitments outstanding at year-end	Total Commitments outstanding at year-end
1 Sustainable growth	159 707	(850)	(54 901)	103 957	69 000	(6 684)	(1)	62 314	166 271
2 Preservation and management of natural resources	25 302	(137)	(12 983)	12 182	60 817	(46 113)	0	14 703	26 886
3 Citizenship, freedom, security and justice	2 130	(332)	(547)	1 251	2 892	(1 827)	0	1 065	2 316
4 The EU as a global player	19 567	(827)	(4 870)	13 870	9 753	(2 193)	(1)	7 558	21 429
5 Administration	737	(90)	(628)	19	8 822	(7 936)	4	890	909
6 Compensations									
Total	**207 443**	**(2 234)**	**(73 930)**	**131 279**	**151 284**	**(64 754)**	**1**	**86 531**	**217 810**

3.5 BREAKDOWN OF COMMITMENTS OUTSTANDING BY YEAR OF ORIGIN - BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	<2006	2006	2007	2008	2009	2010	2011	2012	Total
1 Sustainable growth	1 222	6 765	499	2 978	11 444	30 896	50 154	62 314	166 271
2 Preservation & management of natural resources	66	739	66	144	286	1 893	8 987	14 703	26 886
3 Citizenship, freedom, security and justice	14	5	28	86	241	314	562	1 065	2 316
4 The EU as a global player	672	650	710	1 291	2 199	3 464	4 884	7 558	21 429
5 Administration	0	0	0	0	0	0	19	890	909
Total	**1 975**	**8 159**	**1 304**	**4 498**	**14 171**	**36 568**	**64 606**	**86 531**	**217 810**

3.6 BREAKDOWN AND CHANGES IN COMMITMENT AND PAYMENT APPROPRIATIONS BY POLICY AREA

EUR millions

Policy Area	Commitment appropriations						Payment appropriations					
	Approps adopted	Modifications (Transfer /AB)	Carried over	Assigned revenue	Total additional	Total authorised	Approps adopted	Modifications (Transfer/ AB)	Carried over	Assigned revenue	Total additional	Total authorised
	1	2	3	4	5=3+4	6=1+2+5	7	8	9	10	11=9+10	12=7+8+11
01 Economic and financial affairs	611	(94)	0	19	19	536	511	(42)	7	17	24	493
02 Enterprise	1 148	(4)	0	132	132	1 276	1 079	121	21	174	195	1 395
03 Competition	92	(1)	0	5	5	96	92	(1)	7	5	12	103
04 Employment and social affairs	11 581	191	34	12	46	11 818	9 075	2 601	66	12	78	11 755
05 Agriculture and rural development	58 587	(22)	0	2 311	2 311	60 877	55 880	989	70	2 303	2 373	59 242
06 Mobility and transport	1 664	(1)	0	91	91	1 754	1 079	(40)	6	110	116	1 156
07 Environment and Climate action	493	(1)	0	17	17	508	393	(20)	18	17	35	409
08 Research	5 930	643	0	1 045	1 045	7 618	4 218	632	30	1 366	1 396	6 245
09 Information society and media	1 678	(2)	0	309	309	1 985	1 357	33	13	373	387	1 776
10 Direct research	411	0	0	521	521	932	404	1	44	444	488	893
11 Maritime affairs and Fisheries	1 033	(48)	23	3	26	1 011	806	(56)	4	3	7	757
12 Internal market	101	(2)	0	7	7	107	98	1	7	7	13	112
13 Regional policy	42 045	569	40	8	48	42 662	35 538	2 686	49	8	57	38 282
14 Taxation and customs union	143	(1)	0	5	5	147	110	18	7	5	12	140
15 Education and culture	2 697	(8)	0	602	603	3 292	2 112	280	16	651	667	3 059
16 Communication	262	1	0	8	8	271	253	3	14	8	22	278
17 Health and consumer protection	687	(68)	0	34	34	653	592	16	12	33	45	652
18 Home affairs	1 264	(1)	3	56	59	1 322	756	29	7	68	75	860
19 External relations	4 817	(51)	44	158	202	4 969	3 276	(188)	17	166	183	3 271
20 Trade	104	(1)	0	3	3	106	102	0	6	3	9	111
21 Development & relations ACP States	1 498	(2)	127	110	237	1 733	1 310	21	33	111	144	1 475
22 Enlargement	1 088	3	8	68	75	1 166	921	(1)	4	51	55	976
23 Humanitarian aid	900	378	0	21	21	1 299	842	259	7	34	40	1 141
24 Fight against fraud	79	0	0	0	0	79	74	2	7	0	7	83
25 Com. pol.coordination and legal advice	194	(1)	0	11	11	204	193	(1)	16	11	27	219
26 Commission’s administration	1 017	62	0	120	120	1 200	1 001	74	146	122	268	1 343
27 Budget	69	(12)	0	7	7	63	69	(12)	9	7	16	73
28 Audit	12	0	0	1	1	12	12	0	1	1	1	13
29 Statistics	134	(6)	0	16	16	144	122	(1)	6	22	27	148
30 Pensions and related expenditure	1 335	(14)	0	0	0	1 321	1 335	(14)	0	0	0	1 321
31 Language Services	399	(9)	0	87	87	477	399	(9)	24	87	111	501
32 Energy	718	(1)	0	47	47	764	1 339	(622)	6	60	66	782
33 Justice	218	0	0	15	15	233	187	2	3	14	17	206
40 Reserves	759	(298)	0	0	0	461	90	(90)	0	0	0	0
90 Other Institutions	3 464	0	22	498	519	3 983	3 464	0	393	519	912	4 376
Total	**147 232**	**1 196**	**300**	**6 348**	**6 649**	**155 077**	**129 088**	**6 670**	**1 074**	**6 812**	**7 886**	**143 644**

3.7 IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY POLICY AREA

EUR millions

Policy Area	Commitment appropriations authorised	Commitments made					Appropriations carried over				Appropriations lapsing				
		From the year's approps	From carry-overs	Assigned revenue	Total	%	Assigned revenue	Carry-overs: decision	Total	%	From year's budget approps	From carry-overs	Assigned revenue	Total	%
	1	2	3	4	5=2+3+4	6=5/1	7	8	9=7+8	10=9/1	11	12	13	14=11+12+13	15=14/1
01 Economic and financial affairs	536	517	0	18	535	99.66%	2	0	2	0.33%	0	0	0	0	0.01%
02 Enterprise	1 276	1 144	0	92	1 236	96.84%	40	0	40	3.13%	0	0	0	0	0.03%
03 Competition	96	91	0	3	94	97.42%	2	0	2	2.43%	0	0	0	0	0.15%
04 Employment and social affairs	11 818	11 742	34	7	11 782	99.70%	6	24	30	0.25%	6	0	0	6	0.05%
05 Agriculture and rural development	60 877	58 550	0	964	59 514	97.76%	1 347	2	1 349	2.22%	13	0	0	13	0.02%
06 Mobility and transport	1 754	1 651	0	61	1 713	97.65%	29	0	29	1.67%	12	0	0	12	0.68%
07 Environment & Climate action	508	486	0	10	496	97.58%	7	0	7	1.47%	5	0	0	5	0.95%
08 Research	7 618	6 573	0	486	7 059	92.66%	559	0	559	7.34%	0	0	0	0	0.00%
09 Information society and media	1 985	1 675	0	203	1 878	94.60%	106	0	107	5.37%	1	0	0	1	0.03%
10 Direct research	932	411	0	83	494	53.04%	438	0	438	46.95%	0	0	0	0	0.01%
11 Maritime affairs and Fisheries	1 011	982	23	1	1 007	99.60%	1	0	1	0.12%	3	0	0	3	0.28%
12 Internal market	107	99	0	2	101	94.46%	5	0	5	4.72%	1	0	0	1	0.82%
13 Regional policy	42 662	42 601	40	6	42 647	99.96%	2	3	5	0.01%	10	0	0	10	0.02%
14 Taxation and customs union	147	142	0	2	144	97.76%	3	0	3	2.20%	0	0	0	0	0.04%
15 Education and culture	3 292	2 689	0	399	3 088	93.79%	204	0	204	6.19%	1	0	0	1	0.02%
16 Communication	271	262	0	4	265	97.92%	4	0	4	1.60%	1	0	0	1	0.48%
17 Health & consumer protection	653	616	0	24	639	97.96%	10	0	10	1.53%	3	0	0	3	0.51%
18 Home affairs	1 322	1 253	3	35	1 290	97.57%	21	0	21	1.62%	11	0	0	11	0.80%
19 External relations	4 969	4 765	44	63	4 872	98.06%	95	0	95	1.91%	1	0	0	1	0.02%
20 Trade	106	103	0	2	104	98.26%	1	0	2	1.58%	0	0	0	0	0.16%
21 Development & relations ACP	1 733	1 494	127	99	1 719	99.19%	12	2	14	0.78%	0	0	0	0	0.03%
22 Enlargement	1 166	1 090	8	37	1 135	97.38%	30	0	30	2.61%	0	0	0	0	0.01%
23 Humanitarian aid	1 299	1 277	0	17	1 294	99.61%	4	0	4	0.34%	1	0	0	1	0.05%
24 Fight against fraud	79	79	0	0	79	99.81%	0	0	0	0.03%	0	0	0	0	0.16%
25 Policy coord and legal advice	204	191	0	5	196	96.51%	5	0	5	2.51%	2	0	0	2	0.98%
26 Commission's administration	1 200	1 078	0	71	1 149	95.78%	50	0	50	4.15%	1	0	0	1	0.08%
27 Budget	63	56	0	4	61	95.47%	3	0	3	4.42%	0	0	0	0	0.11%
28 Audit	12	11	0	0	12	96.23%	0	0	0	3.04%	0	0	0	0	0.73%
29 Statistics	144	124	0	11	135	93.94%	5	0	5	3.38%	4	0	0	4	2.68%
30 Pensions +related expenditure	1 321	1 318	0	0	1 318	99.79%	0	0	0	0.00%	3	0	0	3	0.21%
31 Language Services	477	390	0	45	435	91.20%	42	0	42	8.78%	0	0	0	0	0.03%
32 Energy	764	716	0	16	731	95.67%	32	0	32	4.15%	1	0	0	1	0.17%
33 Justice	233	216	0	6	222	95.30%	10	0	10	4.12%	1	0	0	1	0.58%
40 Reserves	461	0	0	0	0	0.00%	0	0	0	0.00%	461	0	0	461	100.00%
90 Other Institutions	3 983	3 376	22	444	3 841	96.43%	54	0	54	1.36%	88	0	0	88	2.21%
Total	**155 077**	**147 766**	**300**	**3 218**	**151 284**	**97.55%**	**3 131**	**31**	**3 162**	**2.04%**	**631**	**0**	**0**	**631**	**0.41%**

3.8 IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY POLICY AREA

EUR millions

Policy Area	Payment Appro-priations authorised	Payments made					Appropriations carried over					Appropriations lapsing				
		From the year's approps	From carry-overs	Assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	Assigned revenue	Total	%	From the year's approps	From carry-overs	Assigned revenue	Total	%
	1	2	3	4	5=2+3+4	6=5/1	7	8	9	10=7+8+9	11=10/1	12	13	14	15=12+13+14	16=15/1
01 Economic and financial affairs	493	463	6	15	484	98.13%	6	0	2	8	1.64%	0	1	0	1	0.23%
02 Enterprise	1 395	1 180	19	72	1 271	91.12%	19	0	103	121	8.70%	1	2	0	3	0.18%
03 Competition	103	83	6	2	92	89.72%	7	0	3	10	9.78%	0	0	0	1	0.50%
04 Employment and social affairs	11 755	11 629	63	7	11 699	99.53%	13	24	5	43	0.36%	9	4	0	13	0.11%
05 Agriculture & rural development	59 242	56 829	66	1 053	57 948	97.82%	23	4	1 250	1 276	2.15%	13	4	0	18	0.03%
06 Mobility and transport	1 156	1 031	5	69	1 105	95.57%	6	0	41	47	4.03%	3	1	0	5	0.40%
07 Environment & Climate action	409	355	17	10	382	93.39%	17	1	6	24	5.89%	1	2	0	3	0.72%
08 Research	6 245	4 827	25	455	5 307	84.97%	23	0	911	934	14.95%	0	5	0	5	0.08%
09 Information society and media	1 776	1 375	12	114	1 501	84.54%	14	0	259	273	15.36%	1	1	0	2	0.10%
10 Direct research	893	357	40	69	466	52.13%	48	0	375	423	47.35%	0	5	0	5	0.52%
11 Maritime affairs and Fisheries	757	742	2	1	745	98.45%	3	0	1	5	0.64%	5	2	0	7	0.91%
12 Internal market	112	92	6	2	99	88.71%	5	0	5	11	9.47%	1	1	0	2	1.82%
13 Regional policy	38 282	38 200	48	6	38 254	99.93%	12	0	2	14	0.04%	12	1	0	14	0.04%
14 Taxation and customs union	140	121	7	2	130	92.66%	7	0	3	10	7.04%	0	0	0	0	0.30%
15 Education and culture	3 059	2 379	14	368	2 761	90.23%	13	0	284	296	9.69%	1	2	0	2	0.08%
16 Communication	278	240	13	3	256	92.16%	14	0	5	19	6.84%	1	1	0	3	1.00%
17 Health and consumer protection	652	596	11	28	635	97.34%	11	0	5	16	2.48%	0	1	0	1	0.18%
18 Home affairs	860	769	6	61	835	97.15%	4	1	7	12	1.44%	11	2	0	12	1.41%
19 External relations	3 271	3 073	10	150	3 233	98.83%	13	0	16	30	0.90%	2	7	0	9	0.27%
20 Trade	111	98	6	1	105	94.79%	4	0	2	5	4.86%	0	0	0	0	0.34%
21 Development and relations ACP	1 475	1 319	19	90	1 429	96.87%	10	0	21	31	2.11%	1	14	0	15	1.03%
22 Enlargement	976	914	3	27	943	96.68%	3	3	25	31	3.21%	0	1	0	1	0.12%
23 Humanitarian aid	1 141	1 093	6	29	1 128	98.84%	7	0	5	12	1.01%	1	0	0	2	0.15%
24 Fight against fraud	83	66	5	0	71	85.23%	8	2	0	10	11.95%	0	2	0	2	2.82%
25 Com. Pol. coord.& legal advice	219	176	14	5	195	88.73%	15	1	6	21	9.62%	1	2	0	4	1.64%
26 Commission's administration	1 343	963	136	51	1 149	85.59%	111	0	72	183	13.60%	1	10	0	11	0.81%
27 Budget	73	49	9	3	61	83.74%	7	0	4	11	15.45%	0	1	0	1	0.80%
28 Audit	13	11	1	0	12	91.60%	0	0	0	1	7.06%	0	0	0	0	1.34%
29 Statistics	148	115	5	8	128	86.27%	5	0	13	19	12.64%	1	1	0	2	1.08%
30 Pensions and related expenses	1 321	1 318	0	0	1 318	99.79%	0	0	0	0	0.00%	3	0	0	3	0.21%
31 Language Services	501	370	22	41	433	86.56%	20	0	46	66	13.17%	0	1	0	1	0.27%
32 Energy	782	706	5	12	723	92.51%	6	0	48	53	6.82%	4	1	0	5	0.66%
33 Justice	206	183	1	6	190	92.16%	4	1	8	13	6.13%	2	2	0	4	1.71%
40 Reserves	0	0	0	0	0	0.00%	0	0	0	0	0.00%	0	0	0	0	0.00%
90 Other Institutions	4 376	2 934	340	322	3 596	82.19%	442	0	197	638	14.59%	88	53	0	141	3.22%
Total	**143 644**	**134 656**	**946**	**3 081**	**138 683**	**96.55%**	**900**	**36**	**3 730**	**4 666**	**3.25%**	**166**	**128**	**0**	**295**	**0.21%**

3.9 MOVEMENTS IN COMMITMENTS OUTSTANDING BY POLICY AREA

EUR millions

Policy Area	Commitments outstanding at end of the previous year				Commitments of the year				
	Commitments carried forward from previous year	Decommitments /Revaluations/Cancellations	Payments	Commitments outstanding at year-end	Commitments made during the year	Payments	Cancellation commitments which cannot be carried over	Commitments outstanding at year-end	Total commitments outstanding at year-end
01 Economic & financial affairs	582	(9)	(143)	429	535	(341)	0	194	623
02 Enterprise	2 155	(31)	(850)	1 274	1 236	(421)	0	814	2 088
03 Competition	7	0	(6)	0	94	(86)	0	8	8
04 Employment & social affairs	29 625	(40)	(11 226)	18 359	11 782	(473)	0	11 309	29 668
05 Agriculture & rural development	22 357	(76)	(11 972)	10 308	59 514	(45 975)	0	13 539	23 847
06 Mobility and transport	2 809	(100)	(879)	1 830	1 713	(226)	0	1 487	3 317
07 Environment & Climate action	898	(11)	(243)	645	496	(138)	0	358	1 003
08 Research	9 200	(170)	(2 983)	6 047	7 059	(2 324)	0	4 734	10 781
09 Information society & media	2 269	(51)	(782)	1 436	1 878	(720)	0	1 158	2 594
10 Direct research	184	(13)	(114)	57	494	(352)	0	142	199
11 Maritime affairs and Fisheries	2 062	(33)	(538)	1 490	1 007	(207)	0	800	2 290
12 Internal market	22	(2)	(16)	4	101	(83)	0	18	21
13 Regional policy	108 413	(498)	(36 781)	71 133	42 647	(1 473)	(1)	41 174	112 307
14 Taxation and customs union	92	(13)	(55)	24	144	(75)	0	69	93
15 Education and culture	1 921	(53)	(839)	1 028	3 088	(1 921)	0	1 167	2 195
16 Communication	122	(13)	(86)	24	265	(170)	0	95	119
17 Health and consumer protection	719	(81)	(317)	321	639	(318)	0	321	642
18 Home affairs	1 458	(235)	(268)	954	1 290	(567)	0	723	1 677
19 External relations	10 232	(528)	(2 379)	7 324	4 872	(854)	0	4 018	11 343
20 Trade	20	(1)	(13)	6	104	(93)	0	12	18
21 Development/relations ACP	3 281	(119)	(970)	2 192	1 719	(459)	0	1 260	3 453
22 Enlargement	2 864	(16)	(769)	2 079	1 135	(175)	(1)	960	3 039
23 Humanitarian aid	670	(4)	(417)	248	1 294	(711)	0	583	831
24 Fight against fraud	34	(7)	(15)	12	79	(56)	0	23	35
25 Policy coord. & legal advice	19	(3)	(15)	0	196	(179)	0	17	17
26 Commission's administration	184	(12)	(161)	11	1 149	(988)	0	160	171
27 Budget	9	(1)	(9)	0	61	(52)	0	8	8
28 Audit	1	0	(1)	0	12	(11)	0	1	1
29 Statistics	115	(9)	(45)	61	135	(82)	0	53	114
30 Pensions & related expenditure	0	0	0	0	1 318	(1 318)	0	0	0
31 Language Services	24	(1)	(22)	0	435	(411)	0	24	24
32 Energy	4 522	(12)	(622)	3 888	731	(102)	0	629	4 518
33 Justice	181	(34)	(67)	80	222	(122)	0	99	179
90 Other Institutions	397	(57)	(325)	15	3 841	(3 272)	4	573	588
Total	**207 443**	**(2 234)**	**(73 930)**	**131 279**	**151 284**	**(64 754)**	**1**	**86 531**	**217 810**

3.10 BREAKDOWN OF COMMITMENTS OUTSTANDING BY YEAR OF ORIGIN BY POLICY AREA

EUR millions

Policy Area	<2006	2006	2007	2008	2009	2010	2011	2012	Total
01 Economic and financial affairs	11	35	10	0	20	167	185	194	623
02 Enterprise	10	5	17	97	101	546	498	814	2 088
03 Competition	0	0	0	0	0	0	0	8	8
04 Employment and social affairs	384	1 507	57	267	1 241	5 457	9 446	11 309	29 668
05 Agriculture and rural development	7	456	0	2	152	1 437	8 254	13 539	23 847
06 Mobility and transport	15	27	124	103	271	494	797	1 487	3 317
07 Environment & Climate action	9	12	57	88	138	151	189	358	1 003
08 Research	114	73	177	381	814	1 728	2 760	4 734	10 781
09 Information society and media	12	8	31	83	207	372	724	1 158	2 594
10 Direct research	0	3	1	10	10	11	21	142	199
11 Maritime affairs and Fisheries	51	271	5	18	71	411	663	800	2 290
12 Internal market	0	0	0	0	0	1	3	18	21
13 Regional policy	836	5 328	21	1 875	7 437	20 613	35 024	41 174	112 307
14 Taxation and customs union	0	0	0	0	0	4	20	69	93
15 Education and culture	2	0	47	77	150	255	497	1 167	2 195
16 Communication	0	0	0	0	1	6	17	95	119
17 Health and consumer protection	9	3	7	43	42	83	133	321	642
18 Home affairs	4	0	17	64	208	249	412	723	1 677
19 External relations	266	235	498	846	1 236	1 725	2 518	4 018	11 343
20 Trade	0	0	0	0	0	2	4	12	18
21 Development and relations ACP States	113	63	71	193	365	578	810	1 260	3 453
22 Enlargement	69	86	129	236	310	513	735	960	3 039
23 Humanitarian aid	0	1	1	9	16	58	163	583	831
24 Fight against fraud	0	0	1	1	2	2	6	23	35
25 Commission's policy coordination & legal advice	0	0	0	0	0	0	0	17	17
26 Commission’s administration	0	0	0	0	0	0	11	160	171
27 Budget	0	0	0	0	0	0	0	8	8
28 Audit	0	0	0	0	0	0	0	1	1
29 Statistics	2	2	1	1	3	17	36	53	114
30 Pensions and related expenditure	0	0	0	0	0	0	0	0	0
31 Language Services	0	0	0	0	0	0	0	24	24
32 Energy	60	43	28	101	1 365	1 671	621	629	4 518
33 Justice	0	0	1	4	12	18	45	99	179
90 Other Institutions	0	0	0	0	0	0	15	573	588
Total	**1 975**	**8 159**	**1 304**	**4 498**	**14 171**	**36 568**	**64 606**	**86 531**	**217 810**

4.1 SUMMARY OF THE IMPLEMENTATION OF BUDGET REVENUE BY INSTITUTION

EUR millions

Institution	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current year	Carried	Total	On entitlements of current year	On entitlements Carried	Total		
European Parliament	147	147	174	26	200	172	4	176	119.41%	25
European Council and Council	58	58	99	11	109	88	10	98	168.80%	11
Commission	128 761	135 431	137 081	13 342	150 423	134 783	4 066	138 849	102.52%	11 573
Court of Justice	44	44	51	0	51	51	0	51	115.64%	0
Court of Auditors	21	21	19	0	19	19	0	19	90.58%	0
Economic and Social Committee	12	12	16	0	16	16	0	16	133.47%	0
Committee of the Regions	8	8	20	0	20	20	0	20	250.50%	0
Ombudsman	1	1	1	0	1	1	0	1	97.10%	0
European Data Protection Supervisor	1	1	1	0	1	1	0	1	77.36%	0
European External Action Service	35	35	309	0	310	309	0	309	889.83%	0
Total	**129 088**	**135 758**	**137 771**	**13 379**	**151 150**	**135 460**	**4 080**	**139 541**	**102.79%**	**11 610**

4.2 IMPLEMENTATION OF COMMITMENT AND PAYMENT APPROPRIATIONS BY INSTITUTION

Commitment appropriations

EUR millions

Institution	Commitment appropriations authorised	Commitments made					Appropriations carried over				Appropriations lapsing				
		From the year's approps	From carry-overs	From assigned revenue	Total	%	From assigned revenue	Carry-overs by decision	Total	%	From the year's budget approps	from carry-overs	Assigned revenue	Total	%
	1	2	3	4	5=2+3+4	6=5/1	7	8	9=7+8	10=9/1	11	12	13	14=11+12+13	15=14/1
European Parliament	1 862	1 693	22	116	1 831	98.32%	6	0	6	0.34%	25	0	0	25	1.33%
European Council and Council	612	490	0	42	532	86.89%	36	0	36	5.92%	44	0	0	44	7.19%
Commission	151 094	144 390	279	2 774	147 443	97.58%	3 077	31	3 108	2.06%	543	0	0	543	0.36%
Court of Justice	351	344	0	1	345	98.36%	1	0	1	0.28%	5	0	0	5	1.36%
Court of Auditors	143	137	0	0	138	96.12%	0	0	0	0.30%	5	0	0	5	3.59%
Economic & Social Committee	133	125	0	4	128	96.62%	0	0	0	0.25%	4	0	0	4	3.13%
Committee of the Regions	99	85	0	12	97	98.43%	0	0	0	0.03%	2	0	0	2	1.54%
Ombudsman	10	9	0	0	9	95.86%	0	0	0	0.02%	0	0	0	0	4.12%
European Data Protection Supervisor	8	7	0	0	7	95.21%	0	0	0	0.00%	0	0	0	0	4.79%
European External Action Service	767	486	0	268	754	98.37%	10	0	10	1.26%	3	0	0	3	0.37%
Total	**155 077**	**147 766**	**300**	**3 218**	**151 284**	**97.55%**	**3 131**	**31**	**3 162**	**2.04%**	**631**	**0**	**0**	**631**	**0.41%**

Payment appropriations

EUR millions

Institution	Payment appropriations authorised	Payments made					Appropriations carried over					Appropriations lapsing				
		From year's approps	From carry overs	From assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	From assigned revenue	Total	%	From year's approps	From carry-overs	Assigned revenue	Total	%
	1	2	3	4	5=2+3+4	6=5/1	7	8	9	10=7+8+9	11=10/1	12	13	14	15=12+13+14	16=15/1
European Parliament	2 092	1 388	214	22	1 623	77.58%	305	0	108	413	19.76%	25	31	0	56	2.67%
European Council and Council	661	444	36	44	524	79.31%	46	0	41	87	13.13%	44	6	0	50	7.56%
Commission	139 268	131 722	605	2 759	135 087	97.00%	458	36	3 533	4 028	2.89%	78	76	0	154	0.11%
Court of Justice	369	326	16	1	343	92.92%	18	0	1	19	5.15%	5	2	0	7	1.93%
Court of Auditors	156	125	11	0	136	87.11%	13	0	0	13	8.41%	5	2	0	7	4.48%
Economic & Social Committee	141	117	7	4	127	90.15%	8	0	1	9	6.19%	4	1	0	5	3.66%
Committee of the Regions	108	77	7	12	96	89.53%	8	0	0	8	7.37%	2	2	0	3	3.10%
Ombudsman	10	8	1	0	9	89.11%	1	0	0	1	6.74%	0	0	0	0	4.15%
European Data protection Supervisor	9	6	1	0	7	81.28%	1	0	0	1	10.68%	0	0	0	1	8.05%
European External Action Service	831	444	49	238	731	88.06%	42	0	46	88	10.58%	3	8	0	11	1.36%
Total	**143 644**	**134 656**	**946**	**3 081**	**138 683**	**96.55%**	**900**	**36**	**3 730**	**4 666**	**3.25%**	**166**	**128**	**0**	**295**	**0.21%**

4.3 AGENCIES INCOME: BUDGET FORECASTS, ENTITLEMENTS AND AMOUNTS RECEIVED

EUR millions

Agency	Forecasted income budget	Entitlements established	Amounts received	Outstanding	Funding Commission Policy Area
European Agency for the Cooperation of Energy Regulators	7	7	7	0	06
European Asylum Support Office	7	2	2	0	18
European Aviation Safety Agency	150	116	115	1	06
Frontex	90	76	76	0	18
European Centre for the Development of Vocational Training	19	20	20	1	15
European Police College	8	9	9	0	18
European Chemicals Agency	33	35	35	0	02
European Centre for Disease prevention and control	58	58	58	0	17
European Monitoring Centre for Drugs and Drug Addiction	16	16	16	0	18
European Banking Authority	21	19	19	0	12
European Insurance and Occupational Pensions Authority	16	14	14	0	12
European Environment Agency	42	52	51	1	07
European Police office	84	83	83	0	18
European Securities and Markets Authority	20	19	19	0	12
Community Fisheries Control Agency	10	10	10	0	11
European Food Safety Authority	77	77	77	0	17
European Institute for Gender Equality	8	8	8	0	04
European GNSS supervisory authority	13	21	21	0	06
Fusion for Energy	344	379	379	0	08
Eurojust	33	33	33	0	18
European Maritime Safety Agency	59	54	53	0	06
Office For Harmonisation in the Internal Market	175	176	176	0	12
European Medicines Agency	222	254	224	31	02
European Network and Information Security Agency	8	8	8	0	09
European Regulators for Electronic Communications office	3	3	3	0	09
European Union Agency for Fundamental Rights	21	21	21	0	18
European Railway Agency	26	26	26	0	06
European Agency for Safety and Health at Work	15	15	15	0	04
European Institute of Innovation and Technology	78	77	77	0	15
Translation Centre for the Bodies of the EU	48	49	45	4	15
European Training Foundation	21	20	20	0	15
Community Plant Variety Office	13	13	13	0	17
European Foundation for the Improvement of Living and Working Conditions	21	21	21	0	04
Education, Audiovisual & Culture Executive Agency	50	50	50	0	15
Executive Agency for Competitiveness and Innovation	16	17	17	0	06
European Research Council Executive Agency	39	39	39	0	08
Research Executive Agency	46	47	47	0	08
Executive Agency for Health and Consumers	7	7	7	0	17
Trans-European Transport Network Executive Agency	10	10	10	0	06
Total	**1 936**	**1 963**	**1 925**	**38**	

EUR millions

Type of revenue	Forecasted income budget	Entitlements established	Amounts received	Outstandin g
Commission Subsidy	1 304	1 276	1 272	5
Fee income	465	490	460	30
Other income	168	197	193	4
Total	**1 936**	**1 963**	**1 925**	**38**

4.4 COMMITMENT & PAYMENT APPROPRIATIONS BY AGENCY

EUR millions

Agency	Commitment appropriations			Payment appropriations		
	Approp-riations	Commit-ments made	Carried over	Approp-riations	Payments made	Carried over
European Agency for the Cooperation of Energy Regulators	7	7	0	8	5	2
European Asylum Support Office	7	5	0	6	2	2
European Aviation Safety Agency	164	132	27	176	117	53
Frontex	90	89	1	128	99	22
European Centre for the Development of Vocational Training	22	21	1	22	19	3
European Police College	9	8	0	11	8	2
European Chemicals Agency	99	96	0	113	94	15
European Centre for Disease prevention and control	58	55	0	69	55	10
European Monitoring Centre for Drugs and Drug Addiction	17	16	0	17	16	0
European Banking Authority	21	18	0	22	13	7
European Insurance and Occupational Pensions Authority	16	14	0	16	11	4
European Environment Agency	69	52	16	73	45	27
European Police Office	85	84	1	100	79	17
European Securities & Markets Authority	20	17	0	22	15	4
Community Fisheries Control Agency	9	9	0	11	10	1
European Food Safety Authority	79	78	0	90	80	9
European Institute for Gender Equality	8	7	0	11	8	2
European GNSS supervisory authority	106	58	47	55	33	22
Fusion for Energy	1 482	1 482	0	384	362	7
Eurojust	35	34	1	41	35	5
European Maritime Safety Agency	57	53	1	61	53	2
Office For Harmonisation in the Internal Market	429	189	0	461	180	37
European Medicines Agency	226	222	0	262	215	41
European Network and Information Security Agency	8	8	0	9	9	1
European Regulators for Electronic Communications Office	3	3	0	3	2	1
European Union Agency for Fundamental Rights	21	21	0	28	23	5
European Railway Agency	26	25	0	30	26	2
European Agency for Safety & Health at Work	17	15	1	20	15	5
European Institute of Innovation and Technology	97	95	0	83	71	7
Translation Centre for the Bodies of the EU	48	42	0	52	41	4
European Training Foundation	20	20	0	21	20	1
Community Plant Variety Office	14	13	0	14	12	0
European Foundation for the Improvement of Living and Working Conditions	22	21	0	26	20	5
Education, Audiovisual & Culture Executive Agency	50	49	0	55	48	6
Executive Agency for Competitiveness and Innovation	17	16	0	18	16	1
European Research Council Executive Agency	39	38	0	41	38	2
Research Executive Agency	46	44	0	50	43	4
Executive Agency for Health and Consumers	7	7	0	8	7	1
Trans-European Transport Network Executive Agency	10	10	0	11	9	1
Total	**3 559**	**3 175**	**97**	**2 627**	**1 952**	**338**

Type of expenditure	Commitment appropriations			Payment appropriations		
	Appropri-ations	Commit-ments made	Carried over	Appropri-ations	Payments made	Carried over
Staff	813	781	2	829	777	18
Administrative expenses	305	292	1	377	277	79
Operational expenses	2 442	2 102	95	1 421	899	242
Total	**3 559**	**3 175**	**97**	**2 627**	**1 952**	**338**

4.5 BUDGET RESULT INCLUDING AGENCIES

EUR millions

	EUROPEAN UNION	AGENCIES	Elimination of subsidies to agencies	TOTAL
Revenue for the financial year	139 541	1 925	(1 272)	**140 194**
Payments against current year appropriations	(137 738)	(1 739)	1 272	**(138 205)**
Payment appropriations carried over to year N+1	(936)	(338)	0	**(1 274)**
Cancellation of unused appropriations carried over from year N-1	92	171	0	**263**
Exchange differences for the year	60	(8)	0	**52**
Budget Result	**1 019**	**12**	**0**	**1 031**