EUROPEAN COMMISSION

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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 2011

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NOTE ACCOMPANYING THE CONSOLIDATED ACCOUNTS

THE CONSOLIDATED ANNUAL ACCOUNTS OF THE EUROPEAN UNION FOR THE YEAR 2011 HAVE BEEN PREPARED ON THE BASIS OF THE INFORMATION PRESENTED BY THE INSTITUTIONS AND BODIES UNDER ARTICLE 129.2 OF THE FINANCIAL REGULATION APPLICABLE TO THE GENERAL BUDGET OF THE EUROPEAN UNION. I HEREBY DECLARE THAT THEY WERE PREPARED IN ACCORDANCE WITH TITLE VII 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 A TRUE AND FAIR VIEW OF THE FINANCIAL POSITION OF THE EUROPEAN UNION IN ALL MATERIAL ASPECTS.

(signed)

PHILIPPE TAVERNE

Accounting Officer of the Commission

18 July 2012

EUROPEAN UNION

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

FINANCIAL YEAR 2011

CONTENTS

** 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*

BALANCE SHEET

EUR millions

	Note	31.12.2011	31.12.2010
NON-CURRENT ASSETS:			
Intangible assets	*2.1*	149	108
Property, plant and equipment	*2.2*	5 071	4 813
Long-term investments:			
Investments accounted for using the equity method	*2.3*	374	492
Financial assets: Available for sale assets	*2.4*	2 272	2 063
Financial assets: Long-term loans	*2.5*	41 400	11 640
Long-term receivables & recoverables	*2.6*	289	40
Long-term pre-financing	*2.7*	44 723	44 118
		94 278	**63 274**
CURRENT ASSETS:			
Inventories	*2.8*	94	91
Short-term investments:			
Financial assets: Available for sale assets	*2.9*	3 619	2 331
Short-term receivables & recoverables:			
Financial assets: Short-term loans	*2.10*	102	2 170
Other receivables & recoverables	*2.11*	9 477	11 331
Short-term pre-financing	*2.12*	11 007	10 078
Cash and cash equivalents	*2.13*	18 935	22 063
		43 234	**48 064**
TOTAL ASSETS		**137 512**	**111 338**
NON-CURRENT LIABILITIES:			
Pension & other employee benefits	*2.14*	(34 835)	(37 172)
Long-term provisions	*2.15*	(1 495)	(1 317)
Long-term financial liabilities	*2.16*	(41 179)	(11 445)
Other long-term liabilities	*2.17*	(2 059)	(2 104)
		(79 568)	**(52 038)**
CURRENT LIABILITIES:			
Short-term provisions	*2.18*	(270)	(214)
Short-term financial liabilities	*2.19*	(51)	(2 004)
Payables	*2.20*	(91 473)	(84 529)
		(91 794)	**(86 747)**
TOTAL LIABILITIES		**(171 362)**	**(138 785)**
NET ASSETS		**(33 850)**	**(27 447)**
Reserves	*2.21*	3 608	3 484
Amounts to be called from Member States*	*2.22*	(37 458)	(30 931)
NET ASSETS		**(33 850)**	**(27 447)**

* The European Parliament has adopted a budget on 1 December 2011 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 2012. 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.

ECONOMIC OUTTURN ACCOUNT

EUR millions

	Note	2011	2010
OPERATING REVENUE			
Own resource and contributions revenue	*3.1*	124 677	122 328
Other operating revenue	*3.2*	5 376	8 188
		130 053	**130 516**
OPERATING EXPENSES			
Administrative expenses	*3.3*	(8 976)	(8 614)
Operating expenses	*3.4*	(123 778)	(103 764)
		(132 754)	**(112 378)**
(DEFICIT)/SURPLUS FROM OPERATING ACTIVITIES		**(2 701)**	**18 138**
Financial revenue	*3.5*	1 491	1 178
Financial expenses	*3.6*	(1 355)	(661)
Movement in pension & other employee benefits liability		1 212	(1 003)
Share of net deficit of joint ventures & associates	*3.7*	(436)	(420)
ECONOMIC OUTTURN FOR THE YEAR		**(1 789)**	**17 232**

CASHFLOW TABLE

EUR millions

	Note	2011	2010
Economic outturn for the year		**(1 789)**	**17 232**
Operating activities	*4.2*		
Amortisation		33	28
Depreciation		361	358
(Increase)/decrease in long-term loans		(29 760)	(876)
(Increase)/decrease in long-term pre-financing		(605)	(2 574)
(Increase)/decrease in long-term receivables & recoverables		(249)	15
(Increase)/decrease in inventories		(3)	(14)
(Increase)/decrease in short-term pre-financing		(929)	(642)
(Increase)/decrease in short-term receivables & recoverables		3 922	(4 543)
Increase/(decrease) in long-term provisions		178	(152)
Increase/(decrease) in long-term financial liabilities		29 734	886
Increase/(decrease) in other long-term liabilities		(45)	(74)
Increase/(decrease) in short-term provisions		56	1
Increase/(decrease) in short-term financial liabilities		(1 953)	1 964
Increase/(decrease) in payables		6 944	(9 355)
Prior year budgetary surplus taken as non cash revenue		(4 539)	(2 254)
Other non-cash movements		(75)	(149)
Increase/(decrease) in pension & employee benefits liability		(2 337)	(70)
Investing activities	*4.3*		
(Increase)/decrease in intangible assets and property, plant and equipment		(693)	(374)
(Increase)/decrease in long-term investments		(91)	(176)
(Increase)/decrease in short-term investments		(1 288)	(540)
NET CASHFLOW		**(3 128)**	**(1 309)**
Net increase/(decrease) in cash and cash equivalents		(3 128)	(1 309)
Cash and cash equivalents at the beginning of the year	*2.13*	22 063	23 372
Cash and cash equivalents at year-end	*2.13*	18 935	22 063

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 outturn of the year**	
BALANCE AS AT 31 DECEMBER 2009	**69**	**3 254**	**(52 488)**	**6 887**	**(42 278)**
Movement in Guarantee Fund reserve		273	(273)		0
Fair value movements	(130)				(130)
Other		4	(21)		(17)
Allocation of the economic outturn 2009		14	6 873	(6 887)	0
Budget result 2009 credited to Member States			(2 254)		(2 254)
Economic outturn for the year				17 232	17 232
BALANCE AS AT 31 DECEMBER 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 economic outturn 2010		4	17 228	(17 232)	0
Budget result 2010 credited to Member States			(4 539)		(4 539)
Economic outturn for the year				(1 789)	(1 789)
BALANCE AS AT 31 DECEMBER 2011	**(108)**	**3 716**	**(35 669)**	**(1 789)**	**(33 850)**

Notes to the financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 LEGAL BASIS AND ACCOUNTING RULES

The accounts of the European Union are kept in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 (OJ L 248 of 16 September 2002), on the Financial Regulation applicable to the general budget of the European Union and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of this Financial Regulation.

In accordance with article 133 of the Financial Regulation, the European Union prepares its financial statements on the basis of accrual-based accounting rules that are derived from International Public Sector Accounting Standards (IPSAS) or by default, International Financial Reporting Standards (IFRS). 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 economic outturn account, 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 50 controlled entities, 5 joint ventures and 4 associates. The complete list of consolidated entities can be found in note **11.1**. In comparison with 2010, the scope of consolidation has been extended by 7 controlled entities (one institution, 6 agencies). 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 European Union 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 European Union 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 European Union 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 European Union's interest in the results of its jointly controlled entities is recognised in the economic outturn account, and its interest in the movements in reserves is recognised in the reserves. The initial cost plus all movements (further contributions, share of 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 European Union 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 European Union for like transactions and events in similar circumstances.

Associates
Associates are entities over which the European Union has, directly or indirectly, significant influence but not control. It is presumed that significant influence is given if the European Union 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 European Union's share of its associates' results is recognised in the economic outturn account, and its share of movements in reserves is recognised in the reserves. The initial cost plus all movements (further contributions, share of 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 European Union and its associates are not material and have therefore not been eliminated.

The accounting policies of associates may differ from those adopted by the European Union for like transactions and events in similar circumstances. In cases where the European Union 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 categorised as available-for-sale and the equity method is not applied.

Non-consolidated entities the funds of which are managed by the Commission
The funds of the Sickness Insurance Scheme for staff of the European Union, 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 European Union 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 European Union'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 economic outturn account.

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	31.12.2011	31.12.2010	Currency	31.12.2011	31.12.2010
BGN	1.9558	1.9558	LTL	3.4528	3.4528
CZK	25.7870	25.0610	PLN	4.4580	3.9750
DKK	7.4342	7.4535	RON	4.3233	4.2620
EEK	N/A	15.6466	SEK	8.9120	8.9655
GBP	0.8353	0.8607	CHF	1.2156	1.2504
HUF	314.5800	277.9500	JPY	100.2000	108.6500
LVL	0.6995	0.7094	USD	1.2939	1.3362

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale that relate to a translation difference are recognised in the economic outturn account. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in the economic outturn account. Translation differences on non-monetary financial assets 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 European Union and its cost can be measured reliably. Repairs and maintenance costs are charged to the economic outturn account during the financial period in which they are incurred. As the European Union does not borrow money to fund the acquisition of property, plant and equipment, there are no borrowing costs related to such purchases.

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:

Depreciation rates

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 economic outturn account.

Leases
Leases of tangible assets, where the European Union 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 (long and short-term.) The interest element of the finance cost is charged to the economic outturn account 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 economic outturn account 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 and are tested annually for impairment. Assets that are subject to amortisation 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 European Union 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
Classification and measurement
Investments in Venture Capital Funds are classified as available-for-sale 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.

Fair value considerations
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 economic outturn account or as changes in the fair value reserve.

1.5.5 Financial assets

Classification
The European Union 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 European Union. 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 European Union has the positive intention and ability to hold to maturity. During this financial year, the European Union 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 intends to dispose of them. 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 European Union 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 plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognised at fair value and transaction costs are expensed in the economic outturn account.

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 European Union 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 economic outturn account.

Financial instruments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the European Union 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 economic outturn account 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 economic outturn account.

(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 assets are recognised in the fair value reserve. When assets classified as available-for-sale are sold or impaired, the cumulative fair value adjustments previously recognised in the fair value reserve are recognised in the economic outturn account. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the economic outturn account. 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 European Union 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 European Union 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 economic outturn account. 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 economic outturn account.

(b) Assets carried at fair value
In the case of equity investments classified as available-for-sale, 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 economic outturn account – is removed from reserves and recognised in the economic outturn account. Impairment losses recognised in the economic outturn account on equity instruments are not reversed through the economic outturn account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale 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 economic outturn account.

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 European Union 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 European Union. The amount of the pre-financing is reduced (wholly or partially) by the acceptance of eligible costs and amounts returned, and this amount is recognised as an expense.
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 European Union 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 economic outturn account. 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 Employee benefits

Pension obligations

The European Union 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 economic outturn account. Past-service costs are recognised immediately in economic outturn account, 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 European Union 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 European Union 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 economic outturn account 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 European Union and then recharged to the beneficiary of the loan are directly recognised in the economic outturn account.

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 European Union.

1.5.14 Accrued and deferred income and charges

According to the European Union 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 ECONOMIC OUTTURN ACCOUNT

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 European Union 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 economic outturn account.

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 economic outturn account 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 European Union 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 used 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 Expenditure
Exchange expenses arising from the purchase of goods and services are recognised when the supplies are delivered and accepted by the European Union. They are valued at original invoice cost. Non-exchange expenses are specific to the EU and account for the majority of its expenditure. 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 European Union. 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 European Union; 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 December 2010	236
Additions	80
Disposals	(13)
Other changes	(2)
Gross carrying amount at 31 December 2011	**301**
Accumulated amortisation at 31 December 2010	(128)
Amortisation charge for the year	(33)
Disposals	8
Other changes	1
Accumulated amortisation at 31 December 2011	**(152)**
Net carrying amount at 31 December 2011	**149**
Net carrying amount at 31 December 2010	*108*

The above amounts relate primarily to computer software.

2.2 PROPERTY, PLANT AND EQUIPMENT

Included under assets under construction at 31 December 2011 are 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 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 perspective, the In-Orbit Validation phase and the first part of the Full Operational Capability phase have a planned cost to the EU of EUR 3 788 million. For the next financial perspective, a further EUR 5 500 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. An amount of EUR 268 million has been recognised as research expenses during the period.

The next two satellites are due to be launched in autumn 2012 and once the subsequent testing on 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 & 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	4 027	492	226	483	214	2 663	335	8 440
Additions	89	37	19	112	22	28	335	642
Disposals	0	(11)	(19)	(44)	(12)	(6)	0	(92)
Transfers between asset categories	22	1	0	4	0	(2)	(24)	1
Other changes	(20)	9	3	2	4	2	(1)	(1)
Gross carrying amount at year-end	**4 118**	**528**	**229**	**557**	**228**	**2 685**	**645**	**8 990**
Accumulated depreciation at previous year-end	(1 868)	(382)	(167)	(378)	(124)	(708)		(3 627)
Depreciation charge for the year	(132)	(47)	(14)	(63)	(22)	(95)		(373)
Depreciation written back	1	0	0	4	0	7		12
Disposals	0	11	16	44	11	0		82
Transfers between asset categories	0	0	0	(2)	0	1		(1)
Other changes	0	(7)	(1)	(1)	(2)	(1)		(12)
Accumulated depreciation at year-end	**(1 999)**	**(425)**	**(166)**	**(396)**	**(137)**	**(796)**		**(3 919)**
NET CARRYING AMOUNT AT 31 DECEMBER 2011	**2 119**	**103**	**63**	**161**	**91**	**1 889**	**645**	**5 071**
NET CARRYING AMOUNT AT 31 DECEMBER 2010	2 159	110	59	105	90	1 955	335	4 813

Charges still to be paid in respect of finance leases and similar entitlements are shown in long-term and short-term liabilities in the balance sheet (see notes **2.17** and **2.20.1**). 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**	**(E)**	**=A+B+C+E**
Land and buildings	931	59	280	1 315	1 654	2 585	62	2 647	(771)	**1 876**
Other tangible assets	23	7	7	1	15	38	0	38	(25)	**13**
Total at 31.12.2011	**954**	**66**	**287**	**1 316**	**1 669**	**2 623**	**62**	**2 685**	**(796)**	**1 889**
Total at 31.12.2010	865	65	282	1 390	1 737	2 602	61	2 663	(708)	1 955

2.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

EUR millions

	Note	31.12.2011	31.12.2010
Participations in Joint Ventures	*2.3.1*	62	138
Participations in Associates	*2.3.2*	312	354
Total Investments		**374**	**492**

2.3.1 Participations in joint ventures

EUR millions

	GJU	SESAR	ITER	IMI	FCH	Total
Amount at 31.12.2010	0	11	12	78	37	138
Contributions	0	18	92	19	59	188
Share of net result	0	(29)	(104)	(72)	(59)	(264)
Amount at 31.12.2011	**0**	**0**	**0**	**25**	**37**	**62**

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 in joint ventures:

EUR millions

	31.12.2011	31.12.2010
Non-current assets	211	176
Current assets	123	165
Non-current liabilities	0	0
Current liabilities	(314)	(208)
Revenue	8	7
Expenses	(379)	(247)

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 ongoing. As the entity was inactive and still undergoing liquidation in 2011, there were no revenues or expenditures 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 2011, the Commission held 59.37 % of the ownership participation in SESAR. The total (indicative) Commission contribution foreseen for SESAR (from 2007 to 2013) is EUR 700 million. The unrecognised share of losses for the period and cumulatively is EUR 102 million.

ITER International Fusion Energy Organisation (ITER)

ITER involves the European Union 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 2011, the Commission held 47 % of the ownership participation in ITER. The total (indicative) Euratom contribution foreseen for ITER (from 2007 to 2041) is EUR 7 649 million. The unrecognised share of losses for the period and cumulatively is EUR 4 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 171 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 2011, the Commission held 96.51% 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 2011, the Commission held 89.32% of the ownership participation in FCH. The maximum indicative contribution of the EU shall amount to EUR 470 million up to 31.12.2017.

2.3.2 Participations in Associates

EUR millions

	EIF	ARTEMIS	Clean Sky	ENIAC	Total
Amount at 31/12/2010	305	14	14	21	354
Contributions	0	11	117	14	142
Share of net surplus/(deficit)	(3)	(25)	(131)	(15)	(174)
Other equity movements	(10)	0	0	0	(10)
Amount at 31/12/2011	**292**	**0**	**0**	**20**	**312**

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 in associates:

EUR millions

	31.12.2011	31.12.2010
Assets	460	447
Liabilities	(162)	(93)
Revenue	28	25
Surplus/(Deficit)	(167)	(180)

European Investment Fund (EIF)

The European Investment Fund (EIF) is the European Union's financial institution specialising in providing risk capital and guarantees to SMEs. The Commission has paid in 20%, 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 unrecognised share of losses for the period and cumulatively is EUR 3 million.

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 unrecognised share of losses for the period and cumulatively is EUR 5 million.

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 2011, the Commission held 96.77% of the ownership participation in ENIAC.

2.4 FINANCIAL ASSETS: AVAILABLE FOR SALE ASSETS

EUR millions

	31.12.2011	31.12.2010
Guarantee Fund	1 475	1 346
European Bank for Reconstruction and Development	188	188
Risk Capital Operations	134	137
ETF Start up	234	199
European Fund for South East Europe	111	102
Green for Growth Fund	69	20
GEEREF	38	56
Progress Microfinance Facility	18	14
Other investments	5	1
Total	**2 272**	**2 063**

2.4.1 Guarantee Fund

Net assets of the Guarantee Fund* *EUR millions*

	31.12.2011	31.12.2010
Available-for-sale assets	1 174	1 154
Cash and cash equivalents	302	193
Total assets	**1 476**	**1 347**
Total liabilities	**(1)**	**(1)**
Net assets	**1 475**	**1 346**

* *after elimination of the EFSM bonds and the provisioned contribution from EU paid in February 2012*

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 and can therefore be seen as a long-term investment. This is evidenced by the fact that nearly 83% of the available-for-sale assets have a maturity of between 1 and 10 years. 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.

2.4.2 Other long-term available-for-sale assets

These are investments and participations purchased to help beneficiaries develop their business activities.

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	28 380	900
Paid-in	(6 199)	(188)
Uncalled	22 181	712

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

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 126 million relating to ETF Start up and SME Finance Facility had been committed to, but not yet been drawn down by the other parties.

The **European Fund for South East Europe**, an investment company with variable share capital (SICAV) is also included under this heading. The overall objective of EFSE is to foster economic development and prosperity in South East Europe through the sustainable provision of additional development finance via local financial intermediaries.

The overall objective of the **Green for Growth Fund** (former Southeast Europe Energy Efficient Fund) is to enhance energy efficiency and fostering renewable energies in South East Europe through the provision of dedicated financing to businesses and households via partnering with financial institutions and direct finance. **GEEREF** is an innovative fund providing global risk capital through private investment for energy efficiency and renewable energy projects in developing countries and economies in transition.

2.5 FINANCIAL ASSETS: LONG-TERM LOANS

EUR millions

	Note	31.12.2011	31.12.2010
Loans granted from the EU budget & ECSC	*2.5.1*	170	162
Loans granted from borrowed funds	*2.5.2*	41 230	11 478
Total		**41 400**	**11 640**

2.5.1 Loans granted from the European Union budget & the ECSC in Liquidation

EUR millions

	Loans with special conditions	ECSC housing loans	Total
Total at 31.12.2010	**140**	**22**	**162**
New loans	31	0	31
Repayments	(17)	(5)	(22)
Exchange differences	(4)	-	(4)
Changes in carrying amount	1	2	3
Total at 31.12.2011	**151**	**19**	**170**

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%.

2.5.2 Loans granted from borrowed funds

EUR millions

	MFA	Euratom	BOP	EFSM	ECSC in Liquidation	Total
Total at 31.12.2010	503	469	12 246	-	264	13 482
New loans	126	-	1 350	28 000	-	29 476
Repayments	(36)	(20)	(2 000)	-	-	(2 056)
Exchange differences	-	-	-	-	6	6
Changes in carrying amount	2	2	29	344	(4)	373
Total at 31.12.2011	595	451	11 625	28 344	266	41 281
Amount due < 1 year	5	-	-	-	46	51
Amount due > 1 year	**590**	**451**	**11 625**	**28 344**	**220**	**41 230**

The large increase in these amounts is due to the EFSM loans disbursed during 2011 and is mirrored by an increase in the EU's borrowings (see note **2.16**). For more information on borrowing and lending activities, see note **7**.

2.6 LONG-TERM RECEIVABLES & RECOVERABLES

EUR millions

	31.12.2011	31.12.2010
Member States	268	14
ECSC staff loans	7	9
Guarantees and deposits	11	14
Other	3	3
Total	**289**	**40**

Of the above receivables, EUR 273 million (2010: EUR 14 million) relate to non-exchange transactions. The large increase in long-term receivables from Member States concerns EAGF and rural development non-executed clearance of accounts decisions. These amounts are to be recovered in several instalments during 2012 and 2013, in the context of financial assistance granted to certain Member States. Amounts to be recovered in 2013 are included in the above table while amounts to be recovered in 2012 are included under short-term receivables (see note **2.11.1** below).

2.7 LONG-TERM PRE-FINANCING

EUR millions

	Note	31.12.2011	31.12.2010
Pre-financing	*2.7.1*	40 625	40 298
Prepaid expenditure	*2.7.2*	4 098	3 820
Total long-term pre-financing		**44 723**	**44 118**

2.7.1 Pre-financing

The timing of the recoverability or utilisation of the pre-financing governs whether it is disclosed as current or long-term pre-financing asset. 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 short–term pre-financing and therefore as current assets, the balance is long-term.

Guarantees received in respect of pre-financing:

These are guarantees that the European Commission in certain cases requests from beneficiaries 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 2011 the "nominal" value of guarantees received in respect of pre-financing amounted to EUR 1 330 million while the "on-going" value of those guarantees was EUR 1 083 million (2010: EUR 1 227 million and EUR 1 059 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 2011 totalled EUR 3.3 billion (2010: EUR 3.2 billion). This fund is a separate entity from the European Union and is not consolidated in these accounts – note **11.2.3**.

LONG-TERM PRE-FINANCING

EUR millions

Management type	31.12.2011	31.12.2010
Direct centralised management	1 219	1 695
Indirect centralised management	774	620
Decentralised management	697	441
Shared management	37 249	37 055
Joint management	686	487
Total Long-Term Pre-financing	**40 625**	**40 298**

The most significant long-term pre-financing amounts relate to Structural Actions for the 2007-2013 programming period: the regional development fund (ERDF), the social fund (ESF), the agricultural fund for rural development (EAFRD), the cohesion fund (CF) and the fisheries fund. 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 long-term 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.

A closer look at the evolution of pre-financing reveals an accelerated increase in the years 2007 to 2009, which coincides with the early years of the 2007-2013 programming period. That period witnessed the starting of new programmes and actions, and the subsequent support from the Commission in the form of pre-financing payments. The year 2011 marks a first decrease in the level of pre-financing, a trend which confirms that the increase witnessed in the early years of the 2007-2013 Financial Framework is a normal development linked to the spending profile of multiannual programmes. In fact in 2011, total pre-financing has decreased by 1.5% or EUR 743 million compared to 2010, an evolution related mainly to short-term shared management amounts (see note **2.12.1**). This decrease is however offset by an increase in prepaid expenditure, due to the recognition of new assets regarding aid scheme advance amounts reimbursed by Commission to the Member States (see below).

2.7.2 Prepaid expenditure

EUR millions

	31.12.2011	31.12.2010
Financial Engineering Instruments	3 378	3 820
Aid schemes	720	-
Total	**4 098**	**3 820**

Under the framework of the cohesion and rural development 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, guarantees or equity investments) set up and managed under the responsibility of the Member State. 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 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.

In parallel with the inclusion of FEIs on its balance sheet in 2010, the Commission also analysed similar schemes where advances are paid to Member States. It requested information from Member States on their utilisation of advances received from various aid schemes (state aid, market measures of EAGF) and contributions from the European Globalisation Adjustment Fund. However, at year-end 2010 sufficient information was not available from Member States to allow the Commission to make a reliable estimate of the open amounts at 31 December 2010. Information now indicates that these amounts would not have been material. Following continued work throughout 2011, the Commission is now in a position to better estimate these open advances based on information collected from Member States, therefore an asset is now included on the Commission balance sheet at 31 December 2011, split between long-term (EUR 720 million above) and short term (EUR 1 792 million, see note **2.12.2**), depending on when the advances are expected to be used. The recognition of this asset has the counterparty of reducing the 2011 expenditure by the same amount.

CURRENT ASSETS

2.8 INVENTORIES

EUR millions

Description	31.12.2011	31.12.2010
Scientific materials	78	71
Other	16	20
TOTAL	**94**	**91**

2.9 FINANCIAL ASSETS: AVAILABLE FOR SALE 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.

AVAILABLE FOR SALE ASSETS

EUR millions

	31.12.2011	31.12.2010
ECSC in Liquidation	1 463	1 283
BUFI investments	1 358	515
Risk Sharing Finance Facility	547	419
Loan Guarantee Instrument for TEN-T projects	97	111
European Chemicals Agency	151	-
Other	3	3
Total	**3 619**	**2 331**

Regarding the ECSC in liquidation amounts, all AFS investments are debt securities denominated in EUR and quoted in an active market. At 31 December 2011 debt securities (expressed at their fair value) reaching final maturity in the course of 2012 amount to EUR 481 million (2010: EUR 294 million).

While there have been acquisitions in both the Risk Sharing Finance Facility and the Loan Guarantee Instrument for TEN-T Projects (see also note **5.1.2**), the large increase from the previous year is due mainly to the increased amount of provisionally cashed fines in a specifically created fund managed by DG ECFIN (BUFI). Prior to 2010, these amounts would have been held in specific bank accounts – see note **2.13.2**, restricted cash.

2.10 FINANCIAL ASSETS: SHORT-TERM LOANS

These amounts represent mainly loans with remaining final maturities less than 12 months after the balance sheet date (see note **2.5.2** above for more details). Last year there was an amount of EUR 2 billion included here relating to a BOP loan to Hungary which was repaid in December 2011. Also included under this heading are term deposits of EUR 51 million, primarily relating to the European External Action Service and the Translation Centre for the Bodies of the European Union.

2.11 OTHER RECEIVABLES & RECOVERABLES

EUR millions

	Note	31.12.2011	31.12.2010
Current receivables	*2.11.1*	6 189	6 786
Sundry receivables	-	21	20
Accrued income and deferred charges	*2.11.2*	3 267	4 525
Total		**9 477**	**11 331**

The total above contains an estimated EUR 8 955 million (2010: EUR 11 009 million) relating to non-exchange transactions.

2.11.1 Current receivables

EUR millions

Account Group	At 31.12.2011			At 31.12.2010		
	Gross amount	Write down	Net Value	Gross amount	Write down	Net Value
Customers	379	(94)	285	207	(79)	128
Fines	3 369	(244)	3 125	4 584	(406)	4 178
Member States	4 243	(1 550)	2 693	4 011	(1 625)	2 386
Others	89	(3)	86	96	(2)	94
Total	**8 080**	**(1 891)**	**6 189**	**8 898**	**(2 112)**	**6 786**

Customers
These are recovery orders entered in the accounts at year-end as established entitlements to be recovered and not already included under other headings on the assets side of the balance sheet.

Fines
This concerns amounts to be recovered relating to fines issued by the Commission. Guarantees totalling EUR 3 012 million had been received for the fines outstanding at 31 December 2011 (2010: EUR 2 585 million) in respect of these receivables. It should be noted that EUR 209 million of the receivables were due for payment after 31 December 2011.

Receivables from Member States

EUR millions

	31.12.2011	31.12.2010
EAGF and Rural Development receivables		
EAGF	1 439	1 130
EAFRD	23	-
TRDI	37	19
SAPARD	142	146
Write-down	(771)	(814)
Total	**870**	**481**
VAT paid and recoverable	**41**	**46**
Own resources		
Established in the A account	29	81
Established in the separate account	1 263	1 285
Write-down	(779)	(811)
Other	114	391
Total	**627**	**946**
Other receivables from Member States		
Pre-financing recovery expected	963	561
Other	192	352
Total	**1 155**	**913**
Total	**2 693**	**2 386**

EAGF and Rural Development receivables
This item primarily covers the amounts owed by beneficiaries of EAGF 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
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.

2.11.2 Accrued income and deferred charges

EUR millions

	31.12.2011	31.12.2010
Accrued income	2 952	3 445
Deferred charges	296	1 061
Other	19	19
Total	**3 267**	**4 525**

The main amount under this heading is accrued income:

EUR millions

	31.12.2011	31.12.2010
Own resources	2 644	2 657
Agricultural assigned revenue Nov & Dec	111	72
EAGF: non-executed conformity correction decisions	-	520
Cohesion, Regional & Rural Development Funds: financial corrections	16	43
Other accrued income	181	153
Total accrued income	**2 952**	**3 445**

The large decrease in deferred charges is mainly due to an improvement in the accounting treatment of the funds transferred by the Member States into Financial Engineering Instruments which were yet to be declared to or reimbursed by the Commission at year-end. These amounts are now deducted from the accrued charges to which they relate.

Other accrued income is primarily late interest income, bank interest and interest on pre-financing.

2.12 SHORT-TERM PRE-FINANCING

EUR millions

	Note	31.12.2011	31.12.2010
Pre-financing	*2.12.1*	8 089	9 123
Prepaid expenditure	*2.12.2*	2 918	955
Total short-term pre-financing		**11 007**	**10 078**

2.12.1 Pre-financing

EUR millions

Management type	31.12.2011	31.12.2010
Direct centralised management	3 048	3 038
Indirect centralised management	3 037	2 368
Decentralised management	330	536
Shared management	761	2 177
Joint management	803	894
Implemented by other Institutions & Agencies	110	110
Total Short-Term Pre-financing	**8 089**	**9 123**

The decrease in short-term pre-financing under shared management is due to the significant advancement in the closure process of the programming period 2000-2006 (mostly rural development fund, regional development fund and cohesion fund). Although pre-financing instalments were paid in 2011 for new projects (programmes related to the period 2007-2013), they were classified under long-term assets as explained in note **2.7**.

2.12.2 Prepaid expenditure

EUR millions

	31.12.2011	31.12.2010
Financial Engineering Instruments	1 126	955
Aid Schemes	1 792	-
Total	**2 918**	**955**

As explained under note **2.7.2**, these amounts relate to payments made to Member States under the framework of the cohesion and rural develoment programmes 2007-2013, so as to reimburse amounts paid in advance to beneficiaries, but which have not yet been used at year-end. The above amounts are expected to be used during 2012.

2.13 CASH AND CASH EQUIVALENTS

EUR millions

	31.12.2011	31.12.2010
Unrestricted cash:		
Accounts with Treasuries & Central Banks	7 450	10 123
Current accounts	1 099	1 150
Imprest accounts	43	39
Transfers (cash in transit)	(5)	1
Short-term deposits and other cash equivalents	2 028	1 670
Total	**10 615**	**12 983**
Restricted cash	**8 320**	**9 080**
Total	**18 935**	**22 063**

2.13.1 Unrestricted cash

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

Amounts shown as short-term deposits relate primarily to monies managed by fiduciaries on behalf of the Commission for the purpose of implementing particular programmes funded by the EU budget. At year-end, EUR 118 million had been committed to, but not yet been drawn down by the other parties.

2.13.2 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**.

NON CURRENT LIABILITIES

2.14 PENSION AND OTHER EMPLOYEE BENEFITS

EUR millions

	31.12.2011	31.12.2010
Pensions – Staff	30 617	32 801
Pensions – others	777	840
Joint Sickness Insurance Scheme	3 441	3 531
Total	**34 835**	**37 172**

2.14.1 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 a charge to 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 2011 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:

Actuarial Assumptions	31.12.2011	31.12.2010
Nominal discount rate	4.9%	4.6%
Expected inflation rate	1.8%	2.1%
Real discount rate	3.0%	2.4%
Probability of marriage: Man/Woman	84%/38%	84%/38%
General Salary Growth/pension revaluation	0%	0%
2008 International Civil Servants Life Table	Yes	Yes

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

Movement in Gross Employee Benefits liability

EUR millions

	Staff pension liability	Sickness Insurance
Gross Liability at previous year-end	36 639	3 791
Service/normal cost	1 255	169
Interest cost	1 716	180
Benefits paid	(1 187)	(112)
Actuarial gains	(4 226)	(317)
Change due to newcomers	36	0
Gross Liability at year-end	34 233	3 711
Pension co-efficient liability	834	N/A
Deduction of taxes on pensions	(4 450)	N/A
Plan assets	0	(270)
Net liability at year-end	**30 617**	**3 441**

2.14.2 Pensions – Others

This refers to the liability relating to the pension obligation 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.

2.14.3 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 3 711 million and plan assets of EUR 270 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.

2.15 LONG-TERM PROVISIONS

EUR millions

	Amount at 31.12.2010	Additional provisions	Unused amounts reversed	Amounts used	Transfer to short-term	Change in estimation	Amount at 31.12.2011
Legal cases	306	95	(29)	(4)	0	0	368
Nuclear site dismantling	905	0	0	(8)	(29)	137	1 005
Financial	86	41	0	0	(30)	3	100
Other	20	4	(2)	0	0	0	22
Total	**1 317**	**140**	**(31)**	**(12)**	**(59)**	**140**	**1 495**

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 ongoing legal cases. The largest portion concerns court cases pending at year-end in relation to financial corrections for EAGF expenditure and other court cases concerning agricultural expenditure.

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. Long-term financial provisions are discounted to their net present value (using the Euro Swap annual rate).

2.16 LONG-TERM FINANCIAL LIABILITIES

EUR millions

	Note	31.12.2011	31.12.2010
Long-term borrowings	*2.16.1*	41 200	11 445
Elimination Guarantee Fund*	*2.4.1*	(21)	-
Total		**41 179**	**11 445**

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

2.16.1 Long-term borrowings

EUR millions

	MFA	Euratom	BOP	EFSM	ECSC in Liquidation	Total
Total at 31.12.2010	503	469	12 246	0	231	13 449
New borrowings	126	0	1 350	28 000	0	29 476
Repayments	(36)	(20)	(2 000)	0	0	(2 056)
Exchange differences	0	0	0	0	6	6
Changes in carrying amount	2	2	29	344	(1)	376
Total at 31.12.2011	595	451	11 625	28 344	236	41 251
Amount due < 1 year	5	0	0	0	46	51
Amount due > 1 year	**590**	**451**	**11 625**	**28 344**	**190**	**41 200**

This heading includes borrowings due by the European Union maturing in over one year. Borrowings include debts evidenced by certificates amounting to EUR 41 011 million (2010: EUR 13 211 million). The changes in carrying amount correspond to the change in accrued interests. For more information on borrowing and lending activities, see note **7**.

2.17 OTHER LONG-TERM LIABILITIES

EUR millions

	31.12.2011	31.12.2010
Finance Leasing debts	1 603	1 672
Buildings paid for in instalments	367	382
Other	89	50
Total	**2 059**	**2 104**

CURRENT LIABILITIES

2.18 SHORT-TERM PROVISIONS

EUR millions

	Amount at 31.12.2010	Additional provisions	Unused amounts reversed	Amounts used	Transfers from long term	Change in estimation	Amount at 31.12.2011
Legal cases	29	11	(18)	(5)	0	0	17
Nuclear site dismantlement	21	0	0	(21)	29	0	29
Financial	140	27	(2)	(33)	30	3	165
Other	24	56	(1)	(20)	0	0	59
Total	**214**	**94**	**(21)**	**(79)**	**59**	**3**	**270**

This heading includes the portion of provisions which fall due for payment in less than one year's time.

2.19 SHORT-TERM FINANCIAL LIABILITIES

This heading relates to borrowings (see note **2.16**) that mature during the 12 months following the balance sheet date.

2.20 PAYABLES

EUR millions

	Note	31.12.2011	31.12.2010
Current portion of long-term liabilities	*2.20.1*	81	78
Current payables	*2.20.2*	22 211	17 615
Sundry payables	-	100	97
Accrued charges and deferred income	*2.20.3*	69 081	66 739
Total		**91 473**	**84 529**

2.20.1 Current portion of long-term liabilities

EUR millions

	31.12.2011	31.12.2010
Finance leasing liabilities	66	65
Other	15	13
Total	**81**	**78**

2.20.2 Current payables

EUR millions

Type	31.12.2011	31.12.2010
Member States	22 200	17 035
Suppliers and other	1 511	1 292
Estimated non-eligible amounts and pending pre-payments	(1 500)	(712)
Total	**22 211**	**17 615**

Current 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 5.8 billion for ESF and EUR 14 billion for ERDF and CF).

Suppliers and other
Included under this heading are 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 1 billion).

2.20.3 Accrued charges and deferred income

EUR millions

	31.12.2011	31.12.2010
Accrued charges	68 577	66 326
Deferred income	490	407
Amounts related to consolidated entities	14	6
Total	**69 081**	**66 739**

The split of accrued charges is as follows:

EUR millions

	31.12.2011	31.12.2010
Agriculture and Rural Development:		
EAGF: Expenses 16/10 to 31/12	33 774	33 015
EAGF: Direct Aid	10 701	10 703
EAGF: Sugar restructuring	224	400
EAGF: Other	23	(303)
EAFRD	12 127	10 792
Total	**56 849**	**54 607**
Structural Actions:		
EFF	56	116
ERDF & Cohesion Fund	4 791	4 894
ISPA	172	74
ESF	1 687	2 182
Total	**6 706**	**7 266**
Other accrued charges:		
R&D	1 157	1 267
Other	3 865	3 186
Total	**5 022**	**4 453**
Total accrued charges	**68 577**	**66 326**

The large amount of deferred income at 31 December 2011 is due to the advance payment of own resources contributions by two Member States in 2011.

NET ASSETS & RESERVES

2.21 RESERVES

EUR millions

	31.12.2011	31.12.2010
Fair value reserve	**(108)**	**(61)**
Other reserves:		
Guarantee Fund	1 911	1 746
Revaluation reserve	57	57
Other	1 748	1 742
Total	**3 716**	**3 545**
Total	**3 608**	**3 484**

2.21.1 Fair value reserve

In accordance with the accounting rules, the adjustment to fair value of available-for-sale assets is accounted for through the fair value reserve. In 2011 a net EUR 24 million of accumulated fair value decreases have been taken out of the fair value reserve and recognised in the economic outturn account relating to available-for-sale assets.

Included in the fair value reserve at year-end is EUR 87 million of decreases in fair value relating to Greek government bonds held by the EU (nominal value EUR 129 million). However, it should be noted that these bonds were exchanged in early 2012 for new bonds, with similar terms but not falling under the scope of the Private Sector Involvement (PSI) debt restructuring. The result was that all amounts due for repayment on 20 March 2012 (EUR 39 million) and 18 May (EUR 15.7 million) were repaid in full and on schedule. Please see note **1.5.5** for further details on the fair value accounting of financial assets.

2.21.2 Other reserves

Guarantee Fund
See also note **2.4.1** concerning the operation of the Guarantee Fund. This reserve reflects the 9% target amount of the outstanding amounts guaranteed by the Fund that is required to be kept as assets.

Revaluation reserve
This reserve comprises the revaluation of certain Commission land and buildings made prior to 2005.

Other reserve
The amount relates primarily to the ECSC in liquidation reserve for the assets of the Research Fund for Coal and Steel. This reserve was created in the context of the winding-up of the ECSC.

2.22 AMOUNTS TO BE CALLED FROM MEMBER STATES

EUR millions

	Amount
Amounts to be called from Member States at 31 December 2010	**30 931**
Return of 2010 budget surplus to Member States	4 539
Movement in Guarantee Fund reserve	165
Other reserve movements	34
Economic outturn (surplus) for the year	1 789
Total amounts to be called from Members States at 31 December 2011	**37 458**
Split between:	
Employee benefits	34 835
Other amounts	2 623

This amount represents that part of the expenses already incurred by the Commission up to 31 December 2011 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
Short-term: amounts to be paid in 2012	1 335
Long-term: amounts to be paid after 2012	33 500
Total employee benefits liability at 31.12.2011	**34 835**

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

3. NOTES TO THE ECONOMIC OUTTURN ACCOUNT

3.1 OWN RESOURCE AND CONTRIBUTIONS REVENUE

EUR millions

	Note	2011	2010
Own resource revenue:	*3.1.1*		
GNI resources		88 442	91 178
VAT resources		14 763	12 517
Traditional own resources:			
Custom duties		*16 528*	*16 065*
Sugar levies		*161*	*150*
Total traditional own resources		16 689	16 215
Budgetary adjustments	*3.1.2*	4 533	2 135
Contributions of third countries (incl. EFTA countries)		250	283
Total		**124 677**	**122 328**

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, 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 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, impacting the reliability of amounts transferred to the EU budget under Traditional Own Resources (TOR). A refund of EUR 169 million (gross, EUR 126 million net) claimed by Belgium is currently pending, awaiting the result of further audits and controls on the correctness of the amounts of Belgian TOR credited to the Commission's account.

3.1.2 Budgetary adjustments

The budgetary adjustments include the budget surplus from 2010 (EUR 4 539 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 2011.

3.2 OTHER OPERATING REVENUE

EUR millions

	Note	2011	2010
Fines	*3.2.1*	868	3 077
Agricultural levies	*3.2.2*	65	25
Recovery of expenses:	*3.2.3*		
Direct centralised management		76	49
Indirect centralised management		17	11
Decentralised management		106	71
Joint management		3	-
Shared management		845	1 776
Total		1 047	1 907
Revenue from administrative operations:	*3.2.4*		
Staff		1 141	1 073
Property, plant and equipment related revenue		94	13
Other administrative revenue		119	121
Total		1 354	1 207
Miscellaneous operating revenue:	*3.2.5*		
Adjustments/provisions		59	157
Exchange gains		476	460
Other		1 507	1 355
Total		2 042	1 972

Total		**5 376**	**8 188**

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.

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 does not, however, 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. Recoveries of pre-financing amounts are also not included as revenue, in accordance with the EU accounting rules.

The main amount, EUR 845 million, relates to shared management and is made up mainly of EUR 721 million concerning the European Agricultural Guarantee Fund (EAGF) and EUR 109 million for Structural Actions.

(a) Agriculture: EAGF

In the framework of the European Agricultural Guarantee Fund (EAGF), amounts accounted for as revenue of the year under this heading are EUR 721 million, made up as follows:

- conformity corrections decided during the year, EUR 686 million;
- fraud and irregularities EUR 35 million: being reimbursements declared by Member States and recovered during the year of EUR 174 million minus the decrease in the outstanding amounts declared by Member States to be recovered at year-end concerning fraud and irregularities of EUR 139 million (EUR 991 million at year-end 2011 compared to EUR 1 130 million at year-end 2010) – see also note **2.11.1**.

(b) Structural Actions

- The recovery of expenditure under the Structural actions included under this heading amounted to EUR 109 million (2010: EUR 279 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 127 million, the variation (increase) of the accrued income at year-end for EUR 28 million (offset by a correction of EUR 46 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. 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 535 million (2010: EUR 430 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 94 million (2010: EUR 23 million).

3.3 ADMINISTRATIVE EXPENSES

EUR millions

	2011	2010
Staff expenses	5 416	5 171
Depreciation and impairment	412	384
Other administrative expenses	3 148	3 059
Total	**8 976**	**8 614**

Included under this heading are expenses of 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

Description	Future amounts to be paid			
	< 1 year	1- 5 years	> 5 years	Total
Buildings	318	1 203	790	2 311
IT materials and other equipment	22	35	1	58
Total	**340**	**1 238**	**791**	**2 369**

3.4 OPERATING EXPENSES

EUR millions

	Note	2011	2010
Primary operating expenses:	*3.4.1*		
Direct centralised management		10 356	10 123
Indirect centralised management		4 119	4 045
Decentralised management		766	933
Shared management		104 067	85 432
Joint management		1 714	1 868
Total		**121 022**	**102 401**
Other operating expenses:	*3.4.2*		
Adjustments/provisions		251	68
Exchange losses		382	439
Other		2 123	856
Total		**2 756**	**1 363**
Total		**123 778**	**103 764**

The significant increase in operating expenses is due to shared management where the increased activities related to the 2007-2013 programming period, resulted in an increased recognition of expenditure in 2011. The main variations are noted in areas of cohesion and regional development (EUR 19 billion). Given the relatively stable nature of operating revenue, this large increase in operating expenditure has resulted in an operating deficit in 2011 of EUR 2.7 billion.

3.4.1 Primary operating expenses

The European Commission'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).

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.

Research and Development costs

EUR millions

	2011	2010
Research costs	327	295
Non-capitalised development costs	145	157
Recognised as an expense	**472**	**452**

3.5 FINANCIAL REVENUE

EUR millions

	2011	2010
Dividend income	**5**	**1**
Interest income:		
On pre-financing	40	42
On late payments	89	382
On available for sale assets	113	100
On loans	921	394
On cash & cash equivalents	132	110
Other	5	2
Total	**1 300**	**1 030**
Other financial income:		
Realised gain on sale of financial assets	3	11
Other	178	83
Total	**181**	**94**
Present value adjustments	**1**	**1**
Exchange gains	**4**	**52**
Total	**1 491**	**1 178**

3.6 FINANCIAL EXPENSES

EUR millions

	2011	2010
Interest expenses:		
Leasing	91	93
On borrowings	903	380
Other	30	23
Total	**1 024**	**496**
Other financial expenses:		
Adjustments to financial provisions	74	60
Financial charges on budgetary instruments	47	55
Impairment losses on AFS financial assets	12	5
Realised loss on sale of financial assets	5	1
Other	144	42
Total	**282**	**163**
Exchange losses	**49**	**2**
Total	**1 355**	**661**

3.7 SHARE OF NET DEFICIT OF JOINT VENTURES & ASSOCIATES

In accordance with the equity method of accounting, the Commission includes in its economic outturn account 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 2011 EUR 130 391 million (2010: EUR 129 597 million) revenue from non-exchange transactions have been recognised in the economic outturn account.

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	868	0	0	0	0	0	868
Agricultural levies	65	0	0	0	0	0	65
Recovery of expenses	906	138	3	0	2	(2)	1 047
Revenue from administrative operations	142	2	993	0	664	(447)	1 354
Miscellaneous operating revenue	2 502	98	580	7	132	(1 277)	2 042
OTHER OPERATING REVENUE	**4 483**	**238**	**1 576**	**7**	**798**	**(1 726)**	**5 376**
Administrative expenses:							
Staff expenses	(2 171)	(325)	(1 250)	0	(1 702)	32	(5 416)
Intangible assets & PPE related expenses	(109)	(1)	(121)	0	(181)	0	(412)
Other administrative expenses	(955)	(286)	(858)	0	(1 624)	575	(3 148)
Operating expenses:	**(3 235)**	**(612)**	**(2 229)**	**0**	**(3 507)**	**607**	**(8 976)**
Direct centralised management	(7 338)	(3 681)	(179)	0	0	842	(10 356)
Indirect centralised management	(3 423)	(682)	(32)	0	0	18	(4 119)
Decentralised management	(210)	(556)	0	0	0	0	(766)
Shared management	(103 988)	(80)	1	0	0	0	(104 067)
Joint management	(169)	(1 545)	0	0	0	0	(1 714)
Other operating expenses	(2 420)	(134)	(399)	(52)	(10)	259	(2 756)
	(117 548)	**(6 678)**	**(609)**	**(52)**	**(10)**	**1 119**	**(123 778)**
TOTAL OPERATING EXPENSES	**(120 783)**	**(7 290)**	**(2 838)**	**(52)**	**(3 517)**	**1 726**	**(132 754)**
Net operating expenses	**(116 300)**	**(7 052)**	**(1 262)**	**(45)**	**(2 719)**	**0**	**(127 378)**
Own resource and contributions revenue							124 677
Deficit from operating activities							**(2 701)**
Net financial revenue							136
Movement in pension & other employee benefits liability							1 212
Share of associates/joint ventures deficit							(436)
Economic outturn for the year							**(1 789)**

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	7	858	0	0	0	0	0	0
Agricultural levies	0	0	0	0	65	0	0	0	0
Recovery of expenses	0	4	0	23	807	7	1	5	24
Revenue from admin operations	0	14	0	0	0	12	0	39	0
Miscellaneous operating revenue	4	54	161	41	121	207	40	723	9
OTHER OPERATING REVENUE	**4**	**79**	**1 019**	**64**	**993**	**226**	**41**	**767**	**33**
Administrative expenses:	**(66)**	**(199)**	**(89)**	**(110)**	**(127)**	**(374)**	**(119)**	**(402)**	**(133)**
Staff expenses	(60)	(143)	(83)	(84)	(106)	(255)	(86)	(231)	(107)
Intangible assets & PPE expenses	0	(16)	0	(1)	0	(13)	(1)	(4)	0
Other administrative expenses	(6)	(40)	(6)	(25)	(21)	(106)	(32)	(167)	(26)
Operating expenses:	**(66)**	**(1 116)**	**(1 492)**	**(11 044)**	**(57 063)**	**(1 427)**	**(256)**	**(4 207)**	**(1 251)**
Centralised direct management	(66)	(665)	0	(148)	(30)	(802)	(239)	(2 739)	(1 230)
Centralised indirect management	0	(313)	0	(2)	0	(501)	(1)	(1 369)	(14)
Decentralised management	0	0	0	(29)	(5)	0	0	0	0
Shared management	0	0	0	(10 841)	(56 883)	0	0	0	0
Joint management	0	(94)	0	(6)	0	(68)	0	0	0
Other operating expenses	0	(44)	(1 492)	(18)	(145)	(56)	(16)	(99)	(7)
TOTAL OPERATING EXPENSES	**(132)**	**(1 315)**	**(1 581)**	**(11 154)**	**(57 190)**	**(1 801)**	**(375)**	**(4 609)**	**(1 384)**
NET OPERATING EXPENSES	**(128)**	**(1 236)**	**(562)**	**(11 090)**	**(56 197)**	**(1 575)**	**(334)**	**(3 842)**	**(1 351)**

	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	3	868
Agricultural levies	0	0	0	0	0	0	0	0	65
Recovery of expenses	0	5	0	15	0	7	7	1	906
Revenue from admin operations	40	0	1	0	0	1	9	26	142
Miscellaneous operating revenue	70	10	206	(2)	1	232	359	266	2 502
OTHER OPERATING REVENUE	**110**	**15**	**207**	**13**	**1**	**240**	**375**	**296**	**4 483**
Administrative expenses:	**(346)**	**(60)**	**(196)**	**(81)**	**(94)**	**(204)**	**(347)**	**(288)**	**(3 235)**
Staff expenses	(245)	(39)	(134)	(65)	(42)	(107)	(223)	(161)	(2 171)
Intangible assets & PPE expenses	(26)	0	(7)	0	(2)	(1)	(26)	(12)	(109)
Other administrative expenses	(75)	(21)	(55)	(16)	(50)	(96)	(98)	(115)	(955)
Operating expenses:	**(194)**	**(764)**	**(59)**	**(35 821)**	**(15)**	**(1 447)**	**(631)**	**(695)**	**(117 548)**
Centralised direct management	(57)	(246)	(24)	(45)	(15)	(163)	(440)	(429)	(7 338)
Centralised indirect management	0	0	0	0	0	(1 174)	(49)	0	(3 423)
Decentralised management	0	0	0	(176)	0	0	0	0	(210)
Shared management	0	(514)	0	(35 600)	0	0	0	(150)	(103 988)
Joint management	0	0	0	0	0	(1)	0	0	(169)
Other operating expenses	(137)	(4)	(35)	0	0	(109)	(142)	(116)	(2 420)
TOTAL OPERATING EXPENSES	**(540)**	**(824)**	**(255)**	**(35 902)**	**(109)**	**(1 651)**	**(978)**	**(983)**	**(120 783)**
NET OPERATING EXPENSES	**(430)**	**(809)**	**(48)**	**(35 889)**	**(108)**	**(1 411)**	**(603)**	**(687)**	**(116 300)**

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	20	0	9	106	3	138
Revenue from admin operations	2	0	0	0	0	2
Miscellaneous operating revenue	10	0	90	(1)	(1)	98
OTHER OPERATING REVENUE	**32**	**0**	**99**	**105**	**2**	**238**
Administrative expenses:	**(99)**	**(71)**	**(331)**	**(78)**	**(33)**	**(612)**
Staff expenses	(23)	(65)	(167)	(47)	(23)	(325)
Intangible assets & PPE expenses	(1)	0	0	0	0	(1)
Other administrative expenses	(75)	(6)	(164)	(31)	(10)	(286)
Operating expenses:	**(3 381)**	**(8)**	**(1 217)**	**(958)**	**(1 114)**	**(6 678)**
Direct centralised management	(1 699)	(5)	(833)	(547)	(597)	(3 681)
Indirect centralised management	(627)	0	(18)	(37)	0	(682)
Decentralised management	(209)	0	(37)	(310)	0	(556)
Shared management	(80)	0	0	0	0	(80)
Joint management	(638)	(3)	(326)	(63)	(515)	(1 545)
Other operating expenses	(128)	0	(3)	(1)	(2)	(134)
TOTAL OPERATING EXPENSES	**(3 480)**	**(79)**	**(1 548)**	**(1 036)**	**(1 147)**	**(7 290)**
NET OPERATING EXPENSES	**(3 448)**	**(79)**	**(1 449)**	**(931)**	**(1 145)**	**(7 052)**

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	1	0	0	0	1	0	3
Revenue from admin operations	0	7	0	835	0	52	0	99	0	993
Miscellaneous operating revenue	(1)	8	1	30	0	35	0	43	464	580
OTHER OPERATING REVENUE	**0**	**15**	**1**	**866**	**0**	**87**	**0**	**143**	**464**	**1 576**
Administrative expenses:	**(121)**	**(57)**	**(188)**	**(1 299)**	**(86)**	**(58)**	**(11)**	**(444)**	**35**	**(2 229)**
Staff expenses	(79)	(44)	(159)	(526)	(70)	(44)	(10)	(353)	35	(1 250)
Intangible assets & PPE expenses	(2)	(1)	0	(114)	0	(1)	0	(3)	0	(121)
Other administrative expenses	(40)	(12)	(29)	(659)	(16)	(13)	(1)	(88)	0	(858)
Operating expenses:	**(134)**	**(13)**	**(1)**	**(24)**	**(41)**	**(2)**	**0**	**(16)**	**(378)**	**(609)**
Direct centralised management	(102)	(13)	0	(19)	(41)	(3)	0	(1)	0	(179)
Indirect centralised management	(32)	0	0	0	0	0	0	0	0	(32)
Shared management	0	0	0	0	0	1	0	0	0	1
Other operating expenses	0	0	(1)	(5)	0	0	0	(15)	(378)	(399)
TOTAL OPERATING EXPENSES	**(255)**	**(70)**	**(189)**	**(1 323)**	**(127)**	**(60)**	**(11)**	**(460)**	**(343)**	**(2 838)**
NET OPERATING EXPENSES	**(255)**	**(55)**	**(188)**	**(457)**	**(127)**	**27**	**(11)**	**(317)**	**121**	**(1 262)**

4. NOTES TO THE CASHFLOW TABLE

4.1 PURPOSE AND PREPARATION OF THE CASHFLOW TABLE

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 table 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 European Union'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 table 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 DISCLOSURES

CONTINGENT ASSETS

EUR millions

	31.12.2011	31.12.2010
Guarantees received:		
Performance guarantees	300	301
Other guarantees	34	30
Other contingent assets	19	8
Total Contingent Assets	**353**	**339**

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

CONTINGENT LIABILITIES

EUR millions

	Note	31.12.2011	31.12.2010
Guarantees given	5.1	24 394	22 171
Fines – appeals to the Court of Justice	5.2	8 951	9 627
EAGF, rural development, pre-accession – court judgements pending	5.3	2 345	1 772
Cohesion policy – court judgements pending	5.4	318	-
Amounts relating to legal cases and other disputes	5.5	251	458
Other contingent liabilities		2	4
Total Contingent Liabilities		**36 261**	**34 032**

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

5.1 GUARANTEES GIVEN

5.1.1 On loans granted by the European Investment Bank (EIB) from its own resources

EUR millions

	31.12.2011	31.12.2010
65% guarantee	20 362	18 217
70% guarantee	1 992	2 281
75% guarantee	534	695
100% guarantee	724	789
Total	**23 612**	**21 982**

The EU budget guarantees loans signed and granted by the EIB from its own resources to third countries at 31 December 2011 (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%, 70%, 75% or 100%. Where the ceiling is not reached, the EU guarantee covers the full amount. At 31 December 2011 the amount outstanding totalled EUR 23 612 million and this, therefore, is the maximum exposure faced by the EU. At 31 December 2011, about 83% of EIB lending operations (sovereign and sub-sovereign lending operations) are covered by a comprehensive guarantee, while on the remaining operations the EIB benefits from a political risk coverage only.

5.1.2 Other guarantees given

EUR millions

	31.12.2011	31.12.2010
Risk Sharing Finance Facility (RSFF)	726	161
Loan Guarantee Instrument for Ten-T Projects (LGTT)	39	11
MEDA: Moroccan guarantees	17	17
Total	**782**	**189**

Risk Sharing Finance Facility (RSFF)

Under Risk Sharing Finance Facility (RSFF), the Commission's contribution 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 2011 the Commission had contributed EUR 776 million to the RSFF. This has been invested by the EIB in bonds (fair value of EUR 547 million at 31 December 2011) and term deposits (EUR 240 million). The amount included as a contingent liability above, EUR 726 million, represents the estimated maximum loss at 31 December 2011 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 (LGTT) 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 2011 the Commission had contributed EUR 155 million to the LGTT. This has been invested by the EIB in bonds (fair value of EUR 97 million at 31 December 2011) and term deposits (EUR 57 million). At end 2011, EUR 519 million of loans have been signed and are thus covered by the guarantee. The amount included as a contingent liability, EUR 39 million, represents the estimated maximum loss at 31 December 2011 that the Commission would suffer in case of defaults on loans given by the EIB within the framework of the LGTT operations. This represents 7.5% 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.

The assets of the RSFF and LGTT instruments are included on the Commission's balance sheet as short-term Available-for-sale assets (see note **2.9**) and cash (note **2.13**).

MEDA

As part of the MEDA programme, the Commission created a guarantee mechanism through a specific Fund, which will benefit two Moroccan organisations, namely the Caisse Centrale de Garantie and the Fonds Dar Ad-Damane. As at 31 December 2011, EUR 17 million fell under the Commission guarantee.

5.2 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 for the year and also as a contingent liability to reflect the uncertainty of the Commission's title to these amounts.

5.3 COURT JUDGEMENTS PENDING: 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.

5.4 COHESION ACTIONS – LEGAL CASES PENDING

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.

5.5 AMOUNTS RELATED TO LEGAL CASES AND OTHER DISPUTES

This heading relates to actions for damages currently being brought against the Commission, 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.

OTHER SIGNIFICANT DISCLOSURES

COMMITMENTS AGAINST APPROPRIATIONS NOT YET CONSUMED

EUR millions

	31.12.2011	31.12.2010
Commitments against appropriations not yet consumed	165 236	155 642

The budgetary RAL ("Reste à Liquider") 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 2011 the budgetary RAL totalled EUR 207 443 million. The amount disclosed above is this budgetary RAL less related amounts that have been included as expenses in the 2011 economic outturn account.

SIGNIFICANT LEGAL COMMITMENTS

EUR millions

	31.12.2011	31.12.2010
Structural Operations	142 916	210 638
Protocol with Mediterranean countries	264	263
Fisheries agreements	37	130
Galileo programme	320	513
GMES programme	400	390
TEN-T	3 416	3 530
Other contractual commitments	4 493	3 920
Total	**151 846**	**219 384**

These commitments originated because the Commission decided to enter 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 European Commission 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)
Cohesion policy funds	347 550	347 542	240 438	107 104	107 112
Natural Resources	100 549	100 545	69 818	30 727	30 731
Instrument for Pre-Accession Assistance	11 259	8 162	6 186	1 976	5 073
Total	459 358	456 249	316 442	139 807	**142 916**

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 8 013 million.

Other contractual commitments

The amounts included under this disclosure correspond to amounts committed to be paid during the term of the contracts. The largest amount included here is EUR 2 572 million relating to procurement arrangements of the Fusion for Energy Agency in the context of ITER project. The next most significant amount is EUR 438 million relating to building contracts of the Parliament.

6. FINANCIAL CORRECTIONS AND RECOVERIES

6.1 INTRODUCTION

This note provides an overview of the correction of errors and irregularities detected, in particular in that part of the EU budget that is implemented under the shared management mode (i.e. some 80% of the total budget). Under shared management, the Commission relies on Member States for the implementation of EU programmes i.e. the EU contribution is paid to the Member States, generally to a specific paying agency, which is then responsible for the payments made to beneficiaries. As a result, Member States are the primary responsible for the prevention, detection and correction of errors and irregularities committed by the beneficiaries, while the European Commission ensures an overall supervisory role (i.e. verifying the effective functioning of Member States' management and control systems).

This note only covers financial corrections and recoveries effected at EU level. The corrections effected by Member States following their own audits 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 are however requested to provide the Commission with updated information on withdrawals, recoveries and pending recoveries of Structural Funds, and to separately identify EU corrections in the reporting related to the 2007-2013 period to avoid an overlap risk. This information is however not disclosed below for reliability reasons since doubts remain as to the quality and completeness of data submitted by some Member States and/or for some programmes, as identified in the preliminary findings of EU audits on recoveries carried out in Member States.

6.1.1 Financial corrections

Financial corrections are the main tool used for the correction of errors and irregularities in the context of shared management. Financial corrections are made by the European Commission so as to exclude from EU funding expenditure that is not in accordance with applicable rules and regulations. Financial corrections may also be applied following the detection of serious deficiencies in the management and control systems of Member States. The final objective of this correction mechanism is to ensure that all expenditure declared by the Member State (i.e. on the basis of which the EU contribution is paid) is legal and regular. The issuance of a recovery order by the Commission to recover amounts unduly paid is just one of the means of implementation of financing corrections.

The processing of financial corrections follows these three main steps:

*(1) Financial corrections **in progress**:*
The estimate of this amount is established as follows:
- Under **Agriculture and Rural Development**, the amount of financial corrections in progress is based on an estimate of the amount of expenditure which is likely to be excluded from EU financing by future conformity decisions. Since EAGF corrections are decided per financial year of expense, it is possible to calculate the average of financial corrections per financial year closed, and to extrapolate this percentage to more recent financial years for which controls are still ongoing. The reliability of this method is continuously assessed by comparing the estimate amount with the results of the conformity audits completed in the years concerned.
- Under **Cohesion Policy**, the amount disclosed under financial corrections **in progress** is based on audit findings of the Commission and those of the Court of Auditors or OLAF, all of which are followed up by the relevant Directorate General through on-going contradictory procedures with the concerned Member States. This is a best and prudent estimate, taking into account the state of play of the follow up of the audits and the issuance of final position letters or pre-suspension letters at 31 December 2011. This amount will certainly be subject to change following the contradictory procedures, under which Member States are given the opportunity to present further evidence to support their claims.

*(2) Financial correction **decided/confirmed**:*
The amount of the financial correction is established with certainty and is definitive, either "**decided**" through a Commission decision, or "**confirmed**" (i.e. accepted) by the Member State. In the area of **Agriculture and Rural Development** for the 2007-2013 period, the EAGF (i.e. European Agricultural Guarantee Fund) and the EAFRD (i.e. European Agricultural Fund for Rural Development) have replaced the EAGGF (i.e. European Agricultural Guidance and Guarantee Fund 2000-2006). Financial corrections' decisions are mainly launched as a result of the verification of the expenditure declared by the Member States that is subject to following clearance of accounts procedures:
- An annual financial clearance decision is adopted by the Commission to formally accept the paying agencies' annual accounts on the basis of management verifications and certifications, which also

includes a financial clearance decision for non-respect of payment deadlines. As a result financial corrections may be established for payments that do not respect legal or regulatory deadlines;
- A multi-annual conformity clearance decision is adopted by the Commission on the conformity of the expenditure declared by Member States with applicable EU rules and regulations.
In the area of **Cohesion Policy,** financial corrections decided/confirmed are the result of EU controls and audits by the Commission, the European Court of Auditors or OLAF.

*(3) Financial corrections **implemented**:*
In the case of the **EAGF**, financial corrections are always **implemented** by deduction in the monthly declarations. For **Rural Development** financial corrections are implemented by the issue of recovery orders.
Financial corrections under **Cohesion Policy** are **implemented** as follows:
(a) if the Member State disagrees with the correction required or proposed by the Commission, following a formal contradictory procedure with the Member State that includes the suspension of payments to the programme; in this case, the Commission has three months from the date of a formal hearing with the Member State (six months for 2007-2013 programmes) to adopt a formal financial correction decision and issue a **recovery order** to obtain repayment from the Member State. These cases lead to a net reduction of the EU contribution to the specific operational programme affected by the financial correction (no possibility for the Member State to re-use the corrected amount for other eligible operations);
(b) if the correction is accepted, the Member State deducts (withdraws) this amount from a subsequent payment claim to the Commission, before recovery proceedings are completed at national level (**withdrawal),** or once the recovery proceedings are completed at national levels and amounts are effectively recovered from the beneficiary (**recovery at national level**); in both cases (withdrawal or recovery at national level deducted by the Member State from a subsequent payment claim), the replacement of irregular expenditure by other eligible expenditure is allowed by the applicable regulations and can be re-used for other eligible operations, which have incurred regular expenditure. In these cases there is no impact in the Commission's accounts, as the level of EU funding to a specific programme is not reduced. The EU's financial interests are thus protected against irregularities and fraud. The validation of the recovery order or of the payment request, depending on the case, by the authorising officer in the accounting system is a necessary step to establish the implementation of financial corrections. In the case of a recovery order, implementation is recognised at issue and before the cashing since recovery orders concerning financial corrections are issued against Member States, and are always paid before or at due date, or compensated with subsequent payments.
(c) At programme closure when no re-use of the funds is possible by the Member State, the amount of the financial correction is either **deducted** from the final cost claim submitted by the Member State or **decommitted** by the Commission.

6.1.2 Recoveries
Recovery of amounts is a means of implementing financial corrections that merit a separate disclosure given that it concerns actual return of cash to the budget (or offsetting).
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 Member State. 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.

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 in the economic outturn account. 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 not disclosed in this note, which only presents the recoveries established 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.

6.1.3 Suspensions and interruptions of payments
In accordance with sector legislation the Commission may also:
- **interrupt** the payment deadline for a maximum period of 6 months for 2007-13 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;
(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 both 2000-06 and 2007-13 programmes in the following three cases:

(a) 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) Expenditure in a certified statement of expenditure is linked to a serious irregularity which has not been corrected; or
(c) 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 impose a financial correction.

6.1.4 Other management types

Concerning the part of the EU budget that is managed under the direct management mode, expenditure that is not in accordance with applicable rules and regulations is either the subject of a recovery order established by the Commission or deducted from the subsequent cost statement. If the deduction is directly made by the beneficiary in the cost statement, the information cannot be registered in the Commission's accounting system. The recovery of amounts unduly paid under the decentralised and indirect centralised management modes is the responsibility of Member States, third countries or agencies. The joint management mode applies also corrective tools that are defined in the agreements concluded with international organisations.

Note that all figures are rounded into millions of Euros. It should be noted that due to the rounding of figures, some financial figures in the tables may not add up. Amounts shown as 0 represent figures of less than EUR 500 000. Amounts that equal to zero are shown as a dash (-).

6.2 SUMMARY TABLES

Financial corrections and recoveries decided/confirmed in 2011

EUR millions

	Note	2011	2010
Financial corrections:			
Agriculture and Rural Development	*6.3.1*	733	1 128
Cohesion Policy	*6.4.1*	673	925
Other	*6.5*	0	0
Subtotal Financial corrections		***1 406***	***2 053***
Recoveries			
Agriculture and Rural Development	*6.3.1*	335	292
Cohesion Policy	*6.4.4*	50	24
Other	*6.5*	377	301
Subtotal Recoveries		***762***	***617***
Total decided/confirmed in 2011		**2 168**	**2 670**

Financial corrections and recoveries implemented in 2011

EUR millions

	Note	2011	2010
Financial corrections:			
Agriculture and Rural Development	*6.3.2*	483	814
Cohesion Policy	*6.4.2*	624	737
Other	*6.5*	0	0
Subtotal Financial corrections		***1 107***	***1 551***
Recoveries			
Agriculture and Rural Development	*6.3.2*	339	286
Cohesion Policy	*6.4.4*	48	25
Other	*6.5*	346	274
Subtotal Recoveries		***733***	***585***
Total implemented in 2011		**1 840**	**2 136**

6.3 FINANCIAL CORRECTIONS AND RECOVERIES UNDER AGRICULTURE AND RURAL DEVELOPMENT

6.3.1 Financial corrections and recoveries decided in 2011

EUR millions

	2011	2010
EAGF:		
Financial clearance and non-respected payment deadlines	(63)	33
Conformity clearance	728	1 022
Rural Development:		
TRDI 2000-2006	3	49
SAPARD 2000-2006	6	3
EAFRD 2007-2013	58	20
Subtotal financial corrections	***733***	***1 128***
EAGF:		
EAGF - irregularities	174	178
Rural Development:		
TRDI - recoveries	8	10
SAPARD - recoveries	30	5
EAFRD - irregularities	123	98
Subtotal recoveries	***335***	***292***
Total	**1 068**	**1 420**

A breakdown of the EAGF amounts per Member State is disclosed in Annex 1.

All the above amounts are included in the economic outturn account of the Commission.

The decrease in conformity clearance procedures in 2011 follows a previous increase between 2009 and 2010. The 2010 figure was exceptionally high as procedures decided in the year included a large non-executed clearance procedure of EUR 471 million which was adopted before the year-end, and executed in 2011. The amounts of procedures decided for 2011 now reach comparable levels of 2009 and before.

The negative financial clearance amount of EUR 63 million represents amounts paid out to certain Member States (mainly Italy and the United Kingdom) that exceeded amounts to be recovered for the year.

It should be noted that amounts reported for Rural Development in financial corrections decided/confirmed, as well as financial corrections implemented below, also include recoveries of irregularities for EUR 0.2 million in 2011 (2010: EUR 3 million). These amounts represent sums collected by the European Commission following the recovery of undue payments effected by Member States.

6.3.2 Financial corrections and recoveries implemented in 2011

EUR millions

	2011	2010
EAGF:		
Financial clearance and non-respected payment deadlines	(63)	33
Conformity clearance	506	728
Rural Development:		
TRDI 2000-2006	3	49
SAPARD 2000-2006	6	3
EAFRD 2007-2013	31	0
Subtotal financial corrections	***483***	***814***
EAGF:		
EAGF - irregularities	178	172
Rural Development:		
TRDI - recoveries	8	10
SAPARD - recoveries	30	5
EAFRD - irregularities	123	98
Subtotal recoveries	***339***	***286***
Total	**822**	**1 101**

A breakdown of the EAGF amounts per Member State is disclosed in Annex 2.

6.3.3 Financial corrections – cumulative figures

EAGF financial corrections decided – cumulative figures 1999 - 2011

EUR millions

	As at end 2011	As at end 2010
EAGF Clearance of accounts procedures	7 717	7 035

A breakdown of the cumulated EAGF clearance amount per Member State is disclosed in Annex 3.

The cumulated figures for 2011 correspond to amounts under conformity clearance decisions No. 1 to No. 36 taken up to 15 October 2011, being the end of EAGF financial year. The amounts decided in the calendar year 2011 correspond to EUR 728 million (see note **6.3.1**), and they include EUR 682 million as the amount decided in the financial year 2011, which corresponds to the variation between cumulated figures at end 2011 and cumulated figures at end 2010 of the above table.

It should be noted that all conformity clearance decisions have been formally taken by means of a Commission decision while financial clearance decisions usually take a longer time to proceed and will impact the coming years.

Rural Development corrections decided – cumulative figure 2000 - 2011

EUR millions

	As at end 2011	As at end 2010
Rural Development financial corrections:		
TRDI 2000-2006	64	61
SAPARD 2000-2006	24	17
EAFRD 2007-2013	79	21
Total	**167**	**98**

6.3.4 Financial corrections and recoveries in progress

Financial corrections in progress

EUR millions

	Financial corrections in progress as at 31.12.2010	New financial corrections in progress in 2011	Financial corrections decided in 2011	Adjustments on financial corrections decided or in progress as at 31.12.2010	Financial corrections in progress as at 31.12.2011
EAGF:					
EAGF - future conformity and financial decisions	2 288	573	(665)	8	2 204
Rural Development:					
TRDI 2000-2006	7	29	(3)	1	34
SAPARD 2000-2006	68	36	(6)	(20)	77
EAFRD 2007-2013	123	179	(58)	261	505
Total financial corrections in progress	**2 486**	**818**	**(732)**	**250**	**2 821**

The amount of EAGF financial corrections in progress at end 2011 shows the consolidation of the estimation method for future conformity decisions.

SAPARD and TRDI programmes are in the closure phase which explains the decrease in the amount of financial corrections in progress.

Concerning EAFRD, the increase is mainly explained by a change in the estimation method. Until last year, the extrapolation method used was based on historical data, i.e. real cases opened for EAGF 2000-06. This estimation was then compared to the level of real cases opened for the first years of the EAFRD programmes. However last year this method proved to give lower amounts than those actually constituted by cases opened. Therefore the extrapolation method has been adapted and aligned to that of EAGF since both funds actually share the same clearance process. The amounts reported in progress give now a more realistic view on future financial corrections.

Recoveries in progress

EUR millions

	Recoveries in progress as at 31.12.2010	New recoveries in progress in 2011	Recoveries decided in 2011	Adjustments on recoveries decided or in progress as at 31.12.2010	Recoveries in progress as at 31.12.2011
EAGF:					
EAGF - irregularities	323	199	(174)	(95)	253
Rural Development:					
TRDI 2000-2006	7	6	(8)	7	12
SAPARD 2000-2006	94	6	(30)	(19)	50
EAFRD 2007-2013	22	65	(123)	81	45
Total recoveries in progress	**446**	**275**	**(335)**	**(26)**	**360**

6.4 FINANCIAL CORRECTIONS AND RECOVERIES UNDER COHESION POLICY

6.4.1 Financial corrections decided/confirmed in 2011

Financial corrections decided/confirmed in 2011 by programming period

EUR millions

	2011	2010
Cohesion policy (EU work)		
- 1994-1999 programmes	13	136
- 2000-2006 programmes	440	788
- 2007-2013 programmes	220	2
Total	**673**	**925**

A breakdown of these amounts per Member State is disclosed in Annex 4.

Concerning the programming period 1994-99, very few financial corrections were reported in 2011 as the vast majority of programmes are closed. This figure will continue to decrease in the future. For the programming period 2000-06, financial corrections are reported and confirmed during the closure process which is ongoing. However audits continue to be conducted even on closed programmes. The increase in the amount of financial corrections decided/confirmed for the reporting period 2007-13 compared to last year is expected to continue in the coming years, as a result of current audits on the spot.

Financial corrections decided/confirmed in 2011 and their implementation in 2011

EUR millions

	ERDF	CF	ESF	FIFG /EFF *	EAGGF Guidance	TOTAL
Financial Corrections 1994-1999:						
Implemented by decommitment/ deduction at closure	6	-	-	-	-	6
Implemented by recovery order	2	-	1	0	1	4
Not yet implemented	3	-	-	-	-	3
Subtotal 1994-1999 period	**11**	**-**	**1**	**0**	**1**	**13**
Financial Corrections 2000-2006:						
Implemented by decommitment/ deduction at closure	217	72	8	0	0	297
Implemented by Member States	(10)	4	-	-	-	(6)
Implemented by recovery order	5	3	-	-	0	8
Not yet implemented	199	(62)	0	3	-	140
Subtotal 2000-2006 period	**411**	**17**	**9**	**3**	**0**	**440**
Financial Corrections 2007-2013:						
Implemented by decommitment/deduction at closure	-	-	-	-	-	0
Implemented by Member States	2	-	158	-	-	160
Implemented by recovery order	-	-	-	-	-	0
Not yet implemented	0	-	59	-	-	59
Subtotal 2007-2013 period	**3**	**-**	**218**	**-**	**-**	**220**
Total financial corrections decided/ confirmed in 2011	**424**	**17**	**227**	**3**	**1**	**673**
Total financial corrections decided/ confirmed in 2010	*494*	*258*	*49*	*91*	*33*	*925*

** EFF: the European Fisheries Fund (EFF) replaced the Financial Instrument for Fisheries Guidance (FIFG) for the programming period 2007-2013.*

Out of the total amount of EUR 673 million confirmed in 2011, EUR 233 million include amounts confirmed in previous years but not reported before, as well as adjustments on previously reported amounts. This is due, on one hand, to the extra-accounting nature of the file management of financial corrections, which makes it possible that new cases be reported at a later stage, and on the other hand, to cases where the final amount of a financial correction imposed during the operational programme is only known at closure.

The amount of financial corrections decided/confirmed in the year and implemented by issuance of a recovery order by the Commission (i.e. cash reimbursed to the Commission) is EUR 12 million, EUR 4 million for the 1994-99 period, and EUR 8 million for the 2000-06 period (2010: EUR 158 million). It should be noted that implementation by means of a recovery order represents only a limited amount of total financial corrections (i.e. less than 3% of the amount implemented in 2011) since the applicable sectoral legislation foresees the possibility for Member States to accept the financial correction proposed by the Commission and then to replace the irregular expenditure by a regular one during programme implementation (but at closure it is no longer possible for the Member State to submit other expenditure to replace the irregular one) - thus meaning that no recovery order needs to be issued by the Commission. Recovery orders are only issued by the Commission in the cases where the Member State refuses the financial correction and the Commission needs to take a formal correction decision, or possibly at the stage of programme closure when the financial correction imposed by the Commission is higher than the amount claimed by the Member State.

For ERDF, the amounts of correction for 2011 continue to concern mainly the 2000-2006 programmes, with the on-going closure: following the analysis of winding up declarations, corrections based on the extrapolation to each programme of residual risks calculated by programme have been confirmed in 2011, and corrections will continue in 2012. Financial corrections at closure imply a net reduction of the EU funding (i.e. reduction of the final amounts to be paid, or recovery of amount if the final amount to be paid is less than the correction).

Concerning the ESF, most of the amount of financial corrections decided/confirmed in 2011 relate to the 2007-13 programming period due to the growing number of audits completed as the implementation of the programmes increases. For the programming period 2000-06 the replacement of an irregular expenditure by a regular one by the Member State is no longer possible, however, progammes being in closure phase, the Member States indicated in the closure documents whether the financial corrections have been deducted, and these amounts are reported in the above table. Financial corrections decided/confirmed for the programming period 1994-99 relate to either financial corrections following a Commission decision or to the identification by the Member State of irregularities after the closure of the operational programme that the Commission recovers by issuance of a recovery order.

Regarding FIFG/EFF, the amount of EUR 3 million of financial corrections decided/confirmed concerns both the closure process on certain programmes, and the conclusion of audits on others.

Concerning EAGGF-Guidance, not all programmes are closed. Financial corrections will continue to be reported in 2012 and 2013, even if the amounts at stake are very limited.

It should be noted that amounts reported in the above tables for EAGGF Guidance Fund also include recoveries of irregularities for EUR 2 million in 2011 (2010: EUR 3 million). These amounts represent sums collected by the European Commission by means of a Commission Decision, following the recovery of undue payment effected by the Member State.

6.4.2 Financial corrections implemented in 2011

Financial corrections implemented in 2011 by programming period

EUR millions

	2011	2010
Cohesion policy (EU work)		
- 1994-1999 programmes	32	476
- 2000-2006 programmes	432	259
- 2007-2013 programmes	160	2
Total	**624**	**737**

A breakdown of these amounts per Member State is disclosed in Annex 5.

It should be noted that the above amounts, in particular for the programming period 2000-06, do not include the totality of financial corrections reported by the Member States in final payment claims received by the Commission in 2010, which are in the process of being validated. At this stage, the financial correction is implemented by the Member State who certifies the deduction of the financial correction amount from the final payment claim amount. However, in the context of programme closure, the validation of the claim by the authorising officer in the accounting system is subject to longer regulatory deadlines before it can be fully processed and payments be made by the Commission. Payments claims received before the year-end 2010 and not yet authorised at end 2011 include financial corrections however as these payment claims will only be processed in 2012 and following years, the amount of implemented financial corrections will be reported after verification of all closure documents and full validation of the related financial transactions. The corrections for the current programming period 2007-13 should increase further in the coming years as a result of the current controls on the spot.

Financial corrections implemented in 2011 (decided/confirmed in 2011 and in previous years)

EUR millions

	ERDF	CF	ESF	FIFG/ EFF	EAGGF Guidance	Total 2010
Financial Corrections 1994-1999 period:						
Confirmed in 2011	8	-	1	0	1	**10**
Confirmed previous years	22	-	0	-	0	**22**
Subtotal 1994-1999 period	**30**	**-**	**1**	**0**	**1**	**32**
Financial Corrections 2000-2006:						
Confirmed in 2011	211	79	0	0	0	**291**
Confirmed previous years	175	35	19	(90)	-	**140**
Subtotal 2000-2006 period	**387**	**115**	**19**	**(90)**	**0**	**432**
Financial Corrections 2007-2013:						
Confirmed in 2011	2	-	157	-	-	**160**
Confirmed previous years	0	-	1	-	-	**1**
Subtotal 2007-2013 period	**2**	**-**	**158**	**-**	**-**	**161**
Total financial corrections implemented in 2011	**419**	**115**	**178**	**(90)**	**1**	**624**
Total financial corrections implemented in 2010	*542*	*21*	*42*	*90*	*41*	*737*

Out of the amount of EUR 624 million reported as financial correction implemented in 2011, EUR 212 million include amounts implemented in previous years but not reported before, as well as adjustments on previously-reported amounts, for the same reasons explained in note **6.4.1**.

Financial corrections implemented in 2011 (by implementation type)

EUR millions

	ERDF	CF	ESF	FIFG/ EFF	EAGGF Guidance	TOTAL
Financial Corrections 1994-99:						
Implemented by decommitment/deduction at closure	23	-	-	-	-	23
Implemented by recovery order	7	-	1	0	1	9
Subtotal 1994-1999 period	**30**	**-**	**1**	**0**	**1**	**32**
Financial Corrections 2000-2006:						
Implemented by decommitment/deduction at closure	237	94	19	0	0	351
Implemented by Member States	142	17	-	(90)	-	69
Implemented by recovery order	8	4	-	-	0	12
Subtotal 2000-2006 period	**387**	**115**	**19**	**(90)**	**0**	**432**
Financial Corrections 2007-2013:						
Implemented by decommitment/deduction at closure	-	-	-	-	-	0
Implemented by Member States	2	-	158	-	-	160
Implemented by recovery order	-	-	-	-	-	0
Subtotal 2007-2013 period	**2**	**-**	**158**	**-**	**-**	**160**
Total financial corrections implemented in 2011	**419**	**115**	**178**	**(90)**	**1**	**624**
Total financial corrections implemented in 2010	*542*	*21*	*42*	*90*	*41*	*737*

The amount of financial corrections implemented in the year by issuance of a recovery order by the Commission (i.e. cash reimbursed to the Commission) is EUR 21 million, EUR 9 million for the 1994-99 period, and EUR 12 million for the 2000-06 period (2010: EUR 158 million). For reasons given above in note **6.3.1**, implementation by means of a recovery order represent only a very limited amount of financial corrections (i.e. 3% of the amount implemented in 2011).

Concerning ERDF, it should be noted that since final payment claims introduced in September 2010 are still under an authorising process, they have not been taken into account in the above implementation figures, thus the relatively lower implementation rates of 65% and 78% for the ERDF and for the Cohesion Fund respectively. Almost all amounts to be implemented stem from the on-going closure of 2000-06 programmes: EUR 2.1 billion (out of an oustanding total of EUR 2.2 billion) are included in ERDF/Cohesion Fund final payment claims received but will be reported as implemented only when the final payment will be authorised in the upcoming months.

Concerning the ESF, all the financial corrections implemented by the issuance of a recovery order relate to the programming period 1994-99 since programmes are closed. For the period 2000-06 the corrections are either identified by the Member State in the closure documents or identified by the Commission who then requests the Member State to confirm that those amounts should be deducted at closure. Therefore no recovery orders are issued. It should be noted that a high number of programmes are still under analysis, consequently the amount of financial corrections implemented at closure will increase in the coming years following the current closure process (analysis of closure documents and financial validation of last payment claim).

Concerning FIFG/EFF, the negative amount of EUR 90 million represents an adjustment of several financial corrections for Spain which were erroneously reported as implemented in 2010. The Member State did deduct the amounts in question from claims sent to the Commission in 2010, however these claims were part of the closure documents of this programme, and were still being processed by the Commission at 31/12/2010. According to the definition of implementation this adjustment is presented as a negative amount in the 2011 figures.

6.4.3 Financial corrections – cumulative figures and implementation rates

Financial corrections decided/confirmed – cumulative figures

EUR millions

	1994-1999 Period	2000-2006 Period	2007-2013 Period	Total as at end 2011	Total as at end 2010
ERDF	1 769	4 575	4	6 348	5 924
Cohesion Fund	273	508	0	781	763
ESF	397	1 182	218	1 798	1 572
FIFG/EFF	100	99	0	198	195
EAGGF Guidance	125	41	0	166	165
Total	**2 663**	**6 405**	**222**	**9 291**	**8 619**

A breakdown of the total amount per Member State is disclosed in Annex 4.

Financial corrections implemented – cumulative figures

EUR millions

	1994-1999 Period	2000-2006 Period	2007-2013 Period	Total as at end 2011	Total as at end 2010
ERDF	1 766	2 359	3	4 128	3 709
Cohesion Fund	266	342	0	608	493
ESF	396	1 165	159	1 720	1 542
FIFG/EFF	100	4	0	104	194
EAGGF Guidance	125	41	0	166	165
Total	**2 652**	**3 912**	**162**	**6 726**	**6 102**

A breakdown of the total amount per Member State is disclosed in Annex 5.

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 **5.4**.

Financial corrections decided/confirmed as at 31 December 2011 but not yet implemented and implementation rates as at 31 December 2011 (cumulative figures)

EUR millions

	ERDF	CF	ESF	FIFG/ EFF	EAGG F Guida nce	Total 2011	Total 2010
Financial corrections 1994-1999 programmes							
Financial corrections confirmed/decided	1 769	273	397	100	125	**2 663**	**2 652**
Financial corrections implemented	1 766	266	396	100	125	**2 652**	**2 621**
Financial corrections confirmed/decided but not yet implemented	3	8	1	0	0	**11**	**31**
Rate of implementation	*100%*	*97%*	*100%*	*100%*	*100%*	***100%***	***99%***
Financial corrections 2000-2006 programmes							
Financial corrections confirmed/decided	4 575	508	1 182	99	41	**6 405**	**5 965**
Financial corrections implemented	2 359	342	1 165	4	41	**3 912**	**3 480**
Financial corrections confirmed/decided but not yet implemented	2 216	166	17	94	0	**2 493**	**2 485**
Rate of implementation	*52%*	*67%*	*99%*	*4%*	*100%*	***61%***	***58%***
Financial corrections 2007-2013 programmes							
Financial corrections confirmed/decided	4	-	217	-	-	**222**	**2**
Financial corrections implemented	3	-	159	-	-	**162**	**2**
Financial corrections confirmed/decided but not yet implemented	0	-	59	-	-	**60**	**0**
Rate of implementation	*87%*	*N/A*	*73%*	*N/A*	*N/A*	***73%***	***84%***
Total financial corrections							
Financial corrections confirmed/decided	6 348	781	1 797	198	166	**9 291**	**8 619**
Financial corrections implemented	4 128	608	1 721	104	166	**6 726**	**6 102**
Financial corrections confirmed/decided but not yet implemented	2 220	173	76	94	0	**2 565**	**2 516**
Rate of implementation	*65%*	*78%*	*96%*	*53%*	*100%*	***72%***	***71%***

Concerning the programming period 2000-2006, the low implementation rate is explained by the ongoing closure process whereby payment claims received at end 2010 are not yet authorised, and the related financial corrections cannot yet be taken into account in the 2011 implementation figures.

6.4.4 Recoveries

Recoveries confirmed in 2011

EUR millions

	2011	2010
Other management types	50	24

Recoveries implemented in 2011

EUR millions

	2011	2010
Other management types	48	25

Please note that some amounts included in the above table were previously reported under note **6.5** in 2010.

6.4.5 Financial corrections in progress

EUR millions

	Financial corrections in progress as at 31.12.2010	New financial corrections in progress in 2011	Financial corrections decided in 2011	Adjustments to financial corrections decided or in progress as at 31.12.2010	Financial corrections in progress as at 31.12.2011
Structural and Cohesion funds (1994-1999, 2000-2006 and 2007-2013 programmes)					
ERDF	197	91	(85)	(43)	160
Cohesion Fund	262	105	(69)	(132)	166
ESF	284	0	(1)	0	283
FIFG/EFF	0	6	0	0	6
EAGGF Guidance	4	24	(1)	(3)	24
Total	**747**	**227**	**(156)**	**(178)**	**640**

At the end of 2011, correction procedures were in progress at Commission level for approximately 140 programmes for ERDF and for the Cohesion Fund. The decrease in amounts compared to previous years reflects the phasing out of financial corrections previously reported as "in progress" for the 2000-06 programmes and the initiation of fewer procedures at this stage of implementation for the current programming period.

Concerning the ESF, the decrease in the estimated amount of financial corections in progress is mainly caused by the closure of some procedures initiated in 2010 and related to five programmes of the 2007-13 period, one procedure for the 2000-06 period and one procedure for the 1994-99 period. It should be noted that in the situation where an estimate of potential amounts at stake during the audit cannot be calculated, mainly because the controls are not finished yet, they are reported in the above table for a EUR 1 value (prudent approach). This is the case for the current cases in relation to the 2007-13 period.

6.4.6 Interruptions and suspension of payments

The breakdown of interruption cases and amounts per Member State for 2011 is as follows:

EUR millions

	ERDF / Cohesion Fund		ESF		EFF		Total	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Interruptions - closed cased as at 31.12.2011								
Czech Republic	2	130					2	130
Germany	7	246					7	246
Greece	2	132					2	132
Spain	12	277	2	8			14	285
Italy	7	100	4	35	1	6	12	141
Latvia					1	0	1	0
Lithuania	1	32			1	1	2	33
Hungary	9	211					9	211
Austria			1	0			1	0
Poland			2	519			2	519
Portugal					1	10	1	10
Romania	2	42					2	42
Slovakia	1	30					1	30
United Kingdom	6	109	2	26			8	135
Cross border	6	22					6	22
Subtotal closed cases	***55***	***1 331***	***11***	***588***	***4***	***17***	***70***	***1 936***
Interruptions - open cases as at 31.12.2011								
Denmark					1	0	1	0
Germany	3	17			2	1	5	18
Estonia					1	0	1	0
Spain			2	10	1	62	3	72
France			2	25	2	3	4	28
Italy	10	303	4	53			14	356
Slovakia	2	71					2	71
Finland					1	0	1	0
Sweden					1	0	1	0
United Kingdom			2	234	1	34	3	268
Subtotal open cases	***15***	***391***	***10***	***323***	***10***	***100***	***35***	***814***
Total interruptions in 2011	**70**	**1 722**	**21**	**911**	**14**	**117**	**105**	**2 750**
Total interruptions in 2010	*49*	*2 156*	*12*	*255*	*12*	*127*	*73*	*2 538*

Concerning the ERDF and the Cohesion Fund, 70 interruption decisions for payment deadlines were taken in 2011 for a total amount of EUR 1 722 million. Payments were released for 55 cases representing EUR 1 331 million. 15 cases were still ongoing at year-end, covering an amount of EUR 391 million. Suspension procedures were initiated for ten programmes in 2011, and one suspension decision was formally taken in early 2012. The procedure was closed for four cases in 2011 based on actions taken and reported by the Member States. For the remaining five cases the procedures were still ongoing at year end.

Concerning the ESF, 21 interruption decisions for payment deadlines were taken in 2011 for a total amount of EUR 911 million, all relating to the 2007-2013 programming period. Payments were released before 31 December 2011 for 11 cases, representing EUR 588 million. 10 cases are still ongoing for an amount of EUR 323 million. Additionally, 3 suspension decisions were adopted in 2011 (Spain, France and Italy), all relating to the 2007-2013 period. Suspension was still ongoing for these 3 cases after 31 December 2011.

6.5 OTHER FINANCIAL CORRECTIONS AND RECOVERIES

This heading concerns the financial corrections and recovery of amounts unduly paid because of errors or irregularities detected either by the Commission, Member States, the European Court of Auditors, or OLAF for the part of the budget which is not executed under shared management.

Other financial corrections decided/confirmed in 2011

EUR millions

	2011	2010
European Refugee Fund II	0	-

Other financial corrections implemented in 2011

EUR millions

	2011	2010
European Refugee Fund II	0	-

Financial corrections is a mechanism that starts to be also applied in the policy of Home Affairs. The amount of financial corrections decided and implemented in 2011 is EUR 0.4 million and is expected to increase in the coming years.

Other recoveries confirmed in 2011

EUR millions

	2011	2010
Other management types:		
- external actions	107	137
- internal policies	270	164
Total other recoveries confirmed	**377**	**301**

Other recoveries implemented in 2011

EUR millions

	2011	2010
Other management types:		
- external actions	77	136
- internal policies	268	138
Total other recoveries implemented	**346**	**274**

Please note that some amounts previously reported in 2010 in the above tables under internal policies are now disclosed in note **6.4.4**.

Note 6 – Annex 1

Total financial corrections and recoveries decided in 2011 for EAGF - Breakdown per Member State

EUR millions

Member State	Financial clearance	Conformity clearance	Irregularities declared	Total 2011	Total 2010
Belgium	0	-	9	9	4
Bulgaria	0	21	3	24	20
Czech Republic	0	-	1	1	1
Denmark	0	22	5	27	12
Germany	(1)	1	11	11	28
Estonia	0	0	0	0	0
Ireland	(1)	-	8	8	7
Greece	2	257	4	263	477
Spain	2	116	20	138	83
France	2	2	18	23	67
Italy	(58)	80	49	71	78
Cyprus	0	8	0	8	1
Latvia	0	-	1	1	0
Lithuania	0	-	1	1	2
Luxembourg	0	-	0	0	1
Hungary	0	-	2	3	8
Malta	0	0	0	0	0
Netherlands	-	25	4	29	51
Austria	0	1	3	5	2
Poland	0	46	2	49	52
Portugal	1	2	8	11	58
Romania	8	39	8	55	55
Slovenia	0	-	0	0	5
Slovakia	0	-	1	1	0
Finland	0	1	1	2	2
Sweden	0	72	2	74	5
United Kingdom	(20)	33	11	24	213
Total decided	**(63)**	**728**	**174**	**839**	**1 233**

Note 6 – Annex 2

Total financial corrections and recoveries implemented in 2011 for EAGF - Breakdown per Member State

EUR millions

Member State	Financial clearance and non-respected payment deadlines	Conformity clearance	Irregularities declared by Member States (repaid to EU)	Total 2011	Total 2010
Belgium	0	-	10	10	3
Bulgaria	0	12	2	15	6
Czech Republic	0	1	1	2	1
Denmark	0	0	3	3	12
Germany	(1)	0	11	10	26
Estonia	0	-	0	0	0
Ireland	(1)	-	6	5	5
Greece	2	191	5	198	150
Spain	2	116	22	140	130
France	2	22	16	41	120
Italy	(58)	41	60	44	33
Cyprus	0	-	0	0	1
Latvia	0	-	1	1	0
Lithuania	0	0	2	2	4
Luxembourg	0	-	0	0	1
Hungary	0	(3)	2	(1)	26
Malta	0	-	0	0	0
Netherlands	-	52	4	56	51
Austria	0	-	1	1	3
Poland	0	1	2	3	97
Portugal	1	16	8	25	24
Romania	8	26	7	41	16
Slovenia	0	4	1	4	1
Slovakia	0	-	1	1	1
Finland	0	-	1	1	2
Sweden	0	-	2	2	5
United Kingdom	(20)	27	10	18	215
Total implemented	**- 63**	**506**	**178**	**621**	**934**

Note 6 – Annex 3

Cumulated EAGF clearance of accounts amounts - decided
Breakdown per Member State

EUR millions

Member State	EAGF Clearance of accounts Cumulated amount at end 2011
Belgium	33
Bulgaria	37
Czech Republic	1
Denmark	172
Germany	171
Estonia	0
Ireland	41
Greece	2 023
Spain	1 334
France	1 052
Italy	1 472
Cyprus	10
Latvia	0
Lithuania	2
Luxembourg	5
Hungary	24
Malta	0
Netherlands	163
Austria	7
Poland	66
Portugal	133
Romania	86
Slovenia	5
Slovakia	0
Finland	21
Sweden	95
United Kingdom	762
Total decided	***7 717***

Note 6 – Annex 4

Total financial corrections confirmed in 2011 for Structural Actions - Breakdown per Member State

EUR millions

Member State	Cumulative end 2010	Financial corrections confirmed in 2011						Cumulative end 2011
		ERDF	CF	ESF	FIFG/ EFF	EAGGF Guidance	Total Year 2011	
1994-1999	**2 652**	**11**	**0**	**1**	**0**	**1**	**13**	**2 664**
Belgium	5	0	-	-	-	-	0	5
Denmark	3	0	-	-	-	-	0	4
Germany	340	(2)	-	-	0	1	(1)	339
Ireland	42	1	-	-	-	-	1	43
Greece	528	-	-	-	-	-	0	528
Spain	664	-	-	0	-	-	0	665
France	88	6	-	1	-	-	8	95
Italy	505	2	-	-	-	0	2	507
Luxembourg	5	-	-	-	-	-	0	5
Netherlands	177	1	-	-	-	-	1	178
Austria	2	-	-	-	-	0	0	2
Portugal	141	-	-	-	-	0	0	141
Finland	1	-	-	-	-	-	0	1
Sweden	1	-	-	-	-	-	0	1
United Kingdom	138	2	-	-	-	0	2	140
INTERREG	10	0	-	-	-	-	0	10
2000-2006	**5 965**	**411**	**17**	**9**	**3**	**0**	**440**	**6 405**
Belgium	10	0	-	-	-	-	0	11
Bulgaria	21	-	1	-	-	-	1	22
Czech Republic	11	-	8	-	-	-	8	19
Denmark	0	0	-	-	-	-	0	0
Germany	13	0	-	0	-	0	1	13
Estonia	0	-	0	-	-	-	0	0
Ireland	44	-	-	-	-	-	0	44
Greece	961	221	1	-	-	-	223	1 183
Spain	2 865	104	(5)	-	0	-	98	2 963
France	287	0	-	0	1	0	2	288
Italy	930	25	-	-	-	-	25	954
Cyprus	0	-	-	-	-	-	0	0
Latvia	4	-	-	-	-	-	0	4
Lithuania	2	-	0	-	-	-	0	2
Luxembourg	2	0		-	-	-	0	2
Hungary	52	0	3	-	-	-	3	55
Malta	0	-	-	-	0	-	0	0
Netherlands	2	-	-	0	-	-	0	2
Austria	0	-	-	-	-	-	0	0
Poland	246	14	5	8	-	-	27	274
Portugal	157	40	4	-	-	-	44	201
Romania	12	-	0	-	-	-	0	12
Slovenia	2	-	-	-	-	-	0	2
Slovakia	41	4	1	-	-	-	5	45
Finland	1	-	-	-	-	-	0	1
Sweden	11	0	-	0	-	-	0	11
United Kingdom	283	5	-	-	1	-	6	289
INTERREG	10	(2)	-	-	-	-	(2)	8

2007-2013	**2**	**3**	**0**	**218**	**0**	**N/A**	**219**	**221**
Belgium	-	-	-	0	-		0	0
Bulgaria	-	-	-	2	-		2	2
Czech Republic	-	-	-	-	-		0	0
Denmark	0	-	-	-	-		0	0
Germany	-	-	-	3	-		3	3
Estonia	0	-	-	0	-		0	0
Ireland	0	-	-	2	-		2	2
Greece	-	-	-	-	-		0	0
Spain	-	-	-	87	-		85	85
France	0	0	-	-	-		0	0
Italy	-	-	-	1	-		1	1
Cyprus	-	-	-	-	-		0	0
Latvia	-	-	-	-	-		0	0
Lithuania	-	-	-	-	-		0	0
Luxembourg	0	-	-	-	-		0	0
Hungary	1	2	-	25	-		27	27
Malta	-	-	-	-	-		0	0
Netherlands	-	-	-	-	-		0	0
Austria	-	-	-	-	-		0	0
Poland	0	-	-	92	-		92	92
Portugal	1	-	-	-	-		0	1
Romania	-	-	-	-	-		0	0
Slovenia	-	-	-	-	-		0	0
Slovakia	-	-	-	-	-		0	0
Finland	-	-	-	-	-		0	0
Sweden	-	0	-	-	-		0	0
United Kingdom	-	-	-	6	-		6	6
INTERREG	-	0	-	-	-		0	0
Total confirmed	**8 619**	**424**	**17**	**227**	**3**	**1**	**673**	**9 291**

Note 6 – Annex 5

Total financial corrections implemented in 2011 for Structural Actions - Breakdown per Member State

EUR millions

Member State	Cumulative end 2010	Financial corrections implemented in 2011						Cumulative end 2011
		ERDF	CF	ESF	FIFG/ EFF	EAGGF Guidance	Total Year 2011	
1994-1999	**2 621**	**30**	**0**	**1**	**0**	**1**	**32**	**2 652**
Belgium	6	0	-	-	-	-	0	6
Denmark	4	0	-	-	-	-	0	4
Germany	338	(2)	-	-	0	1	(1)	338
Ireland	40	-	-	-	-	-	0	40
Greece	525	-	-	-	-	-	0	525
Spain	658	-	-	0	-	-	0	658
France	89	6	-	1	-	-	8	97
Italy	504	0	-	-	-	0	0	505
Luxembourg	5		-	-	-	-	0	5
Netherlands	177	1	-	-	-	-	1	178
Austria	2	-	-	-	-	0	0	2
Portugal	141	-	-	-	-	0	0	141
Finland	1	-	-	-	-	-	0	1
Sweden	1	-	-	-	-	-	0	1
United Kingdom	120	23	-	-	-	0	23	144
INTERREG	9	0	-	-	-	-	0	9
2000-2006	**3 480**	**387**	**115**	**19**	**- 90**	**0**	**432**	**3 912**
Belgium	8	0	-	-	-	-	0	8
Bulgaria	2	-	9	-	-	-	9	12
Czech Republic	0	-	5	-	-	-	5	5
Denmark	0	-	-	-	-	-	0	0
Germany	10	0	-	0	-	0	1	11
Estonia	0	-	0	-	-	-	0	0
Ireland	26	-	1	-	-	-	1	26
Greece	904	244	2	-	-	-	245	1 149
Spain	1 051	15	74	-	(90)	-	0	1 051
France	248	1	-	-	-	0	1	250
Italy	768	62	-	3	-	-	65	833
Cyprus	0	-	-	-	-	-	0	0
Latvia	4	-	-	-	-	-	0	4
Lithuania	1	-	0	-	-	-	0	1
Luxembourg	2	-	-	-	-	-	0	2
Hungary	41	4	2	8	-	-	14	55
Malta	0	-	-	-	0	-	0	0
Netherlands	1	-	-	0	-	-	0	1
Austria	0	-	-	-	-	-	0	0
Poland	90	41	11	8	-	-	61	151
Portugal	113	4	5	-	-	-	8	121
Romania	8	-	3	-	-	-	3	11
Slovenia	2	-	-	0	-	-	0	2
Slovakia	1	2	3	-	-	-	4	6
Finland	0	0	-	-	-	-	0	0
Sweden	11	0	-	0	-	-	0	11
United Kingdom	188	13	-	-	-	-	13	201
INTERREG	0	1	-	-	-	-	1	1

2007-2013	**2**	**2**	**0**	**158**	**0**	**N/A**	**160**	**162**
Belgium	-	-	-	0	-		0	0
Bulgaria	-	-	-	1	-		1	1
Czech Republic	-	-	-	-	-		0	0
Denmark	0	-	-	-	-		0	0
Germany	-	-	-	3	-		3	3
Estonia	0	-	-	-	-		0	0
Ireland	0	-	-	2	-		2	2
Greece	-	-	-	-	-		0	0
Spain	-	-	-	41	-		41	41
France	0	0	-	-	-		0	0
Italy	-	-	-	-	-		0	0
Cyprus	-	-	-	-	-		0	0
Latvia	-	-	-	-	-		0	0
Lithuania	-	-	-	-	-		0	0
Luxembourg	-	-	-	0	-		0	0
Hungary	1	2	-	25	-		27	28
Malta	-	-	-	-	-		0	0
Netherlands	-	-	-	-	-		0	0
Austria	-	-	-	-	-		0	0
Poland	0	-	-	86	-		86	86
Portugal	1	0	-	0	-		0	1
Romania	-	-	-	-	-		0	0
Slovenia	-	-	-	-	-		0	0
Slovakia	-	-	-	-	-		0	0
Finland	-	-	-	-	-		0	0
Sweden	-	-	-	-	-		0	0
United Kingdom	-	-	-	-	-		0	0
INTERREG	-	0	-	-	-		0	0
Total implemented	**6 102**	**419**	**115**	**178**	**(90)**	**1**	**624**	**6 726**

7. BORROWING & LENDING ACTIVITIES OF THE EU

This note includes information previously reported under note **2**, notes to the balance sheet.

7.1 BORROWING AND LENDING ACTIVITIES - OVERVIEW

Amounts at carrying value 31/12/2011 *EUR millions*

	EFSM	BOP	MFA	Euratom	ECSC	Total
Loans (see note **2.5**)	28 344	11 625	595	451	266	**41 281**
Borrowings (note **2.16**)	28 344	11 625	595	451	236	**41 251**

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

The European Union (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 under which it may grant loans and fund these by issuing debt instruments in the capital markets or with financial institutions:

1. European Financial Stabilisation Mechanism (**EFSM**): support to Euro Area Member states, up to approximately EUR 60 billion, (EUR 28.3 billion outstanding at year-end)
2. Balance-of-Payments (**BOP**) assistance: to Member States that have not yet adopted the euro; up to EUR 50 billion (EUR 11.6 billion outstanding at year-end)
3. Macro-Financial Assistance (**MFA**): financial aid programme to assist non-Member States (EUR 595 million outstanding at year-end)

The key points or characterisitics to note for these 3 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 balance of payment loans and the EFSM.
- 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 the obligation of the European Union, which will ensure that all bond payments are made in a timely manner. 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 amount, the instalments to be paid and the 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 27 Member States.
- Should a beneficiary country default, the debt service will be drawn from the available treasury balance of the European Commission, if possible. If that would not be possible, the Commission would draw the funds necessary 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 at the balance sheet date one loan granted from borrowed funds still outstanding, for a nominal amount of EUR 46 million. This loan was granted to a public-owned company based in France. ECSC has also in its loan portfolio loans granted from own funds to European institutions' officials from the former ECSC in liquidation pension fund.

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	31.12.2011	31.12.2010
EFSM	2.375%-3.50%	N/A
BOP	2.375%-3.625%	2.375%-3.625%
Macro Financial Assistance (MFA)	1.58513%-4.54%	0.99%-4.54%
Euratom	1.067%-5.76%	0.96313%-5.76%
ECSC in liquidation	1.158%-5.8103%	0.556%-5.8103%

Borrowings	31.12.2011	31.12.2010
EFSM	2.375%-3.50%	N/A
BOP	2.375%-3.625%	2.375%-3.625%
Macro Financial Assustante (MFA)	1.58513%-4.54%	0.99%-4.54%
Euratom	0.867%-5.6775%	0.7613%-5.6775%
ECSC in liquidation	1.158%-9.2714%	0.556%-9.2714%

7.2 EFSM

EFSM NOMINAL VALUE *EUR millions*

	Ireland	Portugal	Total
Total loans granted	**22 500**	**26 000**	**48 500**
Loans disbursed at 31.12.11	13 900	14 100	28 000
Loans repaid at 31.12.11*	0	0	0
Loans outstanding at 31.12.11	**13 900**	**14 100**	**28 000**
Undrawn amounts at 31.12.11	*8 600*	*11 900*	*20 500*

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

On 11 May 2010 the Council adopted a European Financial Stabilisation Mechanism (EFSM) to preserve financial stability in Europe (Council Regulation (EU) n° 407/2010). The mechanism is based on Art. 122.2 of the Treaty 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 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 2011, the budget is exposed to a maximum possible risk of EUR 28 344 million regarding these loans (the EUR 28 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.

In January 2012, a further EUR 1.5 billion was disbursed to both Ireland and Portugal (30 year maturity). Another EUR 3 billion was disbursed to Ireland in March (20 year maturity). EUR 1.8 billion and EUR 2.7 billion were disbursed to Portugal in April and May respectively (26 and 10 year maturities). EUR 2.3 billion was disbursed to Ireland in July (16 year maturity). Under EFSM, the EU intends to issue further bonds during 2012 for a total amount of EUR 3 billion, for loans to Ireland and Portugal.

7.3 BALANCE OF PAYMENTS (BOP)

The BOP facility, a policy based financial instrument, has been reactivated during the current economic and financial crisis to provide 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 to be granted is EUR 50 billion. Borrowings related to these loans are guaranteed by the EU Budget – thus at 31 December 2011, the budget is exposed to a maximum possible risk of EUR 11 625 million regarding these loans (EUR 11.4 billion below being the nominal value).

BOP NOMINAL VALUE *EUR millions*

	Hungary	Latvia	Romania	Total
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
Loans disbursed 31.12.2011	5 500	2 900	5 000	13 400
Loans repaid at 31.12.2011	(2 000)	-	-	(2 000)
Outstanding amount at 31.12.2011	**3 500**	**2 900**	**5 000**	**11 400**
Total loans granted	6 500	3 100	6 400	16 000
Undrawn amounts 31.12.2011	*0*	*200*	*1 400*	*1 600*

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

Between November 2008 and end 2011, 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 2011. 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. Latvia still had EUR 200 million undrawn and available at the end of 2011, but the right to draw this expired unused in January 2012. The total of the new facility granted to Romania (below) was also undrawn at year-end.

In February 2011, Romania requested a follow-up precautionary financial assistance programme under the Balance of Payments 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). Currently, Romania does not intend to request the disbursement of any instalment under the precautionary financial assistance programme since the amounts would only be requested in case of unforeseen market deterioration in the economic and/or financial situation due to factors outside the control of the Romanian authorities, leading to the opening of an acute financing gap. Should the financial assistance be activated, it would be provided in form of a loan with a maximum maturity of seven years.

7.4 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 2011, a further EUR 239 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 447 million (2010: EUR 466 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 European Investment Bank (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.

7.5 INTER-GOVERMENTAL FINANCIAL STABILITY MECHANISMS

7.5.1 European Financial Stability Facility (EFSF)

The European Financial Stability Facility ("EFSF") was created by the euro area 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 euro area Member States. The EFSF is expected to no longer be available for new lending after 1 July 2013, 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

To fulfill its mission, EFSF issues bonds or other debt instruments on the capital markets. It is backed by guarantee commitments from the 17 euro-area 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 EFSF is subject to statutory audit through external auditors under Luxembourgish legal provisions on auditing.

The Commission will be responsible for negotiating the policy conditionality attached to the financial assistance and the monitoring of compliance with that conditionality. Each country receiving financial assistance from the EFSF will be subject to regular assessments on the fulfilment of the policy conditionality before another instalment is disbursed. Such conditionality may range from a macro-economic adjustment programme (for regular loans) to continuous respect of pre-established eligibility criteria (for precautionary assistance). In principle, the European Commission, in liaison with the ECB, negotiates with the Euro Area Member State concerned a memorandum of understanding (an "MoU") detailing the conditionality attached to the financial assistance facility. The content of the MoU shall reflect the severity of the weaknesses to be addressed and the financial assistance instrument chosen.

In parallel with the EFSM loans granted to Ireland and Portugal, a loan facility from the EFSF with an aggregate net disbursement amount of EUR 17.7 billion for Ireland and EUR 26 billion for Portugal was initiated (in addition to assistance from the International Monetary Fund of respectively SDR 19.5 billion (approximately EUR 22.5 billion based on the rate in force at the time of the agreement) and SDR 23.7 billion (approximately EUR 26 billion) under an Extended Fund Facility).

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 monies 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.

7.5.2 European Stability Mechanism (ESM)

The European Council agreed on 17 December 2010 on the need for euro area 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 euro area Member States on the 2nd of February 2012 and is currently undergoing ratification procedures in the participating Member States before it can become operational. Ultimately, the ESM will assume the tasks currently fulfilled by the EFSF and EFSM in providing, where needed, financial assistance to euro area Member States. There will, however, be a period of overlap of all three mechanisms, but loans that have already been granted under the EFSM will 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 will be backed by a robust capital structure, with a total subscribed capital of EUR 700 billion, of which EUR 80 billion will be in the form of paid-in capital provided by the euro-area Member States. With such capital, its lending capacity in principle should reach EUR 500 billion. The adequacy of the combined capacity with EFSF was recently reviewed. On 30 March, the Eurogroup agreed to increase the cumulative lending ceiling of the EFSF/ESM to EUR 700bn, and allow both mechanisms to coexist until 30 June 2013. The audit process of the ESM has been developed with the supreme audit institutions, and an external independent audit, as well as an audit by an independent board of auditors, will be implemented.

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 will have its own legal personality and will be funded directly by the euro area Member States, it is not an EU body and there is no impact on either the EU accounts or the EU budget, aside from the possible sanctions revenue described below. The Commission will be 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 another 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 outturn, 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.

	Reimbursement schedule for outstanding EFSM & BOP loan amounts at 17 July 2012														*EUR Billions*
Loan/Country	**Instalment**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2021**	**2022**	**2025**	**2026**	**2028**	**2032**	**2038**	**2042**	**Total**
BOP																
Hungary	2nd	2.0														
	3rd			1.5												
Latvia	1st	1.0														
	2nd		1.2													
	3rd						0.5									
	4th									0.2						
Romania	1st		1.5													
	2nd						1.0									
	3rd				1.15											
	4th					1.2										
	5th					0.15										
Total BOP		*3.0*	*2.7*	*1.5*	*1.15*	*1.35*	*1.5*	*0.0*	*0.0*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*11.4*
EFSM																
Ireland	1st (T1)		5.0													
	1st (T2)					3.4										
	2nd							3.0								
	3rd (T1)										2.0					
	3rd (T2)					0.5										
	4th *														1.5	
	5th *												3.0			
	6th *											2.3				
Portugal	1st (T1)							1.75								
	1st (T2)			4.75												
	2nd (T1)							5.0								
	2nd (T2)										2.0					
	2nd (T3)					0.6										
	3rd *														1.5	
	4th (T1) *													1.8		
	4th (T2) *								2.7							
Total EFSM		*0.0*	*5.0*	*4.75*	*0.0*	*4.5*	*0.0*	*9.75*	*2.7*	*0.0*	*4.0*	*2.3*	*3.0*	*1.8*	*3.0*	*40.8*
Overall total		**3.0**	**7.7**	**6.25**	**1.15**	**5.85**	**1.5**	**9.75**	**2.7**	**0.2**	**4.0**	**2.3**	**3.0**	**1.8**	**3.0**	**52.2**

** Disbursed in 2012 so not inlcuded on EU balance sheet at 31 December 2011*

8. FINANCIAL RISK MANAGEMENT

The following disclosures with regard to the financial risk management of the European Union (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.

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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.
- 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.

Provisionally cashed fines: portfolio (BUFI)

From 2010 onwards provisionally cashed fines amounts are invested in a specifically created fund, BUFI, managed by DG ECFIN. Fines amounts received before 2010 remain in specific bank accounts. The asset management for provisionally cashed fines is carried out by the Commission in accordance with internal guidelines and the asset management guidelines which are included in the SLA signed in December 2009 between DG BUDG and DG ECFIN. 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 euro-zone Central Banks, euro-zone 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 euro-zone sovereign exposure or which are issued by supranational institutions.

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 European Investment Bank (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 1.3 million arising from EUR equivalent 1.26 million housing loans and EUR equivalent 0.04 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.

Provisionally cashed fines: portfolio (BUFI)
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 0.8 billion (2010: EUR 0.86 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 236 million in 2011 (2010: EUR 110 million) and which have a final maturity date between one and five years (EUR 25 million) and more than five years (EUR 211 million). More significantly, the EU has eleven loans under the financial instrument BOP with fixed interest rates totalling EUR 11.4 billion in 2011 (2010: EUR 12.05 billion) and with a final maturity between one and five years (EUR 7.2 billion) and more than five years (EUR 4.2 billion). Under the financial instrument EFSM, the EU has ten loans with fixed interest rates totalling EUR 28 billion in 2011 and with a final maturity between one and five years (EUR 9.75 billion) and more than five years (EUR 18.25 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 no bonds with variable interest rates in the ECSC portfolio. Zero coupon bonds represented 15% 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.

Provisionally cashed fines: portfolio (BUFI)
There are no bonds with variable interest rates in the BUFI portfolio. Zero coupon bonds represented 34% of the bond portfolio at the balance sheet date.

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 83% of the investment portfolio at the balance sheet date (2010: 93%).

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 2011 0.93% was actually used to cover payment appropriations. This means that at 31 December 2011 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 European Union. 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. 61% of the total amount of outstanding loans is covered by guarantees from a Member State or equivalent bodies (e.g. public institutions). 30% of loans outstanding have been granted to banks or have been guaranteed by banks. 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 2011 that exceeded EUR 128 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.

- For commercial banks that have been specifically selected for the deposit of provisionally cashed fines (restricted cash), a minimum long-term rating AA in one rating agency is also required as a general rule and 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; the calculation of such limit also takes into account the amount of outstanding guarantees issued to the Commission by the same institution.

- 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.

- 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 2011.

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 **2.11.1**). 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 the early months of 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.

Provisionally cashed fines: portfolio (BUFI)
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 62% and 25% of the total volume of the portfolio.

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 2011 fixed term deposits (EUR 300 million) were made with such counterparties (2010: EUR 124 million). As at 31 December 2011, the fund has no investments in short-term discount papers. For the same period the previous year, the fund invested in four short-term financial instruments and all such investments (EUR 69 million) were made with counterparties having a minimum rating of P-1 Moody's or equivalent. All the securities held in the available for sale portfolio are in line with the management guidelines.

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. 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 2011 these investments amounted to EUR 300 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 2011 this ratio stood at 45%.

9. RELATED PARTY DISCLOSURES

9.1 RELATED PARTIES

The related parties of the Commission 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 European Commission, 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 European Union 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 European Union (L187 8/8/1967 last modified by Council Regulation (EC, Euratom) No. 202/2005 of 18/1/2005 (L33 5/2/2005) 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**	**90**	**27**	**97**

* 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, aside from the information presented below, 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.

Additional requests for financial assistance within the Eurozone

The Eurogroup welcomed on 25 June 2012 the Spanish Government's formal application for financial assistance. On the 9 July, it reached a political understanding on a programme designed to help Spain recapitalise and restructure its financial institutions. Once the memorandum of understanding is adopted, it will allow the first disbursement. The financial assistance for recapitalisation will be provided via the European Financial Stability Facility (EFSF) until the European Stability Mechanism (ESM) becomes available and takes over this task.

The Eurogroup also welcomed on 27 June the request of the Cypriot authorities for financial assistance from euro area Member States in view of the challenges that Cyprus is facing, in particular due to distress in the banking sector and the presence of macroeconomic imbalances. Based on an assessment of the financial needs, the euro area financial support would be provided in the framework of a comprehensive adjustment programme. The financial assistance package shall be provided by the EFSF or the ESM on the basis of its financing instruments.

For more information on both the EFSF and the ESM, as well as EU financial assistance programmes, please see Note **7**.

11. SCOPE OF CONSOLIDATION

11.1 CONSOLIDATED ENTITIES

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

* *Consolidated for the first time in 2011*

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 European Union accounts.

11.2.1 The European Development Fund (EDF)

The European Development Fund (EDF) is the main instrument for providing European Union 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 European Union'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 Court of Auditors and the Parliament. For information purposes, the balance sheet and the economic outturn account of the 8th, 9th and 10th EDFs are shown below:

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

EUR millions

	31.12.2011	31.12.2010
NON-CURRENT ASSETS	380	353
CURRENT ASSETS	2 510	2 151
TOTAL ASSETS	**2 890**	**2 504**
CURRENT LIABILITIES	(1 033)	(1 046)
TOTAL LIABILITIES	**(1 033)**	**(1 046)**
NET ASSETS	**1 857**	**1 458**
FUNDS & RESERVES		
Called fund capital	26 979	23 879
Other reserves	2 252	2 252
Economic outturn carried forward from previous years	(24 674)	(21 908)
Economic outturn of the year	(2 700)	(2 765)
NET ASSETS	**1 857**	**1 458**

ECONOMIC OUTTURN ACCOUNT – 8th, 9th and 10th EDFs

EUR millions

	2011	2010
OPERATING REVENUE	99	140
OPERATING EXPENSES	(2 778)	(3 000)
DEFICIT FROM OPERATING ACTIVITIES	**(2 679)**	**(2 860)**
FINANCIAL ACTIVITIES	(21)	95
ECONOMIC OUTTURN OF THE YEAR	**(2 700)**	**(2 765)**

11.2.2 The Sickness Insurance Scheme

The Sickness Insurance Scheme is the scheme that provides medical assurance to the staff of the various European Union bodies. The funds of the Scheme are its own property and are not controlled by the European Union, 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 European Union, and three smaller schemes covering staff in the European University of Florence, 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 2011 totalled EUR 294 million (2010: EUR 286 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).

This 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 2011 the PGF had total assets of EUR 1 171 million (2010: EUR 879 million). The funds of the PGF are its own property and are not controlled by the European Union, even if its financial assets are managed by the Commission.