IV

(Notices)

NOTICES FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

EUROPEAN COMMISSION

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

ANNUAL ACCOUNTS OF THE EUROPEAN UNION — FINANCIAL YEAR 2010

(2011/C 332/01)

CONTENTS

NOTE ACCOMPANYING THE CONSOLIDATED ACCOUNTS

The consolidated annual accounts of the European Union for the year 2010 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.

Philippe TAVERNE

Accounting Officer of the Commission

PART I

Consolidated financial statements of the European Union and explanatory notes

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BALANCE SHEET

EUR millions

	Note	31.12.2010	31.12.2009 (restated)
NON-CURRENT ASSETS:			
Intangible assets	*2.1*	108	72
Property, plant and equipment	*2.2*	4 813	4 859
Long-term investments	*2.3*	2 555	2 379
Loans	*2.4*	11 640	10 764
Long-term pre-financing	*2.5*	44 118	41 544
Long-term receivables	*2.6*	40	55
		63 274	**59 673**
CURRENT ASSETS:			
Inventories	*2.7*	91	77
Short-term investments	*2.8*	2 331	1 791
Short-term pre-financing	*2.9*	10 078	9 436
Short-term receivables	*2.10*	13 501	8 958
Cash and cash equivalents	*2.11*	22 063	23 372
		48 064	**43 634**
TOTAL ASSETS		**111 338**	**103 307**
NON-CURRENT LIABILITIES:			
Employee benefits	*2.12*	(37 172)	(37 242)
Long-term provisions	*2.13*	(1 317)	(1 469)
Long-term financial liabilities	*2.14*	(11 445)	(10 559)
Other long-term liabilities	*2.15*	(2 104)	(2 178)
		(52 038)	**(51 448)**
CURRENT LIABILITIES:			
Short-term provisions	*2.16*	(214)	(213)
Short-term financial liabilities	*2.17*	(2 004)	(40)
Accounts payable	*2.18*	(84 529)	(93 884)
		(86 747)	**(94 137)**
TOTAL LIABILITIES		**(138 785)**	**(145 585)**
NET ASSETS		**(27 447)**	**(42 278)**
Reserves	*2.19*	3 484	3 323
Amounts to be called from Member States (*)	*2.20*	(30 931)	(45 601)
NET ASSETS		**(27 447)**	**(42 278)**

See notes **2.5.2**, **2.9.2**, **2.10.3** and **3.4.1** for details of the restatement of certain 2009 figures

(*) The European Parliament has adopted a budget on 15 December 2010 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 2011. Additionally, under Article 83 of the Staff Regulations (Council Regulation (EEC) 259/68 of 29 February 1968 as amended), the Member States shall jointly guarantee the liability for pensions.

ECONOMIC OUTTURN ACCOUNT

EUR millions

	Note	2010	2009 (restated)
OPERATING REVENUE			
Own resource and contributions revenue	*3.1*	122 328	110 537
Other operating revenue	*3.2*	8 188	7 532
		130 516	**118 069**
OPERATING EXPENSES			
Administrative expenses	*3.3*	(8 614)	(8 133)
Operating expenses	*3.4*	(103 764)	(102 504)
		(112 378)	**(110 637)**
SURPLUS FROM OPERATING ACTIVITIES		**18 138**	**7 432**
Financial revenue	*3.5*	1 178	835
Financial expenses	*3.6*	(661)	(594)
Movement in employee benefits liability	*2.12*	(1 003)	(683)
Share of net deficit of joint ventures & associates	*3.7*	(420)	(103)
ECONOMIC OUTTURN FOR THE YEAR		**17 232**	**6 887**

See notes **2.5.2**, **2.9.2**, **2.10.3** and **3.4.1** for details of the restatement of certain 2009 figures.

CASHFLOW TABLE

EUR millions

	Note	2010	2009 (restated)
Economic outturn for the year		**17 232**	**6 887**
Operating activities	*4.2*		
Amortisation		28	22
Depreciation		358	448
(Reversal of) impairment losses on investments		0	(17)
(Increase)/decrease in loans		(876)	(7 199)
(Increase)/decrease in long-term pre-financing		(2 574)	(12 521)
(Increase)/decrease in long-term receivables		15	(10)
(Increase)/decrease in inventories		(14)	7
(Increase)/decrease in short-term pre-financing		(642)	827
(Increase)/decrease in short-term receivables		(4 543)	2 962
Increase/(decrease) in long-term provisions		(152)	128
Increase/(decrease) in long-term financial liabilities		886	7 210
Increase/(decrease) in other long-term liabilities		(74)	(48)
Increase/(decrease) in short-term provisions		1	(134)
Increase/(decrease) in short-term financial liabilities		1 964	(79)
Increase/(decrease) in accounts payable		(9 355)	4 207
Prior year budgetary surplus taken as non cash revenue		(2 254)	(1 796)
Other non-cash movements		(149)	54
Increase/(decrease) in employee benefits liability		(70)	(313)
Investing activities	*4.3*		
(Increase)/decrease in intangible assets and property, plant and equipment		(374)	(464)
(Increase)/decrease in long-term investments		(176)	(284)
(Increase)/decrease in short-term investments		(540)	(239)
NET CASHFLOW		**(1 309)**	**(352)**
Net increase/(decrease) in cash and cash equivalents		(1 309)	(352)
Cash and cash equivalents at the beginning of the year	*2.11*	23 372	23 724
Cash and cash equivalents at year-end	*2.11*	22 063	23 372

See notes **2.5.2**, **2.9.2**, **2.10.3** and **3.4.1** for details of the restatement of certain 2009 figures.

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 2008	**41**	**3 074**	**(63 225)**	**12 686**	**(47 424)**
Movement in Guarantee Fund reserve		196	(196)		0
Fair value movements	28				28
Other (restated)		(1)	28		27
Allocation of the economic outturn 2008		(15)	12 701	(12 686)	0
Budget result 2008 credited to Member States			(1 796)		(1 796)
Economic outturn for the year (restated)				6 887	6 887
BALANCE AS AT 31 DECEMBER 2009 (restated)	**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 (restated)		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)**

NOTES TO THE FINANCIAL STATEMENTS

CONTENTS

1. SIGNIFICANT ACCOUNTING POLICIES

1.1. LEGAL BASIS AND ACCOUNTING RULES

The consolidated accounts of the European Union cover the accounts of the European Union, the European Atomic Energy Community and the European Coal & Steel Community (in Liquidation). These accounts are kept in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 (OJ L 248, 16.9.2002), 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 has prepared its 2010 consolidated 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, 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. Article 124 of the Financial Regulation sets out the accounting principles to be applied in drawing up the financial statements:

— going concern basis;

— prudence;

— consistent accounting methods;

— comparability of information;

— materiality;

— no netting;

— reality over appearance;

— accrual-based accounting.

Preparation of the consolidated 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 consolidated balance sheet and in the consolidated economic outturn account, as well as the related 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 43 controlled entities, 5 joint ventures and 4 associates. The complete list of consolidated entities can be found in note **10**. In comparison with 2009, the scope of consolidation has been extended by 3 controlled entities (one institution, two agencies), one associate and one joint venture. 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 at entity level needs to be done 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 EU economic outturn account, and its interest in the movements in reserves is recognised in the EU 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 EU 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 have, directly or indirectly, significant influence but not control. It is presumed that significant influence is given if the European Commission 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 EU economic outturn account, and its share of movements in reserves is recognised in the EU 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 EU 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, the EU 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** 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	31.12.2010	31.12.2009
BGN	1,9558	1,9558
CZK	25,0610	26,4730
DKK	7,4535	7,4418
EEK	15,6466	15,6466
GBP	0,8607	0,8881
HUF	277,9500	270,4200
LVL	0,7094	0,7093
LTL	3,4528	3,4528
PLN	3,9750	4,1045
RON	4,2620	4,2363

Currency	31.12.2010	31.12.2009
SEK	8,9655	10,2520
CHF	1,2504	1,4836
JPY	108,6500	133,1600
USD	1,3362	1,4406

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 can only borrow funds for the purpose of lending at the same rate (e.g. BOP) or a reduced rate compared to the commercial market (e.g. EFSM in 2011). 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 Commission for fair valuing its lending operations under EFSM, BOP and other such loans, should be the interest rate charged.

— In addition, for BOP, Euratom and MFA 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 and, after verification, accepted as eligible by the relevant financial agents. At this stage they 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 Union 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 Union 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 Union 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 European Union 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 already 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.

The accounting policies of the European Commission are the same as those applied by the European Union and are outlined in the note 1 of the consolidated annual accounts of the EU.

2. NOTES TO THE BALANCE SHEET

NON CURRENT ASSETS

2.1. **INTANGIBLE ASSETS**

EUR millions

	Amount
Gross carrying amount at 31 December 2009	171
Additions	60
Disposals	(2)
Other changes	7
Gross carrying amount at 31 December 2010	**236**
Accumulated amortisation at 31 December 2009	(99)
Amortisation charge for the year	(28)
Disposals	1
Other changes	(2)
Accumulated amortisation at 31 December 2010	**(128)**
Net carrying amount at 31 December 2010	**108**
Net carrying amount at 31 December 2009	*72*

The above amounts relate primarily to computer software.

2.2. **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 31 December 2009	3 972	460	215	475	182	2 655	231	8 190
Additions	47	44	20	42	15	10	114	292
Disposals	(37)	(125)	(30)	(81)	(27)	(1)	—	(301)
Transfers between asset categories	(1)	0	0	1	11	0	(10)	1
Other changes	46	113	21	46	33	(1)	—	258
Gross carrying amount at 31 December 2010	**4 027**	**492**	**226**	**483**	**214**	**2 663**	**335**	**8 440**
Accumulated depreciation at 31 December 2009	(1 742)	(355)	(155)	(359)	(108)	(612)		(3 331)
Depreciation charge for the year	(127)	(37)	(21)	(60)	(17)	(96)		(358)
Depreciation written back	—	—	—	2	—	—		2
Disposals	31	122	27	77	27	0		284
Transfers between asset categories	1	1	0	0	(1)	0		1
Other changes	(31)	(113)	(18)	(38)	(25)	0		(225)
Accumulated depreciation at 31 December 2010	**(1 868)**	**(382)**	**(167)**	**(378)**	**(124)**	**(708)**		**(3 627)**

EUR millions

	Land and buildings	Plant and equipment	Furniture and vehicles	Computer hardware	Other tangible assets	Finance leases	Assets under construction	TOTAL
Net carrying amount at 31 December 2010	**2 159**	**110**	**59**	**105**	**90**	**1 955**	**335**	**4 813**
Net carrying amount at 31 December 2009	*2 230*	*105*	*60*	*116*	*74*	*2 043*	*231*	*4 859*

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 also notes **2.15** and **2.18.1**). They break down as follows:

FINANCE LEASES

EUR millions

Description	Cumulative charges (A)	Future amounts to be paid				Total Value	Subsequent expen-diture 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	843	56	271	1 389	1 716	2 559	61	2 620	(684)	**1 936**
Other tangible assets	22	9	11	1	21	43	0	43	(24)	**19**
Total at 31.12.2010	**865**	**65**	**282**	**1 390**	**1 737**	**2 602**	**61**	**2 663**	**(708)**	**1 955**
Total at 31.12.2009	*799*	*59*	*270*	*1 466*	*1 795*	*2 594*	*61*	*2 655*	*(612)*	*2 043*

2.3. LONG-TERM INVESTMENTS

EUR millions

	Note	31.12.2010	31.12.2009
Participations in Joint Ventures	2.3.1	138	196
Participations in Associates	2.3.2	354	382
Guarantee Fund	2.3.3	1 346	1 240
Available-for-Sale assets	2.3.4	717	561
Total Investments		**2 555**	**2 379**

This heading covers investments made with a view to supporting the activities of the EU. It also includes the net assets of the Guarantee Fund.

2.3.1. *Participations in joint ventures*

EUR millions

	GJU	SESAR	ITER	IMI	FCH	Total
Amount at 31.12.2009	0	80	35	81	0	196
Contributions	0	41	53	24	64	182
Share of net result	0	(110)	(76)	(27)	(27)	(240)
Amount at 31.12.2010	**0**	**11**	**12**	**78**	**37**	**138**

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

	31.12.2010	31.12.2009
Non-current assets	176	48
Current assets	165	192
Non-current liabilities	0	0
Current liabilities	(208)	(44)
Revenue	7	72
Expenses	(247)	(169)

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 2010, there were no revenues or expenditures incurred. The net assets of the GJU and thus the value of the investment at 31 December 2010 (and 31 December 2009) was EUR 0, being the investment of EUR 585 million less the accumulated share of losses, EUR 585 million.

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 2010, the Commission held 78,8 % or EUR 11 million of the ownership participation in SESAR. The total (indicative) Commission contribution foreseen for SESAR (from 2007 to 2013) is EUR 700 million.

ITER International Fusion Energy Organisation (ITER)

ITER involves the European Union and China, India, Russia, 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 2010, Euratom held 47,2 % or EUR 12 million of the ownership participation in ITER. The total (indicative) Euratom contribution foreseen for ITER (from 2007 to 2041) is EUR 7 649 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. During 2010 two new Joint Technology Initiatives became operational, the ENIAC Joint Undertaking and the FCH Joint Undertaking. Although ENIAC is legally referred to as a joint undertaking, from an accounting perspective it must be considered as an associate (and so is included as such in note **2.3.2**) because the Commission has a significant influence, not joint control, over this entity (similar to the ARTEMIS and Clean Sky Joint Undertakings).

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. The ownership interest of the European Union, represented by the Commission, is 97,4 % or EUR 78 million at 31 December 2010. 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. The ownership interest of the European Union, represented by the Commission, is 99,9 % or EUR 37 million at 31 December 2010. 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 December 2009	301	7	74	0	382
Contributions	14	19	101	30	164
Share of net surplus/(deficit)	2	(12)	(161)	(9)	(180)
Other equity movements	(12)	0	0	0	(12)
Amount at 31 December 2010	**305**	**14**	**14**	**21**	**354**

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

	31.12.2010	31.12.2009
Assets	447	420
Liabilities	(93)	(38)
Revenue	25	17
Surplus/(Deficit)	(180)	(6)

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. At 31 December 2010, the Commission has subscribed for a total amount of EUR 900 million (out of EUR 3 000 million) of the share capital of the EIF. This represents 30 % of the total EIF share capital. EUR 2 million of the above amount concerns the result for 2010 (profit). No dividend was received in 2010. 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 ownership interest of the EU, represented by the Commission, at 31 December 2010 is 96,7 % or EUR 14 million. The maximum indicative contribution of the Commission shall amount to EUR 420 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 ownership interest of the European Union, represented by the Commission, is 64,7 % or EUR 14 million at 31 December 2010. The maximum indicative contribution of the Commission to this venture shall amount to EUR 800 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 ownership interest of the European Union, represented by the Commission, is 97,8 % or EUR 21 million at 31 December 2010. The total commitment of the EU shall amount to EUR 450 million.

2.3.3. ***Guarantee Fund***

Net assets of the Guarantee Fund

EUR millions

	31.12.2010	31.12.2009
Available-for-sale assets	1 154	1 050
Cash and cash equivalents	193	191
Total assets	**1 347**	**1 241**
Total liabilities	**(1)**	**(1)**
Net assets	**1 346**	**1 240**

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 85 % 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 a revenue in the general budget of the EU.

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 of EUR 1 746 million corresponds to the target amount of 9 % of the loans outstanding at 31 December 2010. The net assets of the Fund at 31 December 2010 total EUR 1 346 million. The difference between the net assets and the amount of the reserve corresponds to the amount to be paid by the EU budget to the Fund, i.e. EUR 400 million. Fair-value changes of the available-for-sale debt security portfolio have been recognised in equity in 2010 totalling a decrease of EUR 30 million (2009: increase of EUR 16 million).

2.3.4. ***Available-for-sale assets (long-term)***

This includes investments and participations purchased to help beneficiaries develop their business activities.

Long-term Available-for-sale assets

EUR millions

	31.12.2010	31.12.2009
European Bank for Reconstruction and Development	188	157
Risk Capital Operations	137	132
ETF Start up	199	154
European Fund for South East Europe	102	96
Green for Growth Fund	20	20
GEEREF	56	—
Progress Microfinance Facility	14	—
Other investments	1	2
Total	**717**	**561**

European Bank for Reconstruction and Development (EBRD)

In May 2010, the Board of Governors approved an immediate increase in the authorised paid-in shares of EUR 1 billion. Payment for the paid-in shares issued was by way of a reallocation of net income previously allocated to surplus for other purposes, namely for the payment of such paid-in shares. 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.

The Commission has subscribed to 3 % of the EBRD's total capital of EUR 21 billion. At balance sheet date, the called up amount was EUR 187 million, which has been fully paid. Payments outstanding on non-called up capital amount to EUR 443 million.

EUR millions

EBRD	Total EBRD capital	Commission subscription
Total Share Capital	20 793	630
Paid-in	(6 197)	(187)
Uncalled	14 596	443

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 and the CIP programme, under the trusteeship of the EIF, supporting the creation and financing of start-up SMEs by investing in suitable specialised venture capital funds.

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.

A new investment of EUR 56 million was made relating to **GEEREF**. This is a new innovative fund providing global risk capital through private investment for energy efficiency and renewable energy projects in developing countries and economies in transition. There is also a new investment in 2010 of EUR 14 million in the **Progress Microfinance Facility** for employment and social inclusion.

At year-end, a further EUR 122 million relating to ETF Start up and SME Finance Facility had been committed to, but not yet been drawn down by the other parties.

2.4. LOANS

EUR millions

	Note	31.12.2010	31.12.2009
Loans granted from the EU budget & ECSC	*2.4.1*	162	169
Loans granted from borrowed funds	*2.4.2*	11 478	10 595
Total		**11 640**	**10 764**

2.4.1. *Loans granted from the European Union budget & the ECSC in liquidation*

EUR millions

	Loans with special conditions	ECSC housing loans	Total
Total at 31.12.2009	143	26	169
New loans	2	—	2
Repayments	(16)	(5)	(21)
Changes in carrying amount	11	1	12
Total at 31.12.2010	**140**	**22**	**162**

Loans with special conditions are granted at preferential rates as part of co-operation with non-member countries. All amounts fall due more than 12 months after year-end. The effective interest rates on these loans vary between 7,73 % and 14,507 %.

2.4.2. *Loans granted from borrowed funds*

EUR millions

	MFA	Euratom loans	BOP	ECSC in liquidation	Total
Total at 31.12.2009	587	484	9 303	261	10 635
New loans	—	—	2 850	—	2 850
Repayments	(84)	(17)	—	—	(101)
Exchange differences	—	2	—	7	9
Changes in carrying amount	—	—	93	(4)	89
Total at 31.12.2010	503	469	12 246	264	13 482
Amount due < 1 year	**—**	**—**	**2 004**	**—**	**2 004**
Amount due > 1 year	**503**	**469**	**10 242**	**264**	**11 478**

The effective interest rates (expressed as a range of interest rates) were as follows:

Loans	31.12.2010	31.12.2009
Macro Financial Assistance (MFA)	0,99 %-4,54 %	0,9625 %-4,54 %
Euratom	0,96313 %-5,76 %	1,071 %-5,76 %
BOP	2,375 %-3,625 %	3,125 %-3,625 %
ECSC in liquidation	0,556 %-5,8103 %	0,346 %-5,8103 %

Macro Financial Assistance (MFA) loans

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 2010, EUR 300 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 **2.3.3**).

Euratom loans

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 466 million (2009: EUR 481 million) have been received in respect of these loans.

Balance of Payment (BOP) loans

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. These loans are guaranteed by the EU general budget.

Between November 2008 and end 2010, loans amounting to EUR 14,6 billion were granted to Hungary, Latvia and Romania, of which EUR 12,05 billion have been disbursed by the end of 2010. The following table shows the disbursement and maturity dates for the different BOP loan instalments already disbursed:

EUR millions

	Hungary	Latvia	Romania	Total
Disbursed in 2008:				
— With maturity Nov. 2011	2 000	—	—	2 000
Disbursed in 2009:				
— With maturity April 2014	—	1 000	—	1 000
— With maturity Nov. 2014	2 000	—	—	2 000
— With maturity Jan. 2015	—	1 200	1 500	2 700
— With maturity April 2016	1 500	—	—	1 500

EUR millions

	Hungary	Latvia	Romania	Total
Disbursed in 2010:				
— With maturity Sept. 2017	—	—	1 150	1 150
— With maturity May 2019	—	500	1 000	1 500
— With maturity Oct. 2025	—	200	—	200
Loans disbursed at 31.12.10	**5 500**	**2 900**	**3 650**	**12 050**
Total loans granted	6 500	3 100	5 000	14 600
Undrawn amounts at 31.12.10	*Expired*	*200*	*1 350*	*1 550*

It should be noted that the BOP assistance programme for Hungary expired in November 2010.

EFSM

Since disbursements under the European Financial Stability Mechanism ('EFSM') only took place after 31 December 2010, the details on these loans are given in Note **9**.

ECSC in liquidation loans

This item mainly includes loans 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.

2.5. LONG-TERM PRE-FINANCING

EUR millions

	31.12.2010	31.12.2009 (Restated)
Pre-financing (see note **2.5.1**)	40 298	39 750
Prepaid expenditure (see note **2.5.2**)	3 820	1 794
Total Long-term Pre-financing	**44 118**	**41 544**

2.5.1. *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.

Total pre-financing

EUR millions

	31.12.2010	31.12.2009
Long-term Pre-financing (see below)	40 298	39 750
Short-term Pre-financing (see note **2.9**)	9 123	9 077
Total Pre-financing	**49 421**	**48 827**

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 2010 the 'nominal' value of guarantees received in respect of pre-financing amounted to EUR 1 227 million while the 'on-going' value of those guarantees was EUR 1 059 million (2009: EUR 936 million and EUR 724 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 2010 totalled EUR 3,2 billion (2009: EUR 2,7 billion). 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 (and thus a pre-financing in the Commission's books) 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 Commission and the participants. At 31 December 2010 EUR 866 million has been contributed to the PGF by the participants (2009: EUR 561 million) – see also note **11**.

Long-term pre-financing

EUR millions

Management type	31.12.2010	31.12.2009
Direct centralised management	1 695	1 148
Indirect centralised management	620	486
Decentralised management	441	347
Shared management	37 055	37 199
Joint management	487	568
Implemented by other Institutions & Agencies	0	2
Total	**40 298**	**39 750**

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.

2.5.2. *Prepaid expenditure*

EUR millions

	31.12.2010	31.12.2009 (Restated)
Financial Engineering Instruments	3 820	1 794
Total	**3 820**	**1 794**

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. However, the basic legal acts do not oblige the Member States to provide periodic reports to the Commission on the use of these funds. It has been noted that while such payments had, up to and including 2010, been originally accounted for as expenses in the Commission's accounting system,not all the monies have been used by the Instrument.It is, therefore more appropriate to classify them as assets on the balance sheet (prepaid expenditure).

It has also been noted that, given the intended purpose of these amounts, their use cannot be determined simply by examining a basic source of information like the account statements of the Instrument since, for example, the amounts used as guarantees remain blocked on the Instruments' bank accounts and the loans reimbursed to the Instrument become available for new loans. Since the Member States are not required to report specifically on these funds, and since it would not be cost-effective for the Commission to collect such information itself, so as to properly reflect in the financial statements the use of these amounts during the programming period, it has been necessary to make estimations. The most reliable method available, and thus the approach used, is charging the expenses to the economic outturn account on a straight line basis over the programming period up to 31.12.2015, that being the last date when such expenditure is allowable.

To achieve this objective, the Commission requested the necessary information from Member States during early 2011 so as to estimate and then recognise the unused amounts on the balance sheet at 31 December 2010. This total amount is split between amounts that the Member States expect to use during 2011 (shown in note **2.9.2**) and amounts that will be used after 2011, shown in the table above.

In accordance with the EU accounting rules, and internationally accepted accounting practice, since the above constitutes a change in accounting policy and the amounts concerned are material, the 2009 balance sheet has been restated in these financial statements so as to present comparable figures showing the situation as it would have looked had the same accounting treatment been followed last year. The impact on 2008 was estimated to be only EUR 18 million, and consequently this amount was adjusted against the accumulated deficit in 2009 and no restatement of the 2009 opening balance was made. The impact of this restatement on the original 2009 balance sheet is shown below:

	2009 balance sheet originally presented	Change in accounting policy	2009 balance sheet restated
Long-term pre-financing:			
Pre-financing	39 750	—	39 750
Pre-paid expenditure	—	1 794	1 794
	39 750	1 794	41 544
Short-term pre-financing:			
Pre-financing	9 077	—	9 077
Pre-paid expenditure	—	359	359
	9 077	359	9 436
Short-term receivables:			
Accrued income & deferred charges	3 912	295	4 207

	2009 balance sheet originally presented	Change in accounting policy	2009 balance sheet restated
Total assets	**100 859**	**2 448**	**103 307**
Total liabilities	**(145 585)**	**—**	**(145 585)**
Net Assets	**(44 726)**	**2 448**	**(42 278)**
Accumulated Result & Reserves			
Reserves	3 323	—	3 323
Accumulated deficit	(52 506)	18	(52 488)
Result current year	4 457	2 430	6 887
	(44 726)	**2 448**	**(42 278)**

2.6. LONG-TERM RECEIVABLES

EUR millions

	31.12.2010	31.12.2009
Member States	14	26
ECSC staff loans	9	10
Guarantees and deposits	14	17
Other	3	2
Total	**40**	**55**

Amounts to be received from Member States refer to amounts due to the ECSC in liquidation from former accession countries. From the total tong-term receivables EUR 14 million (2009: EUR 26 million) relates to non-exchange transactions.

CURRENT ASSETS

2.7. INVENTORIES

EUR millions

Description	31.12.2010	31.12.2009
Scientific materials	71	62
Other	20	15
Total	**91**	77

2.8. SHORT-TERM INVESTMENTS

Short-term Available-for-sale assets

EUR millions

	31.12.2010	31.12.2009
ECSC in liquidation	1 283	1 483
Risk Sharing Finance Facility	419	244
Loan Guarantee Instrument for TEN-T projects	111	61
BUFI investments	515	0
Other	3	3
Total	**2 331**	**1 791**

Short-term investments consist of available-for-sale financial assets, which 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.

Regarding the ECSC in liquidation amounts, all AFS investments are debt securities denominated in EUR and quoted in an active market. At 31 December 2010 debt securities (expressed at their fair value) reaching final maturity in the course of 2010 amount to EUR 294 million (2009: EUR 242 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 investment of provisionally cashed fines amounts in a specifically created fund managed by DG ECFIN (BUFI). In previous years, these amounts would have been held in specific bank accounts – see note **2.11**, restricted cash.

2.9. SHORT-TERM PRE-FINANCING

EUR millions

	31.12.2010	31.12.2009 (Restated)
Pre-financing (see note **2.9.1**)	9 123	9 077
Prepaid expenditure (see note **2.9.2**)	955	359
Total short-term pre-financing	**10 078**	**9 436**

2.9.1. *Pre-financing*

EUR millions

Management type	31.12.2010	31.12.2009
Direct centralised management	3 038	2 924
Indirect centralised management	2 368	1 990
Decentralised management	536	700
Shared management	2 177	2 550
Joint management	894	832
Implemented by other Institutions & Agencies	110	81
Total	**9 123**	**9 077**

The decrease in short-term pre-financing under shared management is due to the winding down of the Solidarity Fund. Although pre-financing instalments were paid in 2010 for new projects (programmes related to the period 2007-2013), they were classified under long-term assets as explained in note **2.5**. The increase in short-term pre-financing under the indirect and direct centralised management type is due to the increased activities, mainly in the research and development fields.

2.9.2. *Prepaid expenditure*

EUR millions

	31.12.2010	31.12.2009 (Restated)
Financial Engineering Instruments	955	359
Total	**955**	**359**

As explained under note **2.5.2**, these amounts relate to payments made to Member States under the framework of the cohesion and rural develoment programmes 2007-2013, so as to establish or contribute to Financial Engineering Instruments, but which have not yet been used by the instrument at year-end. The above amounts are expected to be used during 2011.

2.10. SHORT-TERM RECEIVABLES

EUR millions

	31.12.2010	31.12.2009 (Restated)
Loans and term deposits	2 170	216
Current receivables	6 786	4 519
Sundry receivables	20	16
Accrued income and deferred charges	4 525	4 207
Total	**13 501**	**8 958**

The total short-term receivables contain an estimated EUR 11 009 million (2009: 8 415 million) relating to non-exchange transactions.

2.10.1. *Loans and term deposits*

These amounts concern primarily BOP loans of EUR 2 004 million with remaining final maturities less than 12 months after the balance sheet date (see note **2.4** above). Also included under this heading are term deposits of EUR 166 million, primarily relating to the ECSC in liquidation.

2.10.2. *Current receivables*

EUR millions

Account Group	At 31.12.2010			At 31.12.2009		
	Gross amount	Write down	Net Value	Gross amount	Write down	Net Value
Customers	207	(79)	128	277	(76)	201
Fines	4 584	(406)	4 178	3 370	(133)	3 237
Member States	4 011	(1 625)	2 386	2 198	(1 191)	1 007
Others	96	(2)	94	76	(2)	74
Total	**8 898**	**(2 112)**	**6 786**	**5 921**	**(1 402)**	**4 519**

Customers

These are recovery orders entered in the accounts at 31 December 2010 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. The increase in the write-down from last year is primarily explained by the reduction during 2011 of fines decided before 31 December 2010. Additionally, the write-down takes into account the fact that some new fines issued could not be, in the context of the economic and financial crisis, covered by provisional payments or bank guarantees. Guarantees totalling EUR 2 585 million had been received for the fines outstanding at 31 December 2010 (2009: EUR 2 952 million) in respect of these receivables. It should be noted that EUR 1 771 million of the above amounts were due for payment after 31 December 2010.

Receivables from Member States

EAGF and Rural Development receivables

This item primarily covers the amounts owed by beneficiaries of EAGF at 31 December 2010, as declared and certified by the Member States at 15 October 2010, and less 20 % of the amount, which the Member States are allowed to retain to cover administrative costs. An estimation is made for the receivables arising after this declaration and up to 31 December 2010. 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. Please note also that the write-down method has been adjusted in 2010 with an impact on both income and expenditure which has a neutral effect on the net amount – see note **3.2.3**. Following the new method, the receivables are booked for the nominal value and the value reduction is based on statistical analysis (recovery rate).

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 of EUR 811 million 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.

Other receivables from Member States

Other receivables from Member States include EUR 30 million of recovery of expenses and EAGF advances of EUR 199 million compared to EUR 72 million and EUR 8 million respectively in 2009.

EUR millions

	31.12.2010	31.12.2009
EAGF and Rural Development receivables		
EAGF	1 130	627
TRDI	19	—
SAPARD	146	—
Write-down	(814)	(350)
Total	**481**	**277**
VAT paid and recoverable from Member States	**46**	**38**
Own resources		
Established in the A account	81	89
Established in the separate account	1 285	1 260
Write-down	(811)	(841)
Other	391	25
Total	**946**	**533**
Other receivables from Member States	**913**	**159**
Total	**2 386**	**1 007**

2.10.3. ***Accrued income and deferred charges***

EUR millions

	31.12.2010	31.12.2009 (Restated)
Accrued income	3 445	3 655
Deferred charges	1 061	525
Other	19	27
Total	**4 525**	**4 207**

The main amount under this heading is accrued income:

EUR millions

	31.12.2010	31.12.2009
Own resources	2 657	2 209
Agricultural assigned revenue Nov & Dec	72	940
EAGF: non-executed conformity correction decisions	520	0
Cohesion, Regional & Rural Development Funds: financial corrections	43	404
Other accrued income	153	102
Total accrued income	**3 445**	**3 655**

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

The most significant amounts included as deferred charges relate to funds transferred by Member States into Financial Engineering Instruments which were yet to be declared to or reimbursed by the Commission at year-end. At 31 December 2010 these amounted to EUR 858 million (2009: EUR 295 million). It should be noted that the amount for 2009 has been restated - see note **2.5.2** for more details. Also included under deferred charges are amounts totalling EUR 182 million of which the main amounts are anticipated payments of EUR 50 million paid under bilateral fisheries agreements with third countries, EUR 41 million for the European school and EUR 44 million for office rental.

2.11. **CASH AND CASH EQUIVALENTS**

EUR millions

	31.12.2010	31.12.2009
Unrestricted cash:		
Accounts with Treasuries & Central Banks	10 123	10 958
Current accounts	1 150	1 967
Imprest accounts	39	42
Transfers (cash in transit)	1	9
Short-term deposits and other cash equivalents	1 670	1 486
Total	**12 983**	**14 462**
Restricted cash	**9 080**	**8 910**
Total	**22 063**	**23 372**

2.11.1. *Unrestricted cash*

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

Amounts shown as short-term deposits relate primarily to monies managed by fiduciaries on behalf of the EU for the purpose of implementing particular programmes funded by the EU budget. At year-end, EUR 131 million had been committed to, but not yet been drawn down by the other parties.

2.11.2. *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.

NON CURRENT LIABILITIES

2.12. EMPLOYEE BENEFITS

EUR millions

	31.12.2010	31.12.2009
Pensions – Staff	32 801	33 316
Pensions – others	840	663
Joint Sickness Insurance Scheme	3 531	3 263
Total	**37 172**	**37 242**

2.12.1. *Pensions – Staff*

In accordance with Article 83 of the Staff Regulations, the payment of the benefits provided for in the staff pension scheme (PSEO: Pension Scheme of European Officials) constitutes 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 2010 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	31.12.2010	31.12.2009
Nominal discount rate	4,6 %	4,5 %
Expected inflation rate	2,1 %	2,5 %
Real discount rate	2,4 %	2,0 %
Probability of marriage: Man/Woman	84 %/38 %	84 %/38 %
General Salary Growth/pension revaluation	0 %	0 %
2008 International Civil Servants Life Table	Yes	Yes

Liabilities cover the rights previously defined for the following persons:

1. Staff in active employment at 31.12.2010 in all Institutions and Agencies included in the scheme;

2. Staff in a deferred situation, i.e. who have temporally or definitively left the Institutions but leaving their pension rights in the pension scheme (and having accumulated at least 10 years of service);

3. Former officials and other servants benefiting from a retirement pension;

4. Former officials and other servants benefiting from a invalidity pension;

5. Former officials and other servants benefiting from an invalidity allowance;

6. The recipients of a survivor pension (widows or widowers, orphans, dependants).

The principal points to note are (see also table below for main movements):

— The gross actuarial liability was valued at EUR 36 639 million at 31 December 2010 (2009: EUR 37 215 million). Added to this is a co-efficient corrector effect of EUR 1 063 million (2009: EUR 1 079 million). Taxes payable by beneficiaries are deducted from the total gross liability to arrive at the net liability included on the balance sheet (since tax is deducted on the payment of pensions and credited to the EU's revenue in the year of payment.) This net liability (gross liability less taxes) at 31 December 2010 has thus been estimated at EUR 32 801 million.

— The number of members of the staff pension scheme increased by 1 578 individuals.

2.12.2. ***Pensions – Others***

This refers to the liability relating to the pension obligations towards Members and former Members of the Commission, the Court of Justice (and General Court) and the Court of Auditors, the Secretaries General of the Council, the Ombudsman, the European Data Protection Supervisor, and the European Union Civil Service Tribunal. Also included under this heading is a liability relating to the pensions of Members of the European Parliament.

2.12.3. ***Joint Sickness Insurance Scheme***

A valuation is also made for the estimated liability that the EU has regarding its contributions to the Joint Sickness Insurance Scheme in relation to its retired staff. The gross liability has been valued at EUR 3 791 million and plan assets of EUR 260 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.

Movement in Gross Employee Benefits liability

EUR millions

	Staff pension liability	Sickness Insurance
Gross Liability at 31 December 2009	37 215	3 535
Service/normal cost	1 331	188
Interest cost	1 709	169
Benefits paid	(1 131)	(95)

EUR millions

	Staff pension liability	Sickness Insurance
Actuarial gains	(2 566)	(6)
Change due to newcomers	81	—
Gross Liability at 31 December 2010	**36 639**	**3 791**

2.13. LONG-TERM PROVISIONS

EUR millions

	Amount at 31.12.2009	Additional provisions	Unused amounts reversed	Amounts used	Transfer to short-term	Change in estimation	Amount at 31.12.2010
Legal cases	413	30	(136)	(1)	0	0	306
Nuclear site dismantlement	908	0	0	(3)	(21)	21	905
Financial	76	38	0	0	(30)	2	86
Other	72	18	(9)	(55)	(6)	0	20
Total	**1 469**	**86**	**(145)**	**(59)**	**(57)**	**23**	**1 317**

Legal cases

This is the estimate of amounts that will probably have to be paid out after 2011 in relation to a number of ongoing legal cases. The largest portion, EUR 300 million, concerns court cases pending at 31 December 2010 in relation to financial corrections for EAGF 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). At 31 December 2010, this resulted in a total provision of EUR 926 million split between amounts expected to be paid in 2011 (EUR 21 million) and afterwards (EUR 905 million). 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, 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).

Other provisions

The main amount here concerns the estimates of the EU's contributions to various Member States under the Emergency Veterinary Fund for certain animal disease outbreaks, totalling EUR 12 million (2009: EUR 60 million) split between amounts expected to be settled in 2011 (EUR 10 million) and later (EUR 2 million).

2.14. LONG-TERM FINANCIAL LIABILITIES

EUR millions

	MFA	Euratom loans	BOP	ECSC in liquidation	Total
Total at 31.12.2009	587	484	9 303	225	10 599
New borrowings	—	—	2 850	—	2 850
Repayments	(84)	(17)	—	—	(101)
Exchange differences	—	2	—	6	8
Changes in carrying amount	—	—	93	—	93
Total at 31.12.2010	503	469	12 246	231	13 449
Amount due < 1 year	—	—	2 004	—	2 004
Amount due > 1 year	**503**	**469**	**10 242**	**231**	**11 445**

This heading includes borrowings due by the European Union maturing in over one year. Borrowings include debts evidenced by certificates amounting to EUR 13 211 million (2009: EUR 10 324 million). The changes in carrying amount correspond to the change in accrued interests.

The effective interest rates (expressed as a range of interest rates) were as follows:

Borrowings	31.12.2010	31.12.2009
Macro Financial Assistance (MFA)	0,99 %-4,54 %	0,9625 %-4,54 %
Euratom	0,987 %-5,6775 %	0,9031 %-5,6775 %
BOP	2,375 %-3,625 %	3,125 %-3,625 %
ECSC in liquidation	0,556 %-9,2714 %	0,346 %-9,2714 %

2.15. OTHER LONG-TERM LIABILITIES

EUR millions

	31.12.2010	31.12.2009
Finance Leasing debts	1 672	1 736
Buildings paid for in instalments	382	395
Other	50	47
Total	**2 104**	**2 178**

This item covers primarily leasing liabilities due in more than one year (see note **2.2** above). Also included are amounts relating to certain buildings that the Commission bought where the purchase price will be paid off in instalments - these are not leasing contracts since title passed to the Commission immediately.

CURRENT LIABILITIES

2.16. SHORT-TERM PROVISIONS

EUR millions

	Amount at 31.12.2009	Additional provisions	Unused amounts reversed	Amounts used	Transfers from long term	Change in estimation	Amount at 31.12.2010
Legal cases	30	7	(7)	(1)	0	0	29
Nuclear site dismantlement	22	0	0	(22)	21	0	21
Financial	128	21	(3)	(38)	30	2	140
Other	33	10	(5)	(20)	6	0	24
Total	**213**	**38**	**(15)**	**(81)**	**57**	**2**	**214**

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

2.17. SHORT-TERM FINANCIAL LIABILITIES

This heading includes BOP borrowings of EUR **2 004 million** (see note **2.14**) that mature during the 12 months following the balance sheet date (2009: EUR 40 million relating to MFA).

2.18. ACCOUNTS PAYABLE

EUR millions

	31.12.2010	31.12.2009
Current portion of long-term liabilities	78	71
Current payables	17 615	15 260
Sundry payables	97	133
Accrued charges and deferred income	66 739	78 420
Total	**84 529**	**93 884**

2.18.1. *Current portion of long-term liabilities*

EUR millions

	31.12.2010	31.12.2009
Finance leasing liabilities	65	59
Other	13	12
Total	**78**	**71**

2.18.2. *Current payables*

EUR millions

Type	31.12.2010	31.12.2009
Member States	17 035	14 903
Suppliers and other	1 292	944
Estimated non-eligible amounts	(712)	(587)
Total	**17 615**	**15 260**

Current payables include cost statements received by the EU 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 as accrued charges (see note **2.18.3** below), while the non-eligible parts remain open on the 'Estimated non-eligible amounts' accounts. 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 EUR 16 924 million (2009: EUR 11 160 million) in unpaid cost claims for Structural Fund actions.

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

Payables are reduced by EUR 712 million, being 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.

2.18.3. *Accrued charges and deferred income*

EUR millions

	31.12.2010	31.12.2009
Accrued charges	66 326	76 435
Deferred income	407	1 976
Other	6	9
Total	**66 739**	**78 420**

The split of accrued charges is as follows:

EUR millions

	31.12.2010	31.12.2009
EAGF accrued charges:		
Expenses 16/10/2010 to 31/12/2010	33 015	32 087
Direct Aid	10 703	12 195
Sugar restructuring	400	735
Others	(303)	(55)
Total EAGF:	**43 815**	**44 962**
Structural Actions accrued charges:		
EAFRD & EAGGF-G	10 792	9 076
EFF	116	347
ERDF & innovative actions	3 337	11 777
Cohesion fund	1 557	980

EUR millions

	31.12.2010	31.12.2009
ISPA	74	3
ESF	2 182	5 411
Total Structural Actions:	**18 058**	**27 594**
Other accrued charges:		
R&D	1 267	1 687
Other	3 186	2 192
Total Others:	**4 453**	**3 879**
Total accrued charges	**66 326**	**76 435**

There is a general trend of decreasing expenditure for the Structural Actions, due to the fact that the 2000-2006 programmes are now in the closing phase.

The large amount of deferred income at 31 December 2009 was due to the advance payment of 2010 own resources contributions by two Member States.

NET ASSETS & RESERVES

2.19. RESERVES

EUR millions

	31.12.2010	31.12.2009
Fair value reserve	**(61)**	**69**
Other reserves:		
Guarantee Fund	1 746	1 472
Revaluation reserve	57	57
Borrowing and lending activities	1 525	1 511
Other	217	214
Total	**3 545**	**3 254**
Total	**3 484**	**3 323**

2.19.1. *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 2010 amounts of EUR 48 million have been taken out of the fair value reserve and recognised in the economic outturn account relating to available-for-sale assets.

2.19.2. *Other reserves*

Guarantee Fund

See also note **2.3.3** 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

The revaluation reserve comprises the revaluations of property, plant and equipment. The balance at the year-end of EUR 57 million relates to a revaluation of Commission land and buildings, which had already occurred before the transition to the new accounting rules.

Borrowing and lending activities reserve

The amount relates 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.

2.20. AMOUNTS TO BE CALLED FROM MEMBER STATES

EUR millions

	Amount
Amounts to be called from Member States at 31 December 2009 (restated)	**45 601**
Return of 2009 budget surplus to Member States	2 254
Movement in Guarantee Fund reserve	273
Other reserve movements	21
ECSC in liquidation: transfer 2009 result to reserves	14
Economic outturn (surplus) for the year	(17 232)
Total amounts to be called from Members States at 31 December 2010	**30 931**
Split between:	
Employee Benefits	37 172
Other amounts	(6 241)

This amount, which is not classified as a receivable from the Member States, is equivalent to the sum of the accumulated deficit resulting from previous years (EUR 48 163 million) and the economic surplus for 2010 (EUR 17 232 million). The purpose of 'amounts to be called from Member States' is to reflect the actual situation of an annual budget process which funds multi-annual actions. The reserves (EUR 3 484 million), which have to be used in accordance with their own specific regulations and rules, are deliberately not taken into account for this purpose.

In essence, this amount represents that part of the expenses already incurred by the EU up to 31 December 2010 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 by 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 amount of payments due to the Member States for the period 16 October to 31 December 2010 was EUR 33 billion. 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 2011	1 278
Long-term: amounts to be paid after 2011	35 894
Total employee benefits liability at 31.12.2010	**37 172**

There was a EUR 14,7 billion decrease in the amounts to be called from Members States compared to last year. This decrease is due mainly to: (1) a EUR 9,4 billion decrease in accounts payable (see note **2.18**), (2) an increase of EUR 2 billion in short-term financial liabilities (note **2.17**), (3) an increase of EUR 2,6 billion in long-term pre-financing, and (4) a EUR 4,6 billion increase in short-term receivables (note **2.10**).

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	2010	2009
Own resource revenue:	*3.1.1*		
GNI resources		91 178	81 978
VAT resources		12 517	12 795
Traditional own resources:			
Custom duties		*16 065*	*14 002*
Sugar levies		150	130
Total traditional own resources		16 215	14 132
Budgetary adjustments	*3.1.2*	2 135	1 399
Contributions of third countries (incl. EFTA countries)		283	233
Total		**122 328**	**110 537**

Own resources revenue is the primary element of the European Union’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.

3.1.1. *Own resource revenue*

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.

Compared to 2009, there has been a EUR 9,2 billion increase in the GNI based own resource revenue, which reflects the need to finance higher payments appropriations in 2010. There was a EUR 2 billion increase in custom duties caused primarily by an increase in imports.

3.1.2. ***Budgetary adjustments***

The budgetary adjustments include the budget surplus from 2009 (EUR 2 254 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 2010. Additionally, according to the ORD 2007, the United Kingdom is granted a correction in respect of budgetary imbalances. As this amount is financed by the other Member States there should be no net effect on the budgetary or economic outturn. However, an amount of EUR 112 million was registered under this heading being the differences in the Euro rates used for budgetary purposes (see Article 10 (3) of Regulation (EC, Euratom) No 1150/2000) and the rates in force at the time when those Member States not part of the EMU actually made their payments.

3.2. **OTHER OPERATING REVENUE**

EUR millions

	Note	2010	2009
Fines	*3.2.1*	3 077	2 648
Agricultural levies	*3.2.2*	25	705
Recovery of expenses:	*3.2.3*		
Direct centralised management		49	63
Indirect centralised management		11	6
Decentralised management		71	41
Shared management		1 776	1 066
Total		**1 907**	**1 176**
Revenue from administrative operations:	*3.2.4*		
Staff		1 073	1 010
Property, plant and equipment related revenue		13	33
Other administrative revenue		121	165
Total		**1 207**	**1 208**
Miscellaneous operating revenue:	*3.2.5*		
Adjustments/provisions		157	150
Exchange gains		460	618
Other		1 355	1 027
Total		**1 972**	**1 795**
Total		**8 188**	**7 532**

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 milk levies of EUR 25 million (2009: EUR 99 million plus sugar levies of EUR 606 million). Milk levies 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. Milk quotas are being phased out, which explains the continued decrease in levies revenue. From the 2008/2009 agricultural year onwards quotas will be increased annually by 1 % until their abolition in 2015.

Sugar levies relate to the sugar restructuring fund, whereby the reform of the sugar sector has lowered the internal price of sugar in order to reduce the gap between the EU price and the international price. To encourage the less competitive sugar producers to leave the market, a self-financing restructuring fund was created, financed by revenue stemming from a temporary tax levied on sugar producers, which is treated as assigned revenue. While the scheme's payments will continue until September 2012 all the revenue related to the sugar restructuring fund has already been declared by Member States at 31 December 2009, thus revenues are zero for 2010.

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 1 775 million, relates to shared management and is made up of EUR 1 331 million concerning the European Agricultural Guarantee Fund (EAGF), EUR 19 million for TRDI, EUR 146 million for SAPARD and EUR 279 million for Structural Actions.

(a) *Agriculture: EAGF*

In the framework of EAGF, amounts accounted for as revenue of the year under this heading are EUR 1 331 million, made up as follows:

— conformity corrections decided during the year, EUR 1 032 million;

— fraud and irregularities EUR 299 million: reimbursements declared by Member States and recovered during the year, EUR 178 million, plus the increase in the outstanding amounts declared by Member States to be recovered at year-end concerning fraud and irregularities, EUR 121 million (EUR 1 130 million minus the write-down adjustment of EUR 382 million at year-end 2010 compared to EUR 627 million at year-end 2009) – see also note **2.10.2**.

(b) *Structural Actions*

The recovery of expenditure under the Structural actions included under this heading amounted to EUR 279 million (2009: EUR 613 million). The main amounts in this sub-heading are the recovery orders issued by the Commission to recover undue expenditure made in previous years for an amount of EUR 610 million and the decrease of the accrued income at year-end of EUR 377 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 – pension contributions and taxes on income.

3.2.5. *Miscellaneous operating revenue*

An amount of EUR 430 million (2009: EUR 376 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 21 million (2009: EUR 185 million).

3.3. ADMINISTRATIVE EXPENSES

EUR millions

	2010	2009
Staff expenses	5 171	4 898
Depreciation and impairment	384	436
Other administrative expenses	3 059	2 799
Total	**8 614**	**8 133**

These are administrative expenses incurred as part of the activities of the EU and include staff costs, depreciation and other costs associated with the running of the institutions and agencies (such as rental costs, maintenance costs, supplies, training costs, etc).

3.4. OPERATING EXPENSES

EUR millions

	Note	2010	2009 Restated
Primary operating expenses:	*3.4.1*		
Direct centralised management		10 123	8 744
Indirect centralised management		4 045	3 605
Decentralised management		933	137
Shared management		85 432	87 251
Joint management		1 868	1 655
Total		**102 401**	**101 392**
Other operating expenses:	*3.4.2*		
Adjustments/provisions		68	199

EUR millions

	Note	2010	2009 Restated
Exchange losses		439	432
Other		856	481
Total		**1 363**	**1 112**
Total		**103 764**	**102 504**

3.4.1. *Primary operating expenses*

The European Union'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).

For shared management, the decrease in 2010 is due mainly to the closing of the programmes for the period 2000-2006 (ESF) and to the fact that for FEAGA the execution has diminished in 2010 compared to the previous year. This decrease is partly compensated by the Structural Actions for the programming period 2007-2013, which already reached a normal level in 2009, after a slow start-up. The increase of expenditure under centralised management is due to research and development actions.

As explained in note **2.5.2**, in 2010 the Commission changed its accounting policy for certain expenditure under cohesion and rural development. Since the amounts concerned are material, the Commission is required by its accounting rules to restate the relevant 2009 figures so as to present comparable figures showing the situation as it would have looked had the same accounting treatment been followed last year. The impact of this restatement on the original 2009 economic outturn is shown below:

EUR millions

	2009 accounts originally presented	Change in accounting policy	2009 accounts Restated
Operating revenue	118 069	—	118 069
Operating expenses:			
Primary operating expenses:			
Shared management	(89 681)	2 430	(87 251)
Total operating expenses	(113 067)	2 430	(110 637)
Surplus from operating activities	5 002	2 430	7 432
Economic Outturn	4 457	2 430	6 887

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.

Under the 'other' sub-heading there was a significant increase in amounts written down on Commission debtors – EUR 365 million compared to EUR 26 million in 2009. This is due mainly to specific reductions made relating to fines decisions (EUR 273 million) and EAGF & Rural development write downs totalling EUR 82 million.

Research and Development costs:

Included as expenses in 2010 were the following costs:

EUR millions

	2010
Research costs	295
Non-capitalised development costs	157
Recognised as an expense	**452**

3.5. FINANCIAL REVENUE

EUR millions

	2010	2009
Dividend income	**1**	**14**
Interest income:		
On pre-financing	42	59
On late payments	382	132
On swaps	0	2
On available for sale assets	100	100
On loans	394	265
On cash & cash equivalents	110	158
Other	2	3
Total	**1 030**	**719**
Other financial income:		
Realised gain on sale of financial assets	11	10
Other	83	76
Total	**94**	**86**
Present value adjustments	**1**	**10**
Exchange gains	**52**	**6**
Total	**1 178**	**835**

3.6. FINANCIAL EXPENSES

EUR millions

	2010	2009
Interest expenses:		
Leasing	93	95
On swaps	0	2
On borrowings	380	248
Other	23	20
Total	**496**	**365**

EUR millions

	2010	2009
Other financial expenses:		
Adjustments to financial provisions	60	39
Financial charges on budgetary instruments	55	73
Impairment losses on AFS financial assets	5	15
Realised loss on sale of financial assets	1	0
Other	42	57
Total	**163**	**184**
Exchange losses	**2**	**45**
Total	**661**	**594**

3.7. SHARE OF NET DEFICIT OF JOINT VENTURES & ASSOCIATES

In accordance with the equity method of accounting, the EU 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 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 own resources and contributions are not split amongst the various activities as these are calculated, collected and managed by central Commission services. They are shown here so as to allow for comparison with the net result in the economic outturn account.

SEGMENT REPORTING – SUMMARY

EUR millions

	Activities within the EU	Activities outside the EU	Services & Other	ECSC in Liquidation	Other Institutions	Consolidation eliminations	TOTAL
Other operating revenue:							
Fines	3 077	0	0	0	0	0	3 077
Agricultural levies	25	0	0	0	0	0	25
Recovery of expenses	1 849	89	1	0	0	(32)	1 907
Revenue from admin operations	60	36	912	0	347	(148)	1 207
Other operating revenue	2 445	10	575	3	1	(1 062)	1 972
OTHER OPERATING REVENUE	**7 456**	**135**	**1 488**	**3**	**348**	**(1 242)**	**8 188**
Administrative expenses:							
Staff expenses	(1 945)	(824)	(1 073)	0	(1 353)	24	(5 171)
Intangible assets and PPE related expenses	(88)	(13)	(119)	0	(164)	0	(384)
Other administrative expenses	(904)	(318)	(902)	0	(1 234)	299	(3 059)
	(2 937)	**(1 155)**	**(2 094)**	**0**	**(2 751)**	**323**	**(8 614)**
Operating expenses:							
Direct centralised management	(7 115)	(3 597)	(180)	0	0	769	(10 123)
Indirect centralised management	(3 821)	(213)	(45)	0	0	34	(4 045)
Decentralised management	(113)	(820)	0	0	0	0	(933)
Shared management	(85 173)	(29)	(230)	0	0	0	(85 432)
Joint management	(382)	(1 486)	0	0	0	0	(1 868)
Other operating expenses	(947)	(23)	(448)	(59)	(2)	116	(1 363)
	(97 551)	**(6 168)**	**(903)**	**(59)**	**(2)**	**919**	**(103 764)**
TOTAL OPERATING EXPENSES	**(100 488)**	**(7 323)**	**(2 997)**	**(59)**	**(2 753)**	**1 242**	**(112 378)**
Net operating expenses	**(93 032)**	**(7 188)**	**(1 509)**	**(56)**	**(2 405)**	**0**	**(104 190)**
Own resource and contributions revenue							**122 328**
Surplus from operating activities							**18 138**
Net financial income							517
Movement in employee benefits liability							(1 003)
Share of associates/joint venture results							(420)
Economic outturn for the year							**17 232**

SEGMENT REPORTING – ACTIVITIES WITHIN THE EU

EUR millions

	Economic & Financial affairs	Enterprise & Industry	Competition	Employment	Agriculture	Transport & Energy	Environment	Research	Information Society
Other operating revenue:									
Fines	0	12	3 065	0	0	0	0	0	0
Agricultural levies	0	0	0	0	25	0	0	0	0
Recovery of expenses	0	1	0	15	1 603	12	1	32	14
Revenue from administrative operations	0	0	0	0	0	1	1	1	1
Other operating revenue	4	402	0	39	135	184	39	624	7
OTHER OPERATING REVENUE	**4**	**415**	**3 065**	**54**	**1 763**	**197**	**41**	**657**	**22**
Administrative expenses:	**(57)**	**(178)**	**(82)**	**(108)**	**(115)**	**(268)**	**(110)**	**(391)**	**(125)**
Staff expenses	(51)	(128)	(75)	(82)	(95)	(190)	(80)	(218)	(102)
Intangible assets and PPE related expenses	0	(8)	0	(0)	0	(11)	(1)	(2)	0
Other administrative expenses	(6)	(42)	(7)	(26)	(20)	(67)	(29)	(171)	(23)
Operating expenses:	**(105)**	**(650)**	**(305)**	**(6 077)**	**(56 176)**	**(3 328)**	**(224)**	**(3 238)**	**(1 107)**
Centralised direct management	(105)	(347)	1	(176)	(31)	(1 312)	(207)	(2 436)	(1 179)
Centralised indirect management	0	(90)	0	(7)	0	(1 750)	0	(714)	78
Decentralised management	0	0	0	(24)	0	(5)	0	0	0
Shared management	0	0	0	(5 850)	(56 037)	0	0	0	0
Joint management	0	(166)	0	(3)	0	(197)	0	0	0
Other operating expenses	0	(47)	(306)	(17)	(108)	(64)	(17)	(88)	(6)
TOTAL OPERATING EXPENSES	**(162)**	**(829)**	**(387)**	**(6 185)**	**(56 291)**	**(3 596)**	**(333)**	**(3 630)**	**(1 231)**
Net operating expenses	**(158)**	**(414)**	**2 678**	**(6 131)**	**(54 528)**	**(3 399)**	**(292)**	**(2 973)**	**(1 209)**

	Joint Research Centre	Fisheries	Internal Market	Regional Policy	Taxation & Customs	Education & Culture	Health & Consumer protection	Justice, Freedom & Security	Total Activities within the EU
Other operating revenue:									
Fines	0	0	0	0	0	0	0	0	3 077
Agricultural levies	0	0	0	0	0	0	0	0	25
Recovery of expenses	0	9	0	150	0	9	1	2	1 849
Revenue from administrative operations	38	0	0	0	0	0	9	9	60
Other operating revenue	77	7	174	1	0	166	337	249	2 445

	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	**115**	**16**	**174**	**151**	**0**	**175**	**347**	**260**	**7 456**
Administrative expenses:	**(341)**	**(44)**	**(162)**	**(71)**	**(94)**	**(195)**	**(323)**	**(273)**	**(2 937)**
Staff expenses	(242)	(35)	(113)	(59)	(38)	(100)	(197)	(140)	(1 945)
Intangible assets and PPE related expenses	(27)	0	(4)	0	(2)	(1)	(24)	(8)	(88)
Other administrative expenses	(72)	(9)	(45)	(12)	(54)	(94)	(102)	(125)	(904)
Operating expenses:	**(85)**	**(523)**	**(51)**	**(22 677)**	**(16)**	**(1 445)**	**(615)**	**(929)**	**(97 551)**
Centralised direct management	(63)	(254)	(10)	(46)	(16)	(175)	(411)	(348)	(7 115)
Centralised indirect management	0	0	0	(8)	0	(1 254)	(76)	0	(3 821)
Decentralised management	0	0	0	(84)	0	0	0	0	(113)
Shared management	0	(267)	0	(22 524)	0	0	0	(495)	(85 173)
Joint management	0	0	0	(15)	0	(1)	0	0	(382)
Other operating expenses	(22)	(2)	(41)	0	0	(15)	(128)	(86)	(947)
TOTAL OPERATING EXPENSES	**(426)**	**(567)**	**(213)**	**(22 748)**	**(110)**	**(1 640)**	**(938)**	**(1 202)**	**(100 488)**
Net operating expenses	**(311)**	**(551)**	**(39)**	**(22 597)**	**(110)**	**(1 465)**	**(591)**	**(942)**	**(93 032)**

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	15	0	10	61	3	89
Revenue from administrative operations	36	0	0	0	0	36
Other operating revenue	5	0	1	5	(1)	10
OTHER OPERATING REVENUE	**56**	**0**	**11**	**66**	**2**	**135**
Administrative expenses:	**(862)**	**(57)**	**(165)**	**(44)**	**(27)**	**(1 155)**
Staff expenses	(577)	(49)	(144)	(37)	(17)	(824)
Intangible assets and PPE related expenses	(13)	0	0	0	0	(13)
Other administrative expenses	(272)	(8)	(21)	(7)	(10)	(318)
Operating expenses:	**(2 766)**	**(7)**	**(1 387)**	**(1 063)**	**(945)**	**(6 168)**
Direct centralised management	(1 722)	(5)	(866)	(531)	(473)	(3 597)

EUR millions

	External Relations	Trade	Development	Enlargement	Humanitarian Aid	Total Activities outside the EU
Indirect centralised management	(171)	0	(16)	(26)	0	(213)
Decentralised management	(259)	0	(95)	(466)	0	(820)
Shared management	(29)	0	0	0	0	(29)
Joint management	(574)	(2)	(405)	(38)	(467)	(1 486)
Other operating expenses	(11)	0	(5)	(2)	(5)	(23)
TOTAL OPERATING EXPENSES	**(3 628)**	**(64)**	**(1 552)**	**(1 107)**	**(972)**	**(7 323)**
Net operating expenses	**(3 572)**	**(64)**	**(1 541)**	**(1 041)**	**(970)**	**(7 188)**

SEGMENT REPORTING – SERVICES & OTHER

EUR millions

	Press & Communication	Anti-Fraud Office	Co-ordination	Personnel & Administration	Eurostat	Budget	Audit	Languages	Other	Total Services & Other
Other operating revenue:										
Recovery of expenses	1	0	0	0	0	0	0	0	0	1
Revenue from administrative operations	2	5	0	764	0	51	0	90	0	912
Other operating revenue	(2)	(1)	8	25	0	37	0	53	455	575
OTHER OPERATING REVENUE	**1**	**4**	**8**	**789**	**0**	**88**	**0**	**143**	**455**	**1 488**
Administrative expenses:	**(108)**	**(54)**	**(168)**	**(1 260)**	**(85)**	**(52)**	**(10)**	**(403)**	**46**	**(2 094)**
Staff expenses	(67)	(38)	(140)	(448)	(62)	(39)	(9)	(316)	46	(1.073)
Intangible assets and PPE related expenses	(2)	(1)	0	(114)	0	0	0	(2)	0	(119)
Other administrative expenses	(39)	(15)	(28)	(698)	(23)	(13)	(1)	(85)	0	(902)
Operating expenses:	**(136)**	**(17)**	**(2)**	**(32)**	**(37)**	**(234)**	**0**	**(15)**	**(430)**	**(903)**
Direct centralised management	(91)	(17)	(1)	(30)	(37)	(4)	0	0	0	(180)
Indirect centralised management	(45)	0	0	0	0	0	0	0	0	(45)
Shared management	0	0	0	0	0	(230)	0	0	0	(230)
Other operating expenses	0	0	(1)	(2)	0	0	0	(15)	(430)	(448)
TOTAL OPERATING EXPENSES	**(244)**	**(71)**	**(170)**	**(1 292)**	**(122)**	**(286)**	**(10)**	**(418)**	**(384)**	**(2 997)**
Net operating expenses	**(243)**	**(67)**	**(162)**	**(503)**	**(122)**	**(198)**	**(10)**	**(275)**	**71**	**(1 509)**

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.

It should be noted that EUR 9 080 million of cash and cash equivalent balances held by the Commission are not available for use by the EU. This is the cash received as payment of fines levied, where the other party is appealing the imposition of the fine. These amounts are clearly disclosed as "restricted cash" under note **2.11** above.

5. CONTINGENT ASSETS & LIABILITIES AND OTHER DISCLOSURES

CONTINGENT ASSETS

EUR millions

	31.12.2010	31.12.2009
Guarantees received:		
Performance guarantees	301	252
Other guarantees	30	27
Other contingent assets	8	18
Total Contingent Assets	**339**	**297**

Performance guarantees are sometimes requested to ensure that beneficiaries of EU funding meet the obligations of their contracts with the EU. Other contingent assets relate primarily to possible reimbursement of taxes related to Commission buildings.

CONTINGENT LIABILITIES

EUR millions

	Note	31.12.2010	31.12.2009
Guarantees given	5.1	22 171	19 330
Fines – appeals to the Court of Justice	5.2	9 627	11 969
EAGF – court judgements pending	5.3	1 772	1 945
Amounts relating to legal cases and other disputes	5.4	458	416
Other contingent liabilities	5.5	4	12
Total Contingent Liabilities		**34 032**	**33 672**

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

	Risk Sharing 31.12.2010	Non-risk Sharing 31.12.2010		Outstanding 31.12.2010 Total	Outstanding 31.12.2009
		Public authority	Private company		
65 % guarantee	3 625	12 443	2 149	**18 217**	14 945
70 % guarantee	87	2 132	62	**2 281**	2 596
75 % guarantee	0	635	60	**695**	850
100 % guarantee	0	683	106	**789**	821
Total	**3 712**	**15 893**	**2 377**	**21 982**	**19 212**

The EU budget guarantees loans signed and granted by the EIB from its own resources to third countries at 31 December 2010 (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 2010 the amount outstanding totalled EUR 21 982 million and this, therefore, is the maximum exposure faced by the EU.

For loans covered by the EU budget guarantee, the EIB also obtains guarantees from third parties (States, public or private financial institutions); in these cases the Commission is a secondary guarantor. The EU budget guarantee covers only the political risk of guarantees provided under the title of "risk-sharing". The other risks are covered by the EIB should the primary guarantor not honour the undertakings given. For guarantees provided under the title of "non-risk sharing", all the risks are covered by the EU budget should the primary guarantor not honour its undertakings given. If the primary guarantor is a public authority these risks are confined as a rule to the political risk, but when the guarantees are provided by an institution or a private company, the EU budget might also have to cover the commercial risk.

5.1.2. *Other guarantees given*

EUR millions

	31.12.2010	31.12.2009
Risk Sharing Finance Facility (RSFF)	161	94
Loan Guarantee Instrument for Ten-T Projects (LGTT)	11	6

EUR millions

	31.12.2010	31.12.2009
MEDA: Moroccan guarantees	17	17
Other	0	1
Total	**189**	**118**

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 2010 the Commission had contributed EUR 515 million to the RSFF. This has been invested by the EIB in bonds (EUR 419 million at 31 December 2010), term deposits (EUR 55 million) and cash equivalents (EUR 33 million). At end 2010, EUR 2 212 million of loans have been signed and are thus covered by the Facility. A default of EUR 5 million occurred during 2009 and thus was charged to the Facility. The amount included as a contingent liability above, EUR 161 million, represents the estimated maximum loss at 31 December 2010 that the Commission would suffer in case of defaults on loans or guarantees given by the EIB within the framework of the RSFF. This represents 7,3 % of the total amounts guaranteed. 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 2010 the Commission had contributed EUR 155 million to the LGTT. This has been invested by the EIB in bonds (EUR 111 million at 31 December 2010), term deposits (EUR 36 million) and cash (EUR 5 million). At end 2010, EUR 140 million of loans have been signed and are thus covered by the guarantee. The amount included as a contingent liability, EUR 11 million, represents the estimated maximum loss at 31 December 2010 that the Commission would suffer in case of defaults on loans given by the EIB within the framework of the LGTT operations. This represents 7,9 % 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 **2.8**) and cash (note **2.11**).

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 2010, the fund amounts to EUR 27 million that are shown as cash and cash equivalents – see note **2.11**. The Commission guarantee shown as contingent liability covers EUR 17 million of the loans given by the organisations mentioned above.

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 (EUR 561 million) 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. EAGF – COURT JUDGEMENTS PENDING

These are contingent liabilities towards the Member States connected with the EAGF conformity decisions, 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. An estimate of the probable amounts to be paid has been included as a long-term provision on the balance sheet – see note **2.13**.

5.4. AMOUNTS RELATED TO LEGAL CASES AND OTHER DISPUTES

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

5.5. OTHER CONTINGENT LIABILITIES

This heading includes other smaller contingent liability amounts not classifiable under the above headings.

Other significant disclosures

5.6. COMMITMENTS AGAINST APPROPRIATIONS NOT YET CONSUMED

EUR millions

	31.12.2010	31.12.2009
Commitments against appropriations not yet consumed	155 642	134 689

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 2010 the budgetary RAL totalled EUR 194 395 million. The amount disclosed above is this budgetary RAL less related amounts that have been included as expenses in the 2010 economic outturn account.

5.7. SIGNIFICANT LEGAL COMMITMENTS

EUR millions

	31.12.2010	31.12.2009
Structural Operations	210 638	275 761
Protocol with Mediterranean countries	263	263
Fisheries agreements	130	249
Galileo programme	513	1 517
GMES programme	390	556

EUR millions

	31.12.2010	31.12.2009
TEN-T	3 530	4 289
Other contractual commitments	3 920	1 325
Total	**219 384**	**283 960**

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 Union 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). Not all multi-annual programmes contain commitments requiring inclusion under this heading since expenditure in future years is conditional on the annual decisions by the budgetary authority or changes in the rules concerned.

5.7.1. *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 2007-2010 (C)	Legal commitments less budget commitments (= B – C)	Maximum commitment (= A – C)
Cohesion policy funds	347 550	346 475	189 574	156 901	157 976
Natural Resources	100 549	100 549	54 759	45 790	45 790
Instrument for Pre-Accession Assistance	10 958	7 357	4 086	3 271	6 872
Total	**459 057**	**454 381**	**248 419**	**205 962**	**210 638**

5.7.2. *Protocols with Mediterranean countries*

These commitments total EUR 263 million and 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.

5.7.3. *Fisheries agreements*

These are commitments totalling EUR 130 million entered into with third countries for operations under international fisheries agreements.

5.7.4. *Galileo programme*

Galileo is a global navigation satellite system (GNSS) currently being built by the European Union and European Space Agency (ESA). The Galileo programme is now financed entirely from the EU budget and it is the Commission who manages the programme on behalf of the EU. It is expected that the first phase of the programme, the In-Orbit Validation ('IOV') phase, will be completed during 2012 and the transfer of the created assets to the Commission will take place then.

It should be noted that the Commission has, up to end 2010 and including the previous investment in the GJU, paid EUR 1 178 million towards the IOV phase of the Galileo programme. As this programme is currently still in the research phase, under the EU accounting rules, the money spent has been expensed and no intangible assets have been recognised. The total (indicative) Commission contribution foreseen for the next phase ('FOC') of the Galileo programme (from 2008 to 2013) is EUR 2 408 million.

5.7.5. *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 624 million. In 2010, EUR 166 million of expenses have been incurred by ESA.

5.7.6. *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.

5.7.7. *Other contractual commitments*

The amounts included correspond to amounts committed to be paid during the term of the contracts. Included here is the outstanding contractual obligation of EUR 83 million concerning the renovation costs of buildings of the Court of Justice, EUR 76 million concerning building related contracts of the Council, as well as EUR 434 million relating to building contracts of the Parliament and EUR 446 million from the Commission (concerning primarily two major building projects in Luxembourg). The other significant amount included here is EUR 2 654 million relating to procurement arrangements of the Fusion for Energy Agency (European Joint Undertaking for ITER and the Development of Fusion Energy) in the context of the ITER project.

5.8. **OPERATING LEASE COMMITMENTS**

EUR millions

Description	Future amounts to be paid			
	< 1 year	1- 5 years	> 5 years	Total
Buildings	350	1 235	749	2 334
IT materials and other equipment	12	38	0	50
Total	**362**	**1 273**	**749**	**2 384**

This heading covers buildings and other equipment rented under operating leasing contracts that do not meet the conditions for entry on the assets side of the balance sheet. The amounts indicated correspond to commitments still to be paid during the term of the contracts.

In 2010, EUR 363 million was recognised as an expense in the economic outturn account in respect of operating leases.

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).

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 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) The amount of the financial correction is being established through legal and contradictory procedure ('**in progress**');

(2) 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;

(3) the amount is '**implemented**', by any of the following means: (a) following the issuance of a **recovery** order by the Commission, the amount is either paid by the Member State to the Commission, or offset by the Commission from future Commission payments to the concerned Member State; or (b) once 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. According to accrual accounting principles, 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. However at programme closure when no re-use of the funds is possible by the Member State, the Commission implements the financial correction by **decommitment**.

(1) *Financial corrections in progress*

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 2010. 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*

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;

— 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;

— A financial clearance decision on payment execution is adopted by the Commission as a result of which financial corrections may be established for payments that do not respect legal or regulatory deadlines.

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) *Implementation of Financial corrections*

In the case of the **EAGF**, financial corrections are always implemented by deduction in the monthly declarations. For the EAFRD, the amounts recovered by the Member States themselves, as well as the financial corrections decided, may be re-used.

Financial corrections under **Cohesion Policy** are implemented as follows:

— The Member State accepts the correction required or proposed by the Commission: the Member State applies itself the financial correction, through deduction from a subsequent payment claim (see withdrawals and recoveries in section 6.1.1 (3) above). All amounts corrected by the Member States may then 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 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 issues 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).

— 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 just a mean of implementing financial corrections that merit a separate disclosure given the importance attached to it by the Budget Authority.

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 disclosed in this note as additional information, in addition to financial corrections imposed by the Commission. For the 2007-2013 period, Member States are legally required to provide the Commission with clear and structured data on amounts withdrawn from co-financing before the national recovery process is finalised and the amounts effectively recovered from beneficiaries at national level.

6.1.3. ***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 2007-2013 programmes if:

(a) There is evidence of 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 2000-2006 and 2007-2013 programmes in the following three cases:

(a) Serious deficiency in the management and control system of the programme; 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 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: 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. FINANCIAL CORRECTIONS AND RECOVERIES UNDER AGRICULTURE AND RURAL DEVELOPMENT

6.2.1. *Financial corrections and recoveries decided in 2010*

EAGF financial corrections decided in 2010

EUR millions

	2010	2009
EAGF Clearance of accounts procedure:		
Financial clearance and non-respected payment deadlines	33	103
Conformity clearance	1 022	359
Subtotal	**1 055**	**462**

Rural Development financial corrections decided in 2010

EUR millions

	2010	2009
Rural development financial corrections:		
TRDI 2000-2006	49	11
SAPARD 2000-2006	3	14
EAFRD 2007-2013	20	—
Subtotal	**73**	**25**

Recoveries confirmed in 2010

EUR millions

	2010	2009
EAGF - irregularities	178	163
TRDI - recoveries	10	—
SAPARD - recoveries	5	—

EUR millions

	2010	2009
EAFRD - irregularities	98	47
Subtotal	**292**	**210**

Total financial corrections and recoveries decided/confirmed in 2010

EUR millions

	2010	2009
EAGF:		
Financial corrections	1 055	462
Recoveries	178	163
Subtotal EAGF	**1 233**	**625**
Rural Development:		
Financial corrections	73	25
Recoveries	114	47
Subtotal Rural Development	**187**	**72**
Total	**1 420**	**697**

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 increase in conformity clearance procedures in 2010 follows a previous decrease between 2008 and 2009. This is primarily due to the absence of non-executed clearance decisions at end 2009. In fact 2008 included a non-executed clearance decision for an amount of EUR 178 million, which explained the decrease observed between 2008 and 2009. Similarly, 2010 figures include a non-executed clearance decision totalling EUR 471 million which was adopted before the year-end and for which financial execution will be in 2011. This explains the increase between 2009 and 2010.

Recoveries confirmed include for the first time in 2010 amounts from EAFRD, for a total of EUR 98 million, which explains the increase compared to 2009.

6.2.2. *Financial corrections and recoveries implemented in 2010*

EAGF financial corrections implemented in 2010

EUR millions

	2010	2009
EAGF Clearance of accounts procedure:		
Financial clearance and non-respected payment deadlines	33	103
Conformity clearance	728	600
Total	**761**	**703**

Rural development financial corrections implemented in 2010

EUR millions

	2010	2009
Rural development financial corrections:		
TRDI 2000-2006	49	11
SAPARD 2000-2006	3	14
EAFRD 2007-2013	0	0
Subtotal	**53**	**25**

Recoveries implemented in 2010

EUR millions

	2010	2009
EAGF - irregularities	172	148
TRDI - recoveries	10	—
SAPARD - recoveries	5	—
EAFRD - irregularities	98	47
Subtotal	**286**	**195**

Total financial corrections and recoveries implemented in 2010

EUR millions

	2010	2009
EAGF:		
Financial corrections	761	703
Recoveries	172	148
Subtotal EAGF	**934**	**851**
Rural Development:		
Financial corrections	53	25
Recoveries	114	47
Subtotal Rural Development	**167**	**72**
Total	**1 101**	**923**

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

Concerning the financial execution of clearance decisions, the amounts are generally stable and show little variation from one year to the next. Concerning the EAFRD, which became operational in the programming period 2007-2013, the first wave of EU controls and audits has started. Financial correction amounts are expected to be reported in the coming years (see note 6.2.4 on financial corrections in progress).

As already mentioned above under recoveries confirmed, recoveries implemented include for the first time in 2010 amounts from EAFRD totalling EUR 98 million, which primarily explains the increase compared to 2009. This figure is expected to increase in the coming years for the reason mentioned above.

6.2.3. ***Financial corrections – cumulative figures***

EAGF financial corrections implemented in 2010 – cumulative figure 1999-2010

EUR millions

	2010	2009
EAGF Clearance of accounts procedures	6 258	5 719
Total	**6 258**	**5 719**

This amount represents the total financial impact of clearance of accounts procedures since this corrective mechanism has been implemented, i.e. from 1999 onwards.

Other financial corrections implemented in 2010 – cumulative figure 2000-2010

EUR millions

	As at end 2010	As at end 2009
Other financial corrections:		
TRDI 2000-2006	61	11
SAPARD 2000-2006	17	14
EAFRD 2007-2013	21	0
Subtotal	**98**	**25**

The cumulative figure for EAGF clearance of accounts corrections represents the amounts formally decided by means of Commission's decisions. Clearance decisions No. 1 to No. 34 have been taken into account in the 2010 figure. It should be noted that all conformity clearance decisions have been formally taken while financial clearance decisions usually take a longer time to proceed and will impact the coming years.

6.2.4. ***Financial corrections in progress***

EAGF financial corrections in progress as at 31.12.2010

EUR millions

	Financial corrections in progress as at 31.12.2009	New financial corrections in progress in 2010	Financial corrections decided in 2010	Adjustments on financial corrections decided or in progress as at 31.12.2009	Financial corrections in progress as at 31.12.2010
EAGF - future conformity and financial decisions	2 763	670	(1 029)	(115)	2 288
Total EAGF financial corrections in progress	**2 763**	**670**	**(1 029)**	**(115)**	**2 288**

The amount of EAGF financial corrections in progress end of 2010 shows the consolidation of the estimation method for future conformity decisions.

Other financial corrections in progress as at 31.12.2010

EUR millions

	Financial corrections in progress as at 31.12.2009	New financial corrections in progress in 2010	Financial corrections decided in 2010	Adjustments on financial corrections decided or in progress as at 31.12.2009	Financial corrections in progress as at 31.12.2010
TRDI 2000-2006	12	45	(49)	0	7
SAPARD 2000-2006	4	54	(3)	13	68
EAFRD 2007-2013	114	55	(57)	11	123
Total other financial corrections in progress	**130**	**154**	**(109)**	**24**	**198**

SAPARD and TRDI programmes are entering in a closure phase which explains the amount of financial corrections in progress. In addition audits and controls at EU level have been launched for EAFRD, which explains most of the amount.

EAGF recoveries in progress as at 31.12.2010

EUR millions

	Financial corrections in progress as at 31.12.2009	New financial corrections in progress in 2010	Financial corrections decided in 2010	Adjustments on financial corrections decided or in progress as at 31.12.2009	Financial corrections in progress as at 31.12.2010
EAGF - irregularities	276	170	(178)	55	323
Total recoveries in progress	**276**	**170**	**(178)**	**55**	**323**

As irregularities confirmed and implemented are disclosed in note 6.2.1 and 6.2.2, it is important to show in this section how the future amounts of irregularities progress.

Other recoveries in progress as at 31.12.2010

EUR millions

	Financial corrections in progress as at 31.12.2009	New financial corrections in progress in 2010	Financial corrections decided in 2010	Adjustments on financial corrections decided or in progress as at 31.12.2009	Financial corrections in progress as at 31.12.2010
TRDI 2000-2006	5	6	(10)	7	7
SAPARD 2000-2006	88	52	(5)	(41)	94
EAFRD 2007-2013	8	60	(98)	52	22
Total recoveries in progress	**101**	**118**	**(114)**	**18**	**123**

6.3. FINANCIAL CORRECTIONS UNDER COHESION POLICY

In the Agriculture and Rural development policy, recoveries (not related to financial corrections) are common. However, under the Cohesion policy, recovery orders are almost exclusively used to implement those financial corrections decided by the Commission and that result in a net reduction of the EU funding.

The results of the Member States' own checks of the Cohesion policy expenditure are reported in note 6.5. Note also that the amount of financial corrections 2009 for the programming period 2000-2006 linked to TRDI and SAPARD are now disclosed in the section Agriculture and Rural development (see note 6.2), together with EAFRD.

6.3.1. *Financial corrections confirmed in 2010*

Financial corrections decided/confirmed in 2010

EUR millions

	2010	2009
Cohesion policy (EU work)		
1994-1999 programmes	136	521
2000-2006 programmes	788	1 865
2007-2013 programmes	2	0
Subtotal	**925**	**2 386**

A breakdown of these amounts per Member State is disclosed in Annex 3.

Financial corrections confirmed/decided in 2010 and their implementation in 2010

EUR millions

	ERDF	CF	ESF	FIFG	EAGGF Guidance	TOTAL
Financial Corrections 1994-99:						
Implemented by decommitment/ deduction at closure	2	0	—	0	—	2
Implemented by recovery order	118	—	4	3	3	128
Not yet implemented	5	0	—	—	0	6
Subtotal 1994-99 period	**125**	**0**	**4**	**3**	**3**	**136**
Financial Corrections 2000-2006:						
Implemented by decommitment/ deduction at closure	—	11	—	—	—	11
Implemented by Member States	—	—	35	87	—	122
Implemented by recovery order	0	0	—	—	30	30
Not yet implemented	368	246	8	2	—	624
Subtotal 2000-2006 period	**368**	**258**	**43**	**89**	**30**	**788**
Financial Corrections 2007-2013:						
Implemented by decommitment/ deduction at closure	—	—	—	—	—	—
Implemented by Member States	1	—	1	—	—	2

EUR millions

	ERDF	CF	ESF	FIFG	EAGGF Guidance	TOTAL
Implemented by recovery order	—	—	—	—	—	—
Not yet implemented	0	—	0	—	—	0
Subtotal 2007-2013 period	**1**	—	**1**	—	—	**2**
Total financial corrections confirmed in 2010	**494**	**258**	**49**	**91**	**33**	**925**
Total financial corrections decided in 2009	*2 061*	*86*	*180*	*46*	*13*	*2 386*

Out of the total amount of EUR 925 million confirmed in 2010, EUR 2 million were confirmed in previous years but have not been reported before and EUR 44 million represent adjustments on previously-reported amounts.

The amount of financial corrections confirmed/decided in the year and implemented by issuance of a recovery order by the Commission (i.e. cash reimbursed to the Commission) is EUR 158 million, EUR 128 million for the 1994-99 period, and EUR 30 million for the 2000-06 period (2009: EUR 146 million). It should be noted that implementation by means of a recovery order represent only a limited amount of financial corrections (i.e. 20 % of the amount implemented in 2010) since the applicable sectoral legislation foresees the possibility for the Member State to accept the financial correction proposed by the Commission and then to replace the irregular expenditure by a regular 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, or at the stage of programme closure when it is no longer possible for the Member State to submit other expenditure to replace the irregular one.

For ERDF, the large difference between confirmed/decided corrections in 2009 and 2010 is due to a large correction in Spain (approximately EUR 1,5 billion), which was confirmed by the Member State at the end of 2009. This correction concluded an important action plan initiated in 2004 concerning management and second level verifications on public procurement issues across twenty Spanish programmes. It increased significantly the amounts of corrections reported in 2009. From 2010 onwards, the amounts linked to the 2000-2006 period will decrease as the closure period is winding down. Corrections reported will be linked to finalisation of procedures started in previous years, as well as to the results of closure proceedings and audits.

Concerning the ESF, the lower amount of financial corrections for the programming period 1994-1999 is due to the fact that Commission's services are reaching the end of the closure process. For the programming period 2000-2006, 2010 was the year in which the vast majority of the programmes have submitted their closure documents. Therefore amounts of financial corrections will only be identified and confirmed after the ongoing analysis made by the Commission's services of the Member States documents is completed.

Regarding FIFG, the audit performed on central authorities in Spain at the end of 2009 led to the confirmation in 2010 of an amount of EUR 87 million which was deducted by the Member State from the final cost statement received at end 2010.

6.3.2. ***Financial corrections implemented in 2010***

Financial corrections implemented in 2010

EUR millions

	2010	2009
Cohesion policy (EU work)		
1994-1999 programmes	476	300

EUR millions

	2010	2009
2000-2006 programmes	259	384
2007-2013 programmes	2	0
Subtotal	**737**	**684**

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

It should be noted that the above amounts, in particular for the programming period 2000-06, do not include 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 indeed 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 include financial corrections deducted for a total amount of EUR 2,3 billion (ERDF: EUR 2 155 millions; Cohesion Fund: EUR 105 millions; and ESF: EUR 24 millions). Payment claims will be processed end of 2011 and beginning of 2012.

Financial corrections implemented in 2010 (confirmed/decided in 2010 and in previous years)

EUR millions

	ERDF	CF	ESF	FIFG	EAGGF Guidance	Total 2010
Financial Corrections 1994-99 period:						
Confirmed in 2010	120	0	4	3	2	129
Confirmed previous years	342	4	1	—	1	347
Subtotal 1994-99 period	**462**	**4**	**5**	**3**	**3**	**476**
Financial Corrections 2000-2006:						
Confirmed in 2010	0	11	35	87	30	164
Confirmed previous years	79	6	1	—	8	95
Subtotal 2000-2006 period	**80**	**18**	**36**	**87**	**38**	**259**
Financial Corrections 2007-2013:						
Confirmed in 2010	1	—	1	—	—	1
Confirmed previous years	—	—	—	—	—	—
Subtotal 2007-2013 period	**1**	**—**	**1**	**—**	**—**	**1**
Total financial corrections implemented in 2010	**542**	**21**	**42**	**90**	**41**	**737**
Total financial corrections implemented in 2009	**334**	**89**	**206**	**50**	**5**	**684**

Out of the amount of EUR 737 million reported as financial correction implemented in 2010, EUR 1 million was implemented in previous years but has not been reported before.

Concerning ERDF, it should be noted that the large correction in Spain totalling EUR 1,5 billon referred to in note 6.3.1 was certified by the Member State in February 2010 as accounted for in the local accounting systems of the relevant programmes. This amount was then deducted from the 20 final payment claims introduced in September 2010. However these payment claims being still under authorising process, they have not been taken into account in the above implementation figures. So are the majority of the claims received for the 2000-06 closure.

Concerning the ESF, all financial corrections confirmed in 2010 for the programming period 1994-1999 have been implemented in the same year. Moreover there are no outstanding amounts of financial corrections to be implemented concerning that programming period. The amounts of financial corrections for the programming period 2000-2006 confirmed in previous years will be identified and cleared within the closure process that is ongoing.

6.3.3. *Financial corrections – cumulative figures and implementation rate*

Financial corrections confirmed/decided – cumulative figures

EUR millions

	1994-1999 Period	2000-2006 Period	2007-2013 Period	Total as at end 2010	Total as at end 2009
ERDF	1 758	4 165	1	5 924	5 430
Cohesion Fund	273	490	—	763	506
ESF	397	1 174	1	1 572	1 522
FIFG	100	96	—	195	104
EAGGF Guidance	124	41	—	165	132
Total	**2 652**	**5 965**	**2**	**8 619**	**7 694**

A breakdown of the total amount per Member State is disclosed in Annex 3.

Financial corrections implemented – cumulative figures

EUR millions

	1994-1999 Period	2000-2006 Period	2007-2013 Period	Total as at end 2010	Total as at end 2009
ERDF	1 736	1 972	1	3 709	3 167
Cohesion Fund	266	227	—	493	472
ESF	395	1 146	1	1 542	1 500
FIFG	100	94	—	194	104
EAGGF Guidance	124	41	—	165	124
Total	**2 621**	**3 480**	**2**	**6 102**	**5 366**

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

Most of the programmes and irregularities for the programming period 1994-99 are closed cases, and amounts are therefore expected to decrease in the future. Many deductions were withdrawn by the Member States from their final payment requests for 2000-06 programmes however the payment claims are still under validation, which explains why they are not included in the above amounts. They will be reported as implemented when the payments will be validated, in 2011 and in 2012 for the most complex files. The corrections for the current programming period 2007-13 should increase as a result of the current controls on the spot.

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).

Financial corrections confirmed/decided as at 31 December 2010 but not yet implemented and implementation rates as at 31 December 2010 (cumulative figures)

EUR millions

	ERDF	CF	ESF	FIFG	EAGGF Guidance	Total 2010	Total 2009
Financial corrections 1994-1999 programmes							
Financial corrections confirmed/decided	1 758	273	397	100	124	**2 652**	**2 516**
Financial corrections implemented	1 736	266	395	100	124	**2 621**	**2 145**
Financial corrections confirmed/decided but not yet implemented	22	8	2	—	0	**31**	**371**
Rate of implementation	99 %	97 %	100 %	100 %	100 %	**99 %**	**85 %**
Financial corrections 2000-2006 programmes							
Financial corrections confirmed/decided	4 165	490	1 174	96	41	**5 965**	**5 177**
Financial corrections implemented	1 972	227	1 146	94	41	**3 480**	**3 221**
Financial corrections confirmed/decided but not yet implemented	2 192	263	28	2	—	**2 485**	**1 956**
Rate of implementation	47 %	46 %	98 %	98 %	100 %	**58%**	**62%**
Financial corrections 2007-2013 programmes							
Financial corrections confirmed/decided	1	—	1	—	—	**2**	—
Financial corrections implemented	1	—	1	—	—	**2**	—
Financial corrections confirmed/decided but not yet implemented	0	—	0	—	—	**0**	—
Rate of implementation	69 %	N/A	98 %	N/A	N/A	**84** %	**N/A**
Total financial corrections							
Financial corrections confirmed/decided	5 924	764	1 571	195	165	**8 619**	**7 694**
Financial corrections implemented	3 709	493	1 542	194	165	**6 102**	**5 366**
Financial corrections confirmed/decided but not yet implemented	2 214	271	30	2	0	**2 516**	**2 327**
Rate of implementation	**63 %**	**65 %**	**98 %**	**99 %**	**100 %**	71 %	70 %

The level of implementation during the programming period 1994-1999 is explained by the issuance during 2010 of most of the recovery orders needed to implement the financial corrections decisions adopted at the end of 2009 (pending at closure of the accounts 2009), or the new corrections confirmed/decided during the year.

Concerning the programming period 2000-2006, the low implementation rate is explained by the ongoing closure process whereby payment claims received end of 2010 are not yet authorised, and the related financial corrections for a total amount of EUR 2,3 billion cannot be taken into account in the 2010 implementation figures.

6.3.4. *Financial corrections in progress*

EUR millions

	Financial corrections in progress as at 31.12.2009	New financial corrections in progress in 2010	Financial corrections decided in 2010	Adjustments on financial corrections decided or in progress as at 31.12.2009	Financial corrections in progress as at 31.12.2010
Structural and Cohesion funds (1994-1999, 2000-2006 and 2007-2013 programmes)					
ERDF	430	135	(212)	(156)	197
Cohesion Fund	149	206	(21)	(72)	262
ESF	326	9	(42)	(10)	284
FIFG	2	—	(1)	0	0
EAGGF Guidance	63	4	(33)	(31)	4
Total	**971**	**354**	**(309)**	**(269)**	**747**

Concerning the ERDF, many of the procedures in progress in the previous years were finalised in 2010 with the application of financial corrections or the adjustments of the amounts. Furthermore, 2010 was characterised as a transition year for the two programming periods; the conclusion of procedures for 2000-2006 leading to a decrease of amounts in progress and the initiation of new procedures (somewhat less at this stage) for 2007-2013. Thus, the amounts of financial corrections in progress this year are lower compared to last year.

Concerning the ESF, most of the EUR 9 million of new cases refers to the 2000-2006 programming period as all the operational programmes concerned are reaching their closure phase. The processing of financial corrections will be dealt with in the closure process. Nevertheless, half of the on-going procedures concern the 2007-2013 programming period. These were estimated to be at EUR 1 (provisional amount) as the amount to be corrected still needs to be identified.

In addition to the above-mentioned figure, an amount of EUR 1 437 million has been reported by Member States and represents potential recoveries following the detection of irregular claims on structural funds. It is based on the formal reports submitted by the member States in accordance with Commission Regulation No 1681/94. However the prospects of recovery in individual cases cannot be assessed with sufficient accuracy based on the information forwarded by Member States. In addition there is a risk of overlap with the figures above-disclosed which is difficult to quantify as Member States are not obliged to distinguish in their reporting between potential recoveries resulting from EU's work and those resulting from their own controls.

6.3.5. *Interruptions and suspension of payments*

Concerning the ERDF, 49 interruption decisions for payment deadlines were taken in 2010 for a total amount of EUR 2 156 million. Payments were released for 41 cases representing EUR 2 057 million. 8 cases were still ongoing at year-end, covering an amount of EUR 99 million.

Concerning the ESF, 12 interruption decisions for payment deadlines were taken in 2010 for a total amount of EUR 255 million, all relating to the programming period 2007-2013. Payments were released for 6 cases, representing EUR 94 million. 6 cases are still ongoing for an amount of EUR 161 million.

The breakdown of interruption cases per Member State in 2010 is as follows:

EUR millions

	ERDF	ESF	Total
Interruptions - closed cased as at 31.12.2010			
Germany	175	—	175
Spain	1 477	74	1 552
Italy	84	—	84
Luxembourg	—	1	1
Hungary	33	—	33
Portugal	103	—	103
Romania	—	18	18
United Kingdom	184	—	184
Subtotal closed cases	**2 057**	**94**	**2 151**
Interruptions - open cases as at 31.12.2010			
Belgium	—	3	3
Bulgaria	15	—	15
Germany	43	69	112
Italy	—	72	72
Austria	—	17	17
United Kingdom	41	—	41
Subtotal open cases	**99**	**161**	**260**
Total interruptions	**2 156**	**255**	**2 411**

Data disclosed in this table represent the situation as at 15 February 2011

In addition 6 suspension decisions were taken during 2010 for the ESF (Belgium, Spain, and France), and payments were resumed before the year-end for Spain only.

6.4. OTHER RECOVERIES

This heading concerns the 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 RECOVERIES CONFIRMED IN 2010

EUR millions

	2010	2009
Other management types:		
— external actions	137	81
— internal policies	188	202
Total other recoveries confirmed	**325**	**283**

OTHER RECOVERIES IMPLEMENTED IN 2010

EUR millions

	2010	2009
Other management types:		
— external actions	136	81
— internal policies	163	202
Total other recoveries implemented	**299**	**283**

6.5. RECOVERY AND FINANCIAL CORRECTION ACITIVITIES BY MEMBER STATES FOR STRUCTURAL ACTIONS OR COHESION POLICY

In the area of cohesion policy, the corrections effected by Member States following their own or EU audits are not recorded in the Commission's accounting system because Member States can reuse these amounts for other eligible expenditure. Nonetheless, Member States are requested to provide the Commission with updated information on withdrawals, recoveries and pending recoveries of Structural Funds both for individual years and cumulatively for the period 2000-2006, and covering all four funds (ERDF, ESF, EAGGF Guidance and FIFG). However, they are not obliged to separately identify corrections resulting from EU work. For this reason the financial corrections made by Member States are not added to the Commission's.

As the period 2000-2006 is now in its closure phase, a phase during which proof of deduction is requested in relation to all irregularities, Member States are not required to separately submit to the Commission information on withdrawals, recoveries and pending recoveries for the year 2010. Nevertheless, this additional information was received in March 2011 from Greece, Belgium, Hungary, Portugal and for Interregional programmes. This information is taken into account in this section.

Based on data received so far, in terms of EU contribution, Member States have reported a total of some EUR 5,1 billion of cumulative financial corrections resulting from their national audit work for the 2000-2006 programmes (of which withdrawals total some EUR 4 billion and recoveries approximately EUR 1.1 billion).

The on-the-spot audit work undertaken by DG Regional Policy under the 2008 Action Plan to audit the national systems of Member States for recoveries related to the 2000-2006 programming period was completed in 2010 for the six remaining Member States, having covered thus all 25 concerned Member States (there was no reporting obligation for Bulgaria and Romania for the 2000-2006 period). The results of this exercise, as well as the audits carried out by the Court of Auditors, in the last two annual reports, showed that Member States' authorities generally follow the requirements, although significant weaknesses still existed in respect of the completeness of data and the system for recording and reporting irregularities for some 2000-2006 programmes in Italy, Spain, France and the Netherlands. To a lesser extent, weaknesses also existed in programmes in the UK, Slovenia, Finland, Sweden and Latvia. Even if improvements have been identified in all Member States during the years 2007-2010 by the Commission audits, the Commission remains prudent at closure and requested all programmes authorities to report on the follow-up (including financial corrections) that was made at national level for all irregularities registered for each programme. The Commission will not close programmes until it assesses this information as being consistent and complete.

There is a risk of overlap for the 2000-2006 period between the figures reported for financial corrections resulting from the work of EU bodies (audits by the Commission and the Court of Auditors and OLAF investigations) and those reported by Member States resulting from their own work. This is because a large proportion of the financial corrections resulting from the work of EU bodies is accepted by the Member States and implemented by them without a formal Commission decision, by withdrawing the expenditure concerned from their expenditure declarations. As Member States are not obliged to distinguish between corrections resulting from EU bodies′ work from those due to their own controls and audits in the 2000-2006 reporting, the extent of this overlap cannot be precisely quantified. Furthermore, the actual implementation by the Member State may not be in the same year as the Member State's acceptance of the financial correction. Therefore, the possible overlap remains only an estimation. A comparison, Member State by Member State, between the Member States′ figures for 2010 and the amounts of corrections resulting from EU bodies′ work which Member States have accepted for the same year, suggests that the amount of the overlap cannot exceed EUR 65 million (2009: EUR 465 million).

In the 2007-2013 programming period, there is a regulatory requirement for Member States to report annually on recoveries and withdrawals through IT systems SFC 2007. This means that the Commission receives data electronically directly from the Member States at 31 March each year. In its guidance to Member States, the Commission also proposed to separately identify corrections resulting from EU bodies′ work, in order to avoid any overlap in reporting. As reported by Member States to the Commission at 31 March 2011, the total amounts (EU share) recovered by Member States from beneficiaries and withdrawn from certified expenditure presented to the Commission in 2010 (recoveries, for EUR 35 million), or withdrawn from 2010 payment claims before the recovery process is completed at national level (withdrawals, for EUR 189 million), as well as the pending recoveries (EUR 41 million) at the end of 2010, are EUR 265 million:

EUR million

EU 27 2007-2013 (*)	Withdrawals resulting from MS work	Withdrawals resulting from EU bodies	Total withdrawals	Recoveries resulting from MS work	Recoveries resulting from EU bodies	Total Recoveries	Total pending recoveries declared in 2010	Total declared by MS
ERDF/ CF (**)	151	5	**156**	29	2	**31**	**25**	**212**
ESF	31	2	**33**	4	0	**4**	**15**	**52**
EFF	0	0	**0**	1	0	**1**	**0**	**1**
Total	**183**	**7**	**189**	**34**	**2**	**35**	**41**	**265**

(*) figures as reported by Member States at 31 March 2011 in SFC 2007
(**) reports have not been sent for 10 programmes and have been requested from the responsible authorities.

The Commission has planned an audit on recoveries as from the second semester of 2011 so as to review, for all Funds, the corrective mechanism systems put in place by certifying authorities and to assess the assurance the Commission can place on the reported figures, using a sample of programmes and Member States selected on the basis of a risk analysis.

Note 6 – Annex 1: Total financial corrections and recoveries decided in 2010 for EAGF - Breakdown per Member State

EUR millions

Member State	Financial clearance	Conformity clearance	Irregularities declared	Total 2010	Total 2009
Belgium	0	—	4	4	15
Bulgaria	0	17	3	20	5

EUR millions

Member State	Financial clearance	Conformity clearance	Irregularities declared	Total 2010	Total 2009
Czech Republic	0	1	0	1	1
Denmark	0	10	3	12	104
Germany	– 1	16	12	28	17
Estonia	—	—	0	0	0
Ireland	– 1	0	7	7	4
Greece	4	460	14	477	21
Spain	8	52	23	83	106
France	– 1	39	28	67	111
Italy	4	39	35	78	15
Cyprus	—	1	0	1	0
Latvia	0	—	0	0	0
Lithuania	0	0	2	2	4
Luxembourg	0	1	0	1	0
Hungary	0	8	1	8	22
Malta	0	—	0	0	0
Netherlands	– 1	47	5	51	36
Austria	0	1	1	2	3
Poland	0	50	2	52	13
Portugal	2	40	16	58	18
Romania	11	38	6	55	14
Slovenia	0	4	1	5	2
Slovakia	0	0	0	0	1
Finland	0	2	1	2	2
Sweden	0	3	2	5	2
United Kingdom	8	194	11	213	109
Total decided	**33**	**1 022**	**178**	**1 233**	**625**

Note 6 – Annex 2: Total financial corrections and recoveries implemented in 2010 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 2010	Total 2009
Belgium	0	0	3	3	14
Bulgaria	0	—	5	6	1

EUR millions

Member State	Financial clearance and non-respected payment deadlines	Conformity clearance	Irregularities declared by Member States (repaid to EU)	Total 2010	Total 2009
Czech Republic	0	0	1	1	0
Denmark	0	10	3	12	105
Germany	– 1	16	10	26	18
Estonia	—	—	0	0	0
Ireland	– 1	1	5	5	5
Greece	4	136	10	150	196
Spain	8	92	30	130	59
France	– 1	90	30	120	82
Italy	4	5	23	33	177
Cyprus	—	1	0	1	1
Latvia	0	—	0	0	0
Lithuania	0	2	1	4	2
Luxembourg	0	1	0	1	0
Hungary	0	24	2	26	9
Malta	0	—	0	0	0
Netherlands	– 1	46	5	51	9
Austria	0	3	1	3	1
Poland	0	95	1	97	2
Portugal	2	4	18	24	7
Romania	11	—	6	16	12
Slovenia	0	—	1	1	2
Slovakia	0	0	1	1	0
Finland	0	2	1	2	2
Sweden	0	3	2	5	14
United Kingdom	8	195	12	215	133
Total implemented	**33**	**728**	**172**	**934**	**851**

Note 6 – Annex 3: Total financial corrections confirmed in 2010 for Structural Actions - Breakdown per Member State

EUR millions

Member State	Cumulative end 2009	Financial corrections confirmed in 2010						Cumulative end 2010
		ERDF	CF	ESF	FIFG	EAGGF Guidance	Total Year 2010	
1994-1999	**2 516**	**125**	**0**	**4**	**3**	**3**	**136**	**2 652**
Belgium	5	—	—	—	—	—	0	5
Denmark	3	—	—	—	—	—	0	3
Germany	339	0	—	—	0	1	1	340

EUR millions

Member State	Cumulative end 2009	Financial corrections confirmed in 2010						Cumulative end 2010
		ERDF	CF	ESF	FIFG	EAGGF Guidance	Total Year 2010	
Ireland	42	—	—	—	—	—	0	42
Greece	526	1	0	—	—	0	2	528
Spain	548	116	0	0	—	1	117	664
France	84	—	—	4	—	0	4	88
Italy	505	0	—	—	—	0	0	505
Luxembourg	5	—	—	—	—	—	0	5
Netherlands	177	—	—	—	—	—	0	177
Austria	2	—	—	—	—	—	0	2
Portugal	137	2	—	—	1	1	4	141
Finland	1	—	—	—	—	—	0	1
Sweden	1	—	—	—	—	—	0	1
United Kingdom	131	6	—	—	1	0	7	138
INTERREG	10	0	—	—	—	—	0	10
2000-2006	**5 178**	**368**	**258**	**43**	**89**	**30**	**788**	**5 965**
Belgium	10	0	—	—	—	—	0	10
Bulgaria	2	—	18	—	—	—	18	21
Czech Republic	0	4	7	—	—	—	11	11
Denmark	0	—	—	—	—	—	0	0
Germany	12	0	—	0	0	—	1	13
Estonia	0	0	—	0	—	—	0	0
Ireland	42	2	1	—	—	—	2	44
Greece	920	40	0	0	—	—	40	961
Spain	2 503	170	104	2	87	—	363	2 865
France	261	16	—	0	—	9	26	287
Italy	825	97	—	4	1	2	105	930
Cyprus	—	—	—	—	—	—	0	0
Latvia	4	—	1	—	0	—	1	4
Lithuania	2	—	0	—	—	—	0	2
Luxembourg	2	—	—	—	—	—	0	2
Hungary	52	0	—	—	—	—	0	52
Malta	—	—	—	—	—	—	0	0
Netherlands	2	—	—	—	—	—	0	2
Austria	—	—	—	—	—	—	0	0
Poland	134	0	111	1	0	—	112	246
Portugal	126	0	13	0	—	18	31	157
Romania	10	—	2	—	—	—	2	12

EUR millions

Member State	Cumulative end 2009	Financial corrections confirmed in 2010						Cumulative end 2010
		ERDF	CF	ESF	FIFG	EAGGF Guidance	Total Year 2010	
Slovenia	2	—	—	—	—	—	0	2
Slovakia	39	0	2	—	—	—	2	41
Finland	0	—	—	—	0	—	0	1
Sweden	11	0	—	—	—	—	0	11
United Kingdom	217	29	—	36	—	1	65	283
INTERREG	1	9	—	—	—	—	9	10
2007-2013	**0**	**1**	**0**	**1**	**0**	**—**	**2**	**2**
Belgium	—	—	—	—	—	—	—	—
Bulgaria	—	—	—	—	—	—	—	—
Czech Republic	—	—	—	—	—	—	—	—
Denmark	—	—	—	0	—	—	0	0
Germany	—	—	—	—	—	—	—	—
Estonia	—	0	—	—	—	—	0	0
Ireland	—	—	—	0	—	—	0	0
Greece	—	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—	—
France	—	—	—	0	—	—	0	0
Italy	—	—	—	—	—	—	—	—
Cyprus	—	—	—	—	—	—	—	—
Latvia	—	—	—	—	—	—	—	—
Lithuania	—	—	—	—	—	—	—	—
Luxembourg	—	—	—	0	—	—	0	0
Hungary	—	0	—	1	—	—	1	1
Malta	—	—	—	—	—	—	—	—
Netherlands	—	—	—	—	—	—	—	—
Austria	—	—	—	—	—	—	—	—
Poland	—	0	—	0	—	—	0	0
Portugal	—	0	—	0	—	—	1	1
Romania	—	—	—	—	—	—	—	—
Slovenia	—	—	—	—	—	—	—	—
Slovakia	—	—	—	—	—	—	—	—
Finland	—	—	—	—	—	—	—	—
Sweden	—	—	—	—	—	—	—	—
United Kingdom	—	—	—	—	—	—	—	—
INTERREG	—	—	—	—	—	—	—	—
Total confirmed	**7 694**	**494**	**258**	**49**	**91**	**33**	**925**	**8 619**

Note 6 – Annex 4: Total financial corrections implemented in 2010: Structural Actions – Breakdown per Member State

EUR millions

Member State	Cumulative end 2009	Financial corrections implemented in 2010						Cumulative end 2010
		ERDF	CF	ESF	FIFG	EAGGF Guidance	Total Year 2010	
1994-1999	**2 144**	**462**	**4**	**5**	**3**	**3**	**476**	**2 621**
Belgium	6	—	—	—	—	—	—	6
Denmark	4	—	—	—	—	—	—	4
Germany	300	37	—	—	0	1	38	338
Ireland	40	—	—	—	—	—	—	40
Greece	521	1	3	—	—	0	4	525
Spain	293	363	1	0	—	1	365	658
France	85	—	—	4	—	0	4	89
Italy	483	21	—	—	—	—	21	504
Luxembourg	4	—	—	1	—	—	1	5
Netherlands	177	—	—	—	—	—	—	177
Austria	2	—	—	—	—	—	—	2
Portugal	118	20	—	—	1	1	23	141
Finland	1	0	—	—	—	—	0	1
Sweden	1	—	—	—	—	—	—	1
United Kingdom	108	11	—	—	1	0	13	120
INTERREG	2	7	—	—	—	—	7	9
2000-2006	**3 222**	**80**	**18**	**36**	**87**	**38**	**259**	**3 480**
Belgium	8	—	—	0	—	—	0	8
Bulgaria	2	—	—	—	—	—	—	2
Czech Republic	0	—	—	—	—	—	—	0
Denmark	0	—	—	—	—	—	—	0
Germany	10	0	—	—	—	—	0	10
Estonia	0	—	—	0	—	—	0	0
Ireland	26	—	—	—	—	—	—	26
Greece	904	—	—	—	—	—	—	904
Spain	940	—	16	0	87	8	111	1 051
France	239	—	—	—	—	9	9	248
Italy	686	79	—	0	—	2	82	768
Cyprus	0	—	—	—	—	—	—	0
Latvia	3	—	1	—	—	—	1	4
Lithuania	1	—	0	—	—	—	0	1
Luxembourg	2	—	—	—	—	—	—	2
Hungary	41	—	—	—	—	—	—	41

EUR millions

Member State	Cumulative end 2009	Financial corrections implemented in 2010						Cumulative end 2010
		ERDF	CF	ESF	FIFG	EAGGF Guidance	Total Year 2010	
Malta	0	—	—	—	—	—	—	0
Netherlands	0	—	—	—	—	1	1	1
Austria	0	—	—	—	—	—	—	0
Poland	90	—	—	—	—	—	—	90
Portugal	95	—	1	—	—	18	18	113
Romania	8	—	0	—	—	—	0	8
Slovenia	2	—	—	—	—	—	—	2
Slovakia	1	—	—	—	—	—	—	1
Finland	0	—	—	—	—	—	—	0
Sweden	11	—	—	—	—	—	—	11
United Kingdom	151	—	—	36	—	1	37	188
INTERREG	0	0	—	—	—	—	0	0
2007-2013	**0**	**1**	**0**	**1**	**0**	—	**2**	**2**
Belgium	—	—	—	—	—	—	—	—
Bulgaria	—	—	—	—	—	—	—	—
Czech Republic	—	—	—	—	—	—	—	—
Denmark	—	—	—	0	—	—	0	0
Germany	—	—	—	—	—	—	—	—
Estonia	—	0	—	—	—	—	0	0
Ireland	—	—	—	0	—	—	0	0
Greece	—	—	—	—	—	—	—	—
Spain	—	—	—	—	—	—	—	—
France	—	—	—	0	—	—	0	0
Italy	—	—	—	—	—	—	—	—
Cyprus	—	—	—	—	—	—	—	—
Latvia	—	—	—	—	—	—	—	—
Lithuania	—	—	—	—	—	—	—	—
Luxembourg	—	—	—	—	—	—	—	—
Hungary	—	—	—	1	—	—	1	1
Malta	—	—	—	—	—	—	—	—
Netherlands	—	—	—	—	—	—	—	—
Austria	—	—	—	—	—	—	—	—
Poland	—	0	—	—	—	—	0	0
Portugal	—	0	—	0	—	—	1	1
Romania	—	—	—	—	—	—	—	—
Slovenia	—	—	—	—	—	—	—	—

EUR millions

Member State	Cumulative end 2009	Financial corrections implemented in 2010						Cumulative end 2010
		ERDF	CF	ESF	FIFG	EAGGF Guidance	Total Year 2010	
Slovakia	—	—	—	—	—	—	—	—
Finland	—	—	—	—	—	—	—	—
Sweden	—	—	—	—	—	—	—	—
United Kingdom	—	—	—	—	—	—	—	—
INTERREG	—	—	—	—	—	—	—	—
Total implemented	**5 366**	**542**	**21**	**42**	**90**	**41**	**737**	**6 102**

7. FINANCIAL RISK MANAGEMENT

The following disclosures with regard to the financial risk management of the European Union (EU) relate to:

— the treasury operations carried out by the European Commission in order to implement the EU budget;

— lending and borrowing activities carried out by the European Commission through Macro Financial Assistance (MFA), Balance of Payments (BOP) and Euratom actions;

— the Guarantee Fund for external actions; and

— lending and borrowing, as well as treasury activities carried out by the European Union through the European Coal & Steel Community (in Liquidation).

7.1. **RISK MANAGEMENT POLICIES**

7.1.1. ***Treasury operations***

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.

— 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, meetings are held between DG BUDGET and DG ECFIN to discuss information sharing on risk management and best practices.

BUFI – provisionally cashed fines

From 2010 onwards provisionally cashed fines amounts are invested in a specifically created fund managed by DG ECFIN, BUFI. 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.

7.1.2. ***Borrowing and lending activities (MFA, BOP and Euratom)***

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. Financial and operational risks are identified and evaluated and compliance to internal guidelines and procedures is checked regularly. 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 financed by "back-to-back" borrowings, which thus do not generate open interest rate or currency positions.

7.1.3. ***Guarantee Fund***

The rules and principles for the asset management of the Guarantee Fund (see note **2.3.3**) 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.

7.1.4. *ECSC in liquidation*

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.

7.2. MARKET 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.

7.2.1. *Currency risk*

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.

7.2.1.1. *Treasury operations*

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.

BUFI – provisionally cashed fines

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

7.2.1.2. *Borrowing and lending activities (MFA, BOP and Euratom)*

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.

7.2.1.3. *Guarantee Fund*

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

7.2.1.4. *ECSC in liquidation*

The ECSC in liquidation has a small foreign currency net exposure of EUR equivalent 1,43 million arising from EUR equivalent 1,39 million housing loans and EUR equivalent 0,04 million current account balances.

7.2.2. ***Interest rate risk***

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.

7.2.2.1. *Treasury operations*

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.

BUFI – provisionally cashed fines

There are no bonds with variable interest rates in the BUFI portfolio. Zero coupon bonds represented 69 % of the bond portfolio at the balance sheet date.

7.2.2.2. *Borrowing and lending activities (MFA, BOP and Euratom)*

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 0,86 billion (2009: EUR 0,96 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 110 million in 2010 (2009: EUR 110 million) and which have a final maturity date between one and five years (EUR 25 million) and more than five years (EUR 85 million). More significantly, the EU has ten loans under the financial instrument BOP with fixed interest rates totalling EUR 12,05 billion in 2010 (2009: EUR 9,2 billion) and with a final maturity up to one year (EUR 2 billion), between one and five years (EUR 5,7 billion) and more than five years (EUR 4,35 billion).

7.2.2.3. *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 93 % of the investment portfolio at the balance sheet date (2009: 97 %).

7.2.2.4. *ECSC in liquidation*

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, fixed rate bonds represent approximately 92 % of the securities portfolio at the balance sheet date (2009: 97 %).

7.3. **CREDIT RISK**

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.

7.3.1. ***Treasury operations***

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 2010 that totalled EUR 120 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 of S&P AA or equivalent is also required as a general rule and specific measures are applied in case banks in this group are subject to downgrade.

— In the course of 2009 the Commission's treasury services have put in place an alternative system for the management of provisionally cashed fines, with the specific objective of reducing risk in this area. Further to Commission's Decision C(2009) 4264 fines imposed from the 1st January 2010, are now managed under the new system and no longer deposited with commercial banks.

— 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 were adopted in the context of the financial crisis, and kept in place during 2010.

BUFI – provisionally cashed fines

For investments from provisionally cashed fines we take 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 69 % and 25 % of the total volume of the portfolio.

The main investment limits are for benchmark countries (currently France and Germany, rated AAA/Aaa): up to 100 % of the portfolio. For other authorised issuers (a minimum rating of Aa2 (Moody's or equivalent) is required): up to 25 % of the portfolio.

7.3.2. ***Borrowing and lending activities (MFA, BOP and Euratom)***

Exposure to credit risk is managed firstly by obtaining country guarantees in the case of Euratom, then through the Guarantee Fund (MFA & Euratom) and ultimately through the Budget of the EU (BOP, and should the other measures not be sufficient, MFA & Euratom). The Own Resource legislation in force during 2010 fixed the ceiling for the GNI resource at 1,23 % of Member States′ GNI and during 2010 1,12 % was actually used to cover payment appropriations. This means that at 31 December 2010 there existed an available margin of 0,11 % to cover this guarantee. 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 call on the EU budget 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.

The main beneficiaries of these loans are Hungary, Romania and Latvia. These countries represent approximately 42 %, 30 % and 22 % respectively of the total volume of loans. 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.

7.3.3. ***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 2010 all investments (EUR 124 million) were made with such counterparties (2009: EUR 153 million). As at 31 December 2010, the fund invested in five 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.

7.3.4. ***ECSC in liquidation***

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. 68 % of the total amount of outstanding loans is covered by guarantees from a Member State or equivalent bodies (e.g. public institutions). 11 % 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.

7.4. **LIQUIDITY RISK**

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.

7.4.1. ***Treasury operations***

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 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.

7.4.2. ***Borrowing and lending activities (MFA, BOP and Euratom)***

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 EU budget.

7.4.3. ***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 2010 these investments amounted to EUR 192 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 2010 this ratio stood at 32 %.

7.4.4. ***ECSC in liquidation***

The liquidity risk that arises from borrowings is generally offset by equivalent loans in terms and conditions (back-to-back operations). 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.

8. RELATED PARTY DISCLOSURES

8.1. **RELATED PARTIES**

The related parties of the EU are its consolidated entities and the key management personnel of these entities (see below). 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. A list of these consolidated entities is given in note **10**.

8.2. **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* (L 187, 8.8.1967 last modified by Regulation (EC, Euratom) No 202/2005 of 18.1.2005 (L 33, 5.2.2005) and L 268, 20.10.1977 last modified by Regulation (EC, Euratom) No 1293/2004 of 30.4.2004 (L 243, 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

EUR

Entitlement (per employee)	Category 1	Category 2	Category 3	Category 4	Category 5
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	5,07 %	5,07 %	5,07 %	5,07 %	5,07 %
Pension deduction	N/A	N/A	N/A	N/A	11,3 %
Number of persons at 31/12/2010	**3**	**7**	**91**	**27**	**89**

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

9. EVENTS AFTER THE BALANCE SHEET DATE

At the date of transmission of these accounts, aside from the information provided below, no other 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.

Balance of Payments (BOP) lending operations

In March 2011 a further EUR 1,2 billion was disbursed to Romania under the BOP facility, with a maturity date of April 2018 and in June 2011 the last amount of EUR 150 million was paid out. Furthermore, 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. The table below shows the reimbursement schedule of the EUR 13,4 billion disbursed at the date of authorisation for issue of the annual accounts.

European Financial Stabilisation Mechanism (EFSM)

On 11 May 2010 the Council adopted a European Financial Stabilisation Mechanism (EFSM) to preserve financial stability in Europe (Council Regulation (EU) nº 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 occurrences beyond its control. The assistance may take the form of a loan or credit line guaranteed by the EU budget. When activated, the Commission would borrow funds on the capital markets or with financial institutions on behalf of the EU and lend these funds to the beneficiary Member State. 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, which restricts the outstanding amount of loans or credit lines to the margin available under the own resources ceiling.

On 21 November 2010, Ireland requested financial assistance under the above referenced Regulation. The Council Implementing Decision (2011/77/EU) of 7 December 2010 agreed to grant Ireland a loan amounting to a maximum of EUR 22,5 billion with a maximum average maturity of 7½ years. The loan will be made available in a maximum of 13 instalments. The first tranche of EUR 5 billion under the first instalment was paid to Ireland on 12 January 2011 with a final maturity in December 2015. The second tranche of the first instalment of EUR 3,4 billion was paid to Ireland on 24 March 2011 with a final maturity in April 2018. A second instalment of EUR 3 billion, with a maturity date of June 2021, was paid out on the 31 May 2011.

On 7 April 2011, Portugal also requested financial assistance under the EFSM and so on 17 May 2011 the Council agreed to grant a loan amounting to a maximum of EUR 26 billion (see Council Implementing Decision (2011/344/EU)), with a maximum average maturity of 7½ years. The loan shall be made available during three years, in a maximum of 14 installments. The first tranche of the first installment, amounting to EUR 1,75 billion, was disbursed on 31 May 2011, with a maturity date of June 2021. On 1 June 2011, the second tranche of the first installment, EUR 4,75 billion was disbursed, with a maturity of June 2016. The table below shows the reimbursement schedule of the EUR 17,9 billion disbursed at the date of authorisation for issue of the annual accounts.

Other Financial Stabilisation Mechanisms without impact on the EU accounts

It is worth noting that although it has no impact on either the EU accounts or the EU budget, another financial assistance package, the European Financial Stability Facility (EFSF), was established by the euro area Member States and other participating Member States. This Facility expires in June 2013.

The above mentioned EFSM loans to Ireland and Portugal were granted in conjunction with 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, and with 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. In addition, Ireland was also granted bilateral loans from the United Kingdom of GBP 3,3 billion (approximately EUR 3,8 billion), Sweden EUR 600 million and Denmark EUR 400 million.

Additionally, the European Council decided on the 24 June 2011 to establish a new permanent crisis mechanism, the European Stability Mechanism (ESM). It will become operational as of mid-2013 and will replace the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM). This mechanism will allow for the provision of financial assistance to euro area Member States in financial distress. Assistance 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, there is no impact on either the EU accounts or the EU budget.

Outstanding loan amounts to be reimbursed per year as at date of authorisation for issue of the annual accounts

EUR Billions

Loan and Beneficiary	Instalment	2011	2014	2015	2016	2017	2018	2019	2021	2025	Total
BOP											
Hungary	1st	2,0									
	2nd		2,0								
	3rd				1,5						
Latvia	1st		1,0								
	2nd			1,2							
	3rd							0,5			
	4th									0,2	
	5th										
	6th										
Romania	1st			1,5							
	2nd							1,0			
	3rd					1,15					
	4th						1,2				
	5th						0,15				
	Precautionary assistance										
Total BOP		*2,0*	*3,0*	*2,7*	*1,5*	*1,15*	*1,35*	*1,5*	*0,0*	*0,2*	*13,4*
EFSM											
Ireland	1st (T1)			5,0							
	1st (T2)						3,4				
	2nd								3,0		
Portugal	1st (T1)								1,75		
	1st (T2)				4,75						
Total EFSM		*0,0*	*0,0*	*5,0*	*4,75*	*0,0*	*3,4*	*0,0*	*4,75*	*0,0*	*17,9*
Overall total		**2,0**	**3,0**	**7,7**	**6,25**	**1,15**	**4,75**	**1,5**	**4,75**	**0,2**	**31,3**

10. CONSOLIDATED ENTITIES

A. **CONTROLLED ENTITIES**

1. ***Institutions and consultative bodies***

Committee of the Regions

Council of the European Union

Court of Justice of the European Union

European Commission

European Court of Auditors

European Data Protection Supervisor

European Economic and Social Committee

European Ombudsman

European Parliament

European Council (*)

2. ***EU Agencies***

European Agency for Safety and Health at Work

European Aviation Safety Agency

European Centre for Disease Prevention and Control

European Centre for the Development of Vocational Training

European Environment Agency

European Food Safety Authority

European Foundation for the Improvement of Living and Working Conditions

European Maritime Safety Agency

European Medicines Agency

European Chemicals Agency

Fusion for Energy (European Joint Undertaking for ITER and the Development of Fusion Energy)

Eurojust

European Institute for Gender Equality (*)

European Union Agency for Fundamental Rights

European Network and Information Security Agency

European Training Foundation

European Agency for the Management of Operational Co-operation at External Borders of the Member States of the EU

Translation Centre for the Bodies of the European Union

European GNSS Supervisory Authority

Office for Harmonisation in the Internal Market (Trade Marks and Designs)

European Railway Agency

Community Plant Variety Office

Community Fisheries Control Agency

European Monitoring Centre for Drugs and Drug Addiction

European Police College (CEPOL)

European Police Office (EUROPOL) (*)

Executive Agency for Competitiveness and Innovation

Education, Audiovisual & Culture Executive Agency

European Research Council Executive Agency

Executive Agency for Health and Consumers

Trans-European Transport Network Executive Agency

Research Executive Agency

3. ***Other controlled entities***

European Coal and Steel Community (in liquidation)

B. **JOINT VENTURES**

ITER International Fusion Energy Organisation

SESAR Joint Undertaking

FCH Joint Undertaking (*)

Galileo Joint Undertaking in liquidation

IMI Joint Undertaking

C. **ASSOCIATES**

European Investment Fund

Clean Sky Joint Undertaking

ARTEMIS Joint Undertaking

ENIAC Joint Undertaking (*)

(*) Consolidated for the first time in 2010

11. 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.

11.1. 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, 19.3.2008) 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

	31.12.2010	31.12.2009
NON-CURRENT ASSETS	353	196
CURRENT ASSETS	2 151	1 389
Total assets	**2 504**	**1 585**
CURRENT LIABILITIES	(1 046)	(860)
Total liabilities	**(1 046)**	**(860)**
Net assets	**1 458**	**725**
FUNDS & RESERVES		
Called fund capital	23 879	20 381
Other reserves	2 252	2 252
Economic outturn carried forward from previous years	(21 908)	(18 814)
Economic outturn of the year	(2 765)	(3 094)
Net assets	**1 458**	**725**

Economic outturn account – 8th, 9th and 10th EDF

EUR millions

	2010	2009
OPERATING REVENUE	140	49
OPERATING EXPENSES	(3 000)	(3 192)
DEFICIT FROM OPERATING ACTIVITIES	(2 860)	(3 143)
FINANCIAL ACTIVITIES	95	49
ECONOMIC OUTTURN OF THE YEAR	**(2 765)**	**(3 094)**

11.2. 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 2010 totalled EUR 286 million (2009: EUR 297 million).

11.3. 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, and the EU (represented by the Commission) acts only as their executive agent. As at 31 December 2010 the PGF had total assets of EUR 879 million (2009: EUR 580 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.

PART II

Consolidated reports on implementation of the budget of the European Union and explanatory notes

CONTENTS

CONSOLIDATED REPORTS ON IMPLEMENTATION OF THE BUDGET (*)

RESULT OF IMPLEMENTATION OF THE EU BUDGET

1. EU budget outturn 2010

EUR millions

EUROPEAN UNION	2010	2009
Revenue for the financial year	**127 795**	**117 626**
Payments against current year appropriations	**(121 213)**	**(116 579)**
Payment appropriations carried over to year N+1	**(2 797)**	**(1 759)**
Cancellation of unused payment appropriations carried over from year N-1	**741**	**2 791**
Exchange differences for the year	**23**	**185**
Budget Outturn (*)	**4 549**	**2 264**

(*) Of which EFTA amounts total EUR 9 million in 2010 and EUR 11 million in 2009.

The budget surplus for the European Union is returned to the Member States during the following year through deduction of their amounts due for that year.

2. Statement of comparison of budget and actual amounts

Revenue

EUR millions

Title	Original Budget	Final Budget	Entitlements established	Revenue	Difference Final-Actual	Receipts as % of budget	Outstanding
	1	2	3	4	5=2 − 4	6=4/2	7=3 − 4
1. Own resources	121 507	119 270	119 950	119 869	− 599	100,50 %	81
3. Surpluses, balances and adjustments	0	2 254	1 624	1 460	794	64,79 %	164
4. Revenue accruing from persons working with the institutions and with other Community bodies	1 178	1 180	1 129	1 123	58	95,12 %	7
5. Revenue accruing from the administrative operation of the institutions	69	69	407	388	− 319	563,54 %	19
6. Contributions and refunds in connection with community agreements and programmes	30	30	3 781	3 512	− 3 482	11 707,30 %	269
7. Interest on late payments and fines	123	123	15 301	1 408	− 1 285	1 144,36 %	13 893
8. Borrowing and lending operations	0	0	122	0	0	0	122
9. Miscellaneous revenue	30	30	47	36	− 6	119,95 %	10
Total	**122 937**	**122 956**	**142 362**	**127 795**	**– 4 839**	**103,94 %**	**14 566**

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

Expenditure – by financial framework heading

EUR millions

Financial Framework Heading	Original Budget	Final Budget (*)	Payments made	Difference Final-Actual	%	Appropriations carried over	Appropriations lapsing
	1	2	3	4=2 − 3	5=3/2	6	7=2 − 3 − 6
1. Sustainable growth	47 727	52 103	48 828	3 275	93,71 %	1 905	1 370
2. Preservation & management of natural resources	58 136	59 630	56 647	2 983	95,00 %	2 382	601
3. Citizenship, freedom, security and justice	1 398	1 617	1 373	244	84,93 %	199	44
4. The EU as a global partner	7 788	8 101	7 487	615	92,41 %	114	501
5. Administration	7 889	9 076	7 896	1 180	87,00 %	957	223
6. Compensations	0	0	0	0	0,00 %	0	0
Total	**122 937**	**130 527**	**122 231**	**8 296**	**93,64 %**	**5 557**	**2 739**

(*) including appropriations carried over and assigned revenue

Expenditure – by policy area

EUR millions

Policy Area	Original Budget	Final Budget (*)	Payments made	Difference Final-Actual	%	Appropriations carried over to 2011	Appropriations lapsing
	1	2	3	4=2 − 3	5=3/2	6	7=2 − 3 − 6
01 Economic and financial affairs	406	401	289	112	72,11 %	67	44
02 Enterprise	638	771	658	113	85,35 %	99	14
03 Competition	91	104	92	12	88,79 %	10	2
04 Employment and social affairs	8 572	8 543	7 481	1 062	87,57 %	43	1 019
05 Agriculture and rural development	57 077	58 421	55 611	2 810	95,19 %	2 325	485
06 Energy and transport	3 262	3 369	2 859	510	84,85 %	187	323
07 Environment	371	438	358	80	81,79 %	24	56
08 Research	4 138	5 369	4 507	863	83,93 %	848	14
09 Information society and media	1 597	1 986	1 786	200	89,94 %	197	3
10 Direct research	392	789	438	351	55,51 %	344	7
11 Maritime affairs and Fisheries	819	827	656	172	79,23 %	39	133
12 Internal market	73	80	71	9	88,66 %	7	2
13 Regional policy	28 768	30 709	30 623	87	99,72 %	79	8
14 Taxation and customs union	107	136	126	10	92,53 %	9	1
15 Education and culture	1 443	1 783	1 572	211	88,16 %	205	6

EUR millions

Policy Area	Original Budget	Final Budget (*)	Payments made	Difference Final-Actual	%	Appropriations carried over to 2011	Appropriations lapsing
	1	2	3	4=2 − 3	5=3/2	6	7=2 − 3 − 6
16 Communication	210	231	206	25	89,24 %	14	11
17 Health and consumer protection	542	664	590	74	88,84 %	45	30
18 Area of freedom, security and justice	798	840	745	95	88,70 %	71	24
19 External relations	3 658	3 867	3 683	185	95,23 %	84	101
20 Trade	82	90	77	13	85,06 %	6	7
21 Development and relations with ACP States	1 608	1 819	1 708	111	93,90 %	55	56
22 Enlargement	1 204	1 152	1 130	22	98,06 %	16	6
23 Humanitarian aid	820	978	971	7	99,30 %	6	1
24 Fight against fraud	73	82	73	10	88,34 %	7	3
25 Commission's policy coordination and legal advice	188	215	189	26	87,95 %	22	4
26 Commission's administration	1 013	1 239	1 044	195	84,24 %	177	19
27 Budget	68	77	65	12	83,82 %	11	1
28 Audit	11	12	11	2	86,62 %	1	0
29 Statistics	120	148	126	22	84,99 %	17	6
30 Pensions and related expenditure	1 214	1 210	1 205	4	99,63 %	0	4
31 Language Services	389	486	427	60	87,75 %	57	3
40 Reserves	249	193	0	193	0,00 %	0	193
90 Other Institutions	2 937	3 496	2 857	639	81,72 %	484	155
Total	**122 937**	**130 527**	**122 231**	**8 296**	**93,64 %**	**5 557**	**2 739**

(*) including appropriations carried over and assigned revenue

3. Summary of the implementation of budget revenue 2010

EUR millions

Title	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current year	Carried over	Total	On entitlements of Current year	On entitlements Carried	Total		
1. Own resources	121 507	119 270	119 861	89	119 950	119 846	22	119 869	100,50 %	81
3. Surpluses, balances and adjustments	0	2 254	1 624	0	1 624	1 460	0	1 460	64,79 %	164
4. Revenue accruing from persons working with the institutions and with other Community bodies	1 178	1 180	1 122	7	1 129	1 116	7	1 123	95,12 %	7
5. Revenue from administrative operations of institutions	69	69	305	102	407	290	98	388	563,54 %	19
6. Contributions and refunds in connection with community agreements and programmes	30	30	3 507	275	3 781	3 360	153	3 512	11 707,30 %	269
7. Interest on late payments and fines	123	123	3 460	11 841	15 301	621	786	1 408	1 144,36 %	13 893
8. Borrowing and lending operations	0	0	47	76	122	0	0	0		122
9. Miscellaneous revenue	30	30	28	19	47	24	13	36	119,95 %	10
Total	**122 937**	**122 956**	**129 955**	**12 407**	**142 362**	**126 717**	**1 078**	**127 795**	**103,94 %**	**14 566**

Detail Title 1: Own resources

Chapter	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current year	Carried over	Total	On entitlements of Current year	On entitlements Carried	Total		
11. Sugar levies	123	123	146	0	146	146	0	146	118,00 %	0
12. Customs duties	14 080	15 596	15 507	89	15 595	15 491	22	15 514	99,47 %	81
13. VAT	13 951	13 277	13 393	0	13 393	13 393	0	13 393	100,87 %	0
14. GNI	93 353	90 273	90 948	0	90 948	90 948	0	90 948	100,75 %	0
15. Correction of budgetary imbalances	0	0	– 128	0	– 128	– 128	0	– 128	—	0
16. Reduction of GNI based contributions of NL & S	0	0	– 3	0	– 3	– 3	0	– 3	—	0
Total	**121 507**	**119 270**	**119 861**	**89**	**119 950**	**119 846**	**22**	**119 869**	**100,50%**	**81**

Detail Title 3: Surpluses, balances and adjustments

Chapter	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current year	Carried over	Total	On entitlements of Current year	On entitlements Carried	Total		
30. Surplus from previous year	0	2 254	2 254	0	2 254	2 254	0	2 254	100,00 %	0
31. VAT balances	0	0	– 880	0	– 880	– 917	0	– 917	—	37
32. GNI balances	0	0	241	0	241	113	0	113	—	128
34. Adjustment for non-participation in JHAP	0	0	– 4	0	– 4	– 4	0	– 4	—	0
35. United Kingdom correction-adjustments	0	0	9	0	9	9	0	9	—	0
37. United Kingdom correction-intermediate calculation	0	0	4	0	4	4	0	4	—	0
Total	**0**	**2 254**	**1 624**	**0**	**1 624**	**1 460**	**0**	**1 460**	**64,79 %**	**164**

4. **Breakdown & changes in commitment & payment appropriations by financial framework heading**

EUR millions

Financial Framework Heading	Commitment appropriations						Payment appropriations					
	Appropriations adopted	Modifications (Transfers and AB)	Carried over	Assigned revenue	Total additional	Total authorised	Appropriations adopted	Modifications (Transfers and AB)	Carried over	Assigned revenue	Total additional	Total authorised
	1	2	3	4	5=3 + 4	6=1 + 2 + 5	7	8	9	10	11=9 + 10	12=7 + 8 + 11
1 Sustainable growth	64 249	0	65	1 929	1 994	66 243	47 727	1 074	932	2 370	3 302	52 103
2 Preservation and management of natural resources	59 499	0	253	2 560	2 813	62 312	58 136	– 1 116	62	2 549	2 611	59 630
3 Citizenship, freedom, security and justice	1 674	80	0	151	151	1 906	1 398	42	8	169	177	1 617
4 The EU as a global partner	8 141	0	0	277	277	8 418	7 788	1	90	222	313	8 101
5 Administration	7 889	19	11	473	484	8 392	7 889	19	682	486	1 168	9 076
6 Compensations	0	0	0	0	0	0	0	0	0	0	0	0
Total	**141 453**	**99**	**329**	**5 390**	**5 719**	**147 270**	**122 937**	**19**	**1 774**	**5 797**	**7 571**	**130 527**

5. **Implementation of commitment appropriations by financial framework heading**

EUR millions

Financial Framework Heading	Commitment appropriations authorised	Commitments made					Appropriations carried over to 2011				Appropriations lapsing				
		From the year's appro-priations	From carry-overs	From assigned revenue	Total	%	Assigned revenue	Carry-overs by decision	Total	%	From the year's budget appropriations	From carry overs	Assigned revenue (EFTA)	Total	%
	1	2	3	4	5=2 + 3 + 4	6=5/1	7	8	9=7 + 8	10=9/1	11	12	13	14=11 + 12 + 13	15=14/1
1 Sustainable growth	66 243	63 590	65	799	64 453	97,30 %	1 130	182	1 312	1,98 %	477	0	1	478	0,72 %
2 Preservation and management of natural resources	62 312	59 406	253	592	60 251	96,69 %	1 968	2	1 970	3,16 %	91	0	0	91	0,15 %
3 Citizenship, freedom, security and justice	1 906	1 717	0	78	1 795	94,20 %	73	24	97	5,11 %	13	0	0	13	0,69 %
4 The EU as a global player	8 418	8 083	0	164	8 247	97,97 %	113	42	154	1,83 %	16	0	0	17	0,20 %
5 Administration	8 392	7 758	10	229	7 997	95,30 %	244	9	254	3,02 %	140	1	0	141	1,68 %
6 Compensations	0	0	0	0	0	0,00 %	0	0	0	0,00 %	0	0	0	0	0,00 %
Total	**147 270**	**140 554**	**328**	**1 861**	**142 744**	**96,93 %**	**3 528**	**259**	**3 787**	**2,57 %**	**738**	**1**	**1**	**740**	**0,50 %**

6. **Implementation of payment appropriations by financial framework heading**

EUR millions

Financial Framework Heading	Payment Appropriations authorised	Payments made					Appropriations carried over to 2010					Appropriations lapsing				
		From the year's appro-priations	From carry-overs	From assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	Assigned revenue	Total	%	From the year's appropria-tions	From carry-overs	Assigned revenue (EFTA)	Total	%
	1	2	3	4	5=2 + 3 + 4	6=5/1	7	8	9	10=7 + 8 + 9	11=10/1	12	13	14	15=12 + 13 + 14	16=15/1
1 Sustainable growth	52 103	47 811	282	735	48 828	93,71 %	125	156	1 624	1 905	3,66 %	709	651	10	1 370	2,63 %
2 Preservation and management of natural resources	59 630	56 014	47	587	56 647	95,00 %	46	373	1 963	2 382	3,99 %	586	15	0	601	1,01 %

EUR millions

Financial Framework Heading	Payment Appropriations authorised	Payments made					Appropriations carried over to 2010					Appropriations lapsing				
		From the year's appro-priations	From carry-overs	From assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	Assigned revenue	Total	%	From the year's appropria-tions	From carry-overs	Assigned revenue (EFTA)	Total	%
	1	2	3	4	5=2 + 3 + 4	6=5/1	7	8	9	10=7 + 8 + 9	11=10/1	12	13	14	15=12 + 13 + 14	16=15/1
3 Citizenship, freedom, security and justice	1 617	1 299	6	67	1 373	84,93 %	8	90	101	199	12,33 %	42	2	0	44	2,74 %
4 The EU as a global player	8 101	7 259	81	147	7 487	92,41 %	36	2	76	114	1,41 %	491	9	0	501	6,18 %
5 Administration	9 076	7 088	602	205	7 896	87,00 %	666	10	281	957	10,54 %	144	80	0	223	2,46 %
6 Compensations	0	0	0	0	0	0,00 %	0	0	0	0	0,00 %	0	0	0	0	0,00%
Total	**130 527**	**119 472**	**1 018**	**1 741**	**122 231**	**93,64 %**	**881**	**631**	**4 045**	**5 557**	**4,26 %**	**1 972**	**756**	**11**	**2 739**	**2,10 %**

7. **Movements in commitments outstanding - by financial framework heading**

EUR millions

Financial Framework Heading	Commitments outstanding at the end of the previous year				Commitments of the year				
	Commitments carried forward from previous year	Decommitments /Revaluations/ Cancellations	Payments	Commitments outstanding at year-end	Commitments made during the year	Payments	Cancellation of commitments which cannot be carried over	Commitments outstanding at year-end	Total Commitments outstanding at year-end
1 Sustainable growth	136 903	– 2 058	– 43 678	91 167	64 453	– 5 150	– 3	59 300	150 467
2 Preservation and management of natural resources	19 541	– 181	– 10 280	9 079	60 251	– 46 367	0	13 883	22 963
3 Citizenship, freedom, security and justice	1 662	– 173	– 452	1 037	1 795	– 921	0	874	1 911
4 The EU as a global player	18 462	– 890	– 5 231	12 340	8 247	– 2 255	0	5 992	18 332
5 Administration	704	– 83	– 607	15	7 997	– 7 289	– 1	708	723
6 Compensations	0	0	0	0	0	0	0	0	0
Total	**177 272**	**– 3 385**	**– 60 249**	**113 638**	**142 744**	**– 61 982**	**– 5**	**80 757**	**194 395**

8. **Breakdown of commitments outstanding by the commitment's year of origin - by financial framework heading**

EUR millions

Financial Framework Heading	< 2004	2004	2005	2006	2007	2008	2009	2010	Total
1 Sustainable growth	781	617	1 461	13 421	2 879	23 288	48 719	59 300	150 467
2 Preservation & management of natural resources	44	13	47	1 517	138	688	6 633	13 883	22 963
3 Citizenship, freedom, security and justice	13	12	23	42	151	218	577	874	1 911
4 The EU as a global player	786	412	584	1 474	1 727	3 164	4 193	5 992	18 332
5 Administration	0	0	0	0	0	0	14	708	723
Total	**1 623**	**1 055**	**2 116**	**16 455**	**4 895**	**27 359**	**60 136**	**80 757**	**194 395**

9. **Breakdown and changes in commitment and payment appropriations by policy area**

EUR millions

Policy Area	Commitment appropriations						Payment appropriations					
	Approps adopted	Modifications (Transfer/AB)	Carried over	Assigned revenue	Total additional	Total authorised	Approps adopted	Modifications (Transfer/AB)	Carried over	Assigned revenue	Total additional	Total authorised
	1	2	3	4	5=3 + 4	6=1 + 2 + 5	7	8	9	10	11=9 + 10	12=7 + 8 + 11
01 Economic and financial affairs	449	– 6	0	13	13	455	406	– 29	6	18	24	401
02 Enterprise	795	0	0	112	112	907	638	– 7	13	126	140	771
03 Competition	91	0	0	4	4	95	91	0	8	4	12	104
04 Employment and social affairs	11 274	85	40	16	56	11 414	8 572	– 790	748	14	762	8 543
05 Agriculture and rural development	58 081	– 2	252	2 548	2 800	60 879	57 077	– 1 229	26	2 548	2 573	58 421
06 Energy and transport	4 950	3	0	136	136	5 089	3 262	– 152	92	167	259	3 369
07 Environment	471	– 1	0	24	24	494	371	26	24	18	42	438
08 Research	5 142	0	0	770	770	5 912	4 138	28	38	1 165	1 203	5 369
09 Information society and media	1 628	0	0	189	189	1 817	1 597	96	14	279	293	1 986
10 Direct research	383	0	4	460	464	847	392	– 11	35	374	409	789
11 Maritime affairs and Fisheries	1 001	1	1	3	3	1 005	819	– 9	15	3	17	827
12 Internal market	74	1	0	3	3	78	73	– 2	6	3	9	80

EUR millions

Policy Area	Commitment appropriations						Payment appropriations					
	Approps adopted	Modifications (Transfer/AB)	Carried over	Assigned revenue	Total additional	Total authorised	Approps adopted	Modifications (Transfer/AB)	Carried over	Assigned revenue	Total additional	Total authorised
	1	2	3	4	5=3 + 4	6=1 + 2 + 5	7	8	9	10	11=9 + 10	12=7 + 8 + 11
13 Regional policy	38 897	99	21	4	25	39 020	28 768	1 925	13	4	17	30 709
14 Taxation and customs union	135	0	0	4	4	139	107	18	7	4	11	136
15 Education and culture	1 500	0	0	317	317	1 817	1 443	– 3	14	329	343	1 783
16 Communication	218	2	0	4	4	223	210	3	15	4	18	231
17 Health and consumer protection	677	1	0	26	26	703	542	73	28	21	50	664
18 Area of freedom, security and justice	1 066	1	0	61	61	1 128	798	– 23	7	58	65	840
19 External relations	4 264	65	0	121	121	4 450	3 658	67	50	92	142	3 867
20 Trade	79	– 1	0	3	3	81	82	– 1	6	3	9	90
21 Development and relations with ACP States	1 647	– 49	0	139	139	1 737	1 608	57	41	114	154	1 819
22 Enlargement	1 022	– 6	1	18	19	1 035	1 204	– 79	9	19	28	1 152
23 Humanitarian aid	820	245	0	5	5	1 070	820	107	46	4	50	978
24 Fight against fraud	78	0	0	0	0	78	73	2	7	0	7	82
25 Commission's policy coordination and legal advice	188	2	0	9	9	199	188	2	16	9	25	215
26 Commission's administration	1 014	2	0	96	96	1 111	1 013	4	123	99	222	1 239
27 Budget	68	– 7	0	6	6	67	68	– 7	10	6	16	77
28 Audit	11	0	0	1	1	12	11	0	1	1	1	12
29 Statistics	141	– 5	0	17	17	153	120	4	7	17	24	148
30 Pensions and related expenditure	1 214	– 4	0	0	0	1 210	1 214	– 4	0	0	0	1 210
31 Language Services	389	0	0	72	72	462	389	0	24	72	97	486
40 Reserves	749	– 334	0	0	0	415	249	– 56	0	0	0	193
90 Other Institutions	2 937	9	10	213	223	3 170	2 937	9	325	224	549	3 496
Total	**141 453**	**99**	**329**	**5 390**	**5 719**	**147 270**	**122 937**	**19**	**1 774**	**5 797**	**7 571**	**130 527**

10. **Implementation of commitment appropriations by policy area**

EUR millions

Policy Area	Commitment appro- priations authorised	Commitments made					Appropriations carried over to 2011				Appropriations lapsing				
		From the year's approps	From carry-overs	Assigned revenue	Total	%	Assigned revenue	Carry-overs: decision	Total	%	From the year's budget approps	From carry-overs	Assigned revenue (EFTA)	Total	%
	1	2	3	4	5=2 + 3 + 4	6=5/1	7	8	9=7 + 8	10=9/1	11	12	13	14=11 + 12 + 13	15=14/1
01 Economic and financial affairs	455	440	0	11	451	99,07 %	1	0	1	0,32 %	3	0	0	3	0,60 %
02 Enterprise	907	785	0	60	845	93,14 %	52	0	52	5,68 %	10	0	0	11	1,18 %
03 Competition	95	90	0	2	92	96,87 %	2	0	2	2,15 %	1	0	0	1	0,98 %
04 Employment and social affairs	11 414	11 329	40	9	11 378	99,69 %	7	19	26	0,23 %	10	0	0	10	0,09 %
05 Agriculture and rural development	60 879	58 048	252	580	58 880	96,72 %	1 967	0	1 967	3,23 %	31	0	0	31	0,05 %
06 Energy and transport	5 089	4 797	0	67	4 864	95,57 %	69	146	215	4,23 %	10	0	0	10	0,20 %
07 Environment	494	447	0	11	459	92,78 %	13	0	13	2,60 %	23	0	0	23	4,62 %
08 Research	5 912	5 141	0	404	5 545	93,79 %	366	0	366	6,19 %	1	0	0	1	0,02 %
09 Information society and media	1 817	1 624	0	68	1 692	93,12 %	121	0	121	6,66 %	4	0	0	4	0,22 %
10 Direct research	847	383	4	75	462	54,49 %	385	0	385	45,46 %	0	0	0	0	0,04 %
11 Maritime affairs and Fisheries	1 005	975	1	2	977	97,20 %	1	2	3	0,31 %	25	0	0	25	2,48 %
12 Internal market	78	75	0	2	76	98,23 %	1	0	1	1,64 %	0	0	0	0	0,13 %
13 Regional policy	39 020	38 958	21	2	38 981	99,90 %	2	21	23	0,06 %	16	0	0	16	0,04 %
14 Taxation and customs union	139	131	0	2	133	95,51 %	2	0	2	1,15 %	5	0	0	5	3,34 %
15 Education and culture	1 817	1 497	0	144	1 641	90,33 %	173	0	173	9,52 %	3	0	0	3	0,15 %
16 Communication	223	216	0	2	217	97,52 %	2	0	2	0,83 %	4	0	0	4	1,65 %
17 Health and consumer protection	703	659	0	17	676	96,10 %	9	0	9	1,24 %	19	0	0	19	2,66 %
18 Area of freedom, security and justice	1 128	1 038	0	32	1 070	94,84 %	29	24	53	4,71 %	5	0	0	5	0,45 %

EUR millions

Policy Area	Commitment appro-priations authorised	Commitments made					Appropriations carried over to 2011				Appropriations lapsing				
		From the year's approps	From carry-overs	Assigned revenue	Total	%	Assigned revenue	Carry-overs: decision	Total	%	From the year's budget approps	From carry-overs	Assigned revenue (EFTA)	Total	%
	1	2	3	4	5=2 + 3 + 4	6=5/1	7	8	9=7 + 8	10=9/1	11	12	13	14=11 + 12 + 13	15=14/1
19 External relations	4 450	4 293	0	66	4 359	97,96 %	55	31	86	1,93 %	5	0	0	5	0,11 %
20 Trade	81	77	0	1	78	97,05 %	1	0	1	1,57 %	1	0	0	1	1,37 %
21 Development & relations ACP States	1 737	1 591	0	96	1 686	97,07 %	44	6	49	2,83 %	2	0	0	2	0,10 %
22 Enlargement	1 035	1 014	1	8	1 023	98,87 %	10	0	10	0,98 %	2	0	0	2	0,16 %
23 Humanitarian aid	1 070	1 055	0	3	1 058	98,90 %	2	0	2	0,20 %	10	0	0	10	0,90 %
24 Fight against fraud	78	77	0	0	77	98,77 %	0	0	0	0,02 %	1	0	0	1	1,21 %
25 Policy coordination and legal advice	199	189	0	4	193	97,10 %	4	0	4	2,21 %	1	0	0	1	0,69 %
26 Commission's administration	1 111	1 013	0	58	1 070	96,32 %	38	0	38	3,44 %	3	0	0	3	0,24 %
27 Budget	67	61	0	3	63	94,71 %	3	0	3	4,02 %	1	0	0	1	1,27 %
28 Audit	12	11	0	0	11	96,29 %	0	0	0	2,55 %	0	0	0	0	1,16 %
29 Statistics	153	130	0	9	139	90,74 %	8	0	8	5,10 %	6	0	0	6	4,16 %
30 Pensions and related expen-diture	1 210	1 205	0	0	1 205	99,63 %	0	0	0	0,00 %	4	0	0	4	0,37 %
31 Language Services	462	388	0	44	431	93,39 %	29	0	29	6,24 %	2	0	0	2	0,37 %
40 Reserves	415	0	0	0	0	0,00 %	0	0	0	0,00 %	415	0	0	415	100,00 %
90 Other Institutions	3 170	2 821	9	81	2 911	91,83 %	133	9	142	4,47 %	117	1	0	117	3,70 %
Total	**147 270**	**140 554**	**328**	**1 861**	**142 744**	**96,93 %**	**3 528**	**259**	**3 787**	**2,57 %**	**738**	**1**	**1**	**740**	**0,50 %**

11. **Implementation of payment appropriations by budget policy area**

EUR millions

Policy Area	Payment Appro-priations authorised	Payments made					Appropriations carried over to 2011					Appropriations lapsing				
		From the year's approps	From carry-overs	Assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	Assigned revenue	Total	%	From the year's approps	From carry-overs	Assigned revenue (EFTA)	Total	%
	1	2	3	4	5=2 + 3 + 4	6=5/1	7	8	9	10=7 + 8 + 9	11=10/1	12	13	14	15=12 + 13 + 14	16=15/1
01 Economic and financial affairs	401	282	5	2	289	72,11 %	5	48	14	67	16,82 %	41	0	3	44	11,07 %
02 Enterprise	771	594	11	53	658	85,35 %	14	12	73	99	12,81 %	11	3	1	14	1,84 %
03 Competition	104	83	7	2	92	88,79 %	7	0	2	10	9,46 %	1	1	0	2	1,74 %
04 Employment and social affairs	8 543	7 353	121	7	7 481	87,57 %	18	19	6	43	0,51 %	392	627	0	1 019	11,93 %
05 Agriculture and rural development	58 421	55 009	22	580	55 611	95,19 %	25	332	1 968	2 325	3,98 %	482	3	0	485	0,83 %
06 Energy and transport	3 369	2 710	88	62	2 859	84,85 %	17	70	100	187	5,56 %	313	4	6	323	9,59 %
07 Environment	438	329	19	10	358	81,79 %	16	0	7	24	5,44 %	51	4	0	56	12,78 %
08 Research	5 369	4 136	25	345	4 507	83,93 %	29	0	819	848	15,80 %	1	13	0	14	0,27 %
09 Information society and media	1 986	1 675	13	98	1 786	89,94 %	16	0	181	197	9,91 %	2	1	0	3	0,15 %
10 Direct research	789	338	31	69	438	55,51 %	39	0	305	344	43,58 %	3	4	0	7	0,91 %
11 Maritime affairs and Fisheries	827	652	2	1	656	79,23 %	3	35	1	39	4,74 %	121	12	0	133	16,03 %
12 Internal market	80	64	5	1	71	88,66 %	6	0	1	7	8,81 %	1	1	0	2	2,53 %
13 Regional policy	30 709	30 611	11	2	30 623	99,72 %	10	67	2	79	0,26 %	5	2	0	8	0,03 %
14 Taxation and customs union	136	117	6	2	126	92,53 %	7	1	2	9	6,98 %	0	1	0	1	0,49 %
15 Education and culture	1 783	1 416	13	143	1 572	88,16 %	15	5	186	205	11,51 %	4	2	0	6	0,33 %
16 Communication	231	192	12	2	206	89,24 %	12	0	2	14	6,09 %	8	3	0	11	4,67 %
17 Health and consumer protection	664	552	27	11	590	88,84 %	29	6	10	45	6,70 %	28	1	0	30	4,45 %

EUR millions

Policy Area	Payment Appro-priations authorised	Payments made					Appropriations carried over to 2011					Appropriations lapsing				
		From the year's approps	From carry-overs	Assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	Assigned revenue	Total	%	From the year's approps	From carry-overs	Assigned revenue (EFTA)	Total	%
	1	2	3	4	5=2 + 3 + 4	6=5/1	7	8	9	10=7 + 8 + 9	11=10/1	12	13	14	15=12 + 13 + 14	16=15/1
18 Area of freedom, security and justice	840	721	6	18	745	88,70 %	8	23	41	71	8,48 %	23	1	0	24	2,82 %
19 External relations	3 867	3 589	42	52	3 683	95,23 %	42	2	40	84	2,16 %	93	8	0	101	2,61 %
20 Trade	90	70	5	1	77	85,06 %	5	0	1	6	7,01 %	6	1	0	7	7,92 %
21 Development and relations with ACP States	1 819	1 585	35	88	1 708	93,90 %	29	0	26	55	3,03 %	50	5	0	56	3,07 %
22 Enlargement	1 152	1 113	8	10	1 130	98,06 %	7	0	9	16	1,39 %	5	2	0	6	0,55 %
23 Humanitarian aid	978	922	45	4	971	99,30 %	5	0	1	6	0,61 %	1	0	0	1	0,09 %
24 Fight against fraud	82	67	5	0	73	88,34 %	7	0	0	7	8,55 %	1	1	0	3	3,11 %
25 Commission's policy coordination and legal advice	215	171	14	4	189	87,95 %	16	1	5	22	10,39 %	2	2	0	4	1,66 %
26 Commission's adminis-tration	1 239	889	110	44	1 044	84,24 %	122	1	54	177	14,27 %	6	13	0	19	1,50 %
27 Budget	77	52	10	3	65	83,82 %	8	0	3	11	14,49 %	1	0	0	1	1,69 %
28 Audit	12	10	1	0	11	86,62 %	1	0	0	1	11,77 %	0	0	0	0	1,61 %
29 Statistics	148	113	6	7	126	84,99 %	6	0	10	17	11,21 %	5	1	0	6	3,79 %
30 Pensions and related expenditure	1 210	1 205	0	0	1 205	99,63 %	0	0	0	0	0,00 %	4	0	0	4	0,37 %
31 Language Services	486	362	23	41	427	87,75 %	25	0	31	57	11,65 %	2	1	0	3	0,60%
40 Reserves	193	0	0	0	0	0,00%	0	0	0	0	0,00%	193	0	0	193	100,00%
90 Other Institutions	3 496	2 490	286	80	2 857	81,72%	331	9	144	484	13,85%	117	38	0	155	4,43%
Total	**130 527**	**119 472**	**1 018**	**1 741**	**122 231**	**93,64%**	**881**	**631**	**4 045**	**5 557**	**4,26%**	**1 972**	**756**	**11**	**2 739**	**2,10%**

12. **Movements in commitments outstanding by policy area**

EUR millions

Policy Area	Commitments outstanding at the end of the previous year				Commitments of the year				Total Commitments outstanding at year-end
	Commitments carried forward from previous year	Decommitments /Revaluations/ Cancellations	Payments	Commitments outstanding at year-end	Commitments made during the year	Payments	Cancellation of commitments which cannot be carried over	Commitments outstanding at year-end	
01 Economic and financial affairs	424	– 5	– 74	344	451	– 215	0	236	581
02 Enterprise	768	– 20	– 301	447	845	– 357	0	488	935
03 Competition	9	– 2	– 7	0	92	– 85	0	8	8
04 Employment and social affairs	26 278	– 1 501	– 7 071	17 706	11 378	– 410	– 1	10 967	28 673
05 Agriculture and rural development	17 155	– 227	– 9 400	7 528	58 880	– 46 211	0	12 669	20 197
06 Energy and transport	6 713	– 99	– 2 180	4 435	4 864	– 679	0	4 184	8 619
07 Environment	750	– 29	– 225	496	459	– 133	0	325	821
08 Research	8 407	– 200	– 3 019	5 188	5 545	– 1 488	0	4 057	9 245
09 Information society and media	2 411	– 65	– 1 031	1 315	1 692	– 755	0	937	2 252
10 Direct research	158	– 17	– 90	51	462	– 348	– 1	112	163
11 Maritime affairs and Fisheries	1 620	– 64	– 428	1 128	977	– 227	0	750	1 877
12 Internal market	15	– 1	– 12	2	76	– 59	0	17	20
13 Regional policy	93 232	– 114	– 30 104	63 013	38 981	– 518	0	38 462	101 475
14 Taxation and customs union	83	– 14	– 53	15	133	– 72	0	60	76
15 Education and culture	591	– 50	– 283	258	1 641	– 1 288	0	353	610
16 Communication	91	– 9	– 65	18	217	– 141	0	76	94
17 Health and consumer protection	706	– 68	– 337	300	676	– 253	0	423	723
18 Area of freedom, security and justice	1 049	– 92	– 220	737	1 070	– 525	0	545	1 282
19 External relations	9 034	– 327	– 2 398	6 309	4 359	– 1 285	0	3 074	9 383
20 Trade	19	– 1	– 12	6	78	– 65	0	13	19
21 Development/relations ACP States	3 391	– 95	– 1 131	2 166	1 686	– 577	0	1 109	3 275
22 Enlargement	3 173	– 300	– 939	1 934	1 023	– 191	0	832	2 766

EUR millions

Policy Area	Commitments outstanding at the end of the previous year				Commitments of the year				Total Commitments outstanding at year-end
	Commitments carried forward from previous year	Decommitments /Revaluations/ Cancellations	Payments	Commitments outstanding at year-end	Commitments made during the year	Payments	Cancellation of commitments which cannot be carried over	Commitments outstanding at year-end	
23 Humanitarian aid	513	– 19	– 334	160	1 058	– 637	0	421	581
24 Fight against fraud	32	– 4	– 18	10	77	– 55	0	22	32
25 Commission's policy coordination & legal advice	18	– 2	– 16	1	193	– 173	0	20	20
26 Commission's administration	168	– 15	– 143	11	1 070	– 901	0	169	179
27 Budget	10	0	– 10	0	63	– 55	0	8	8
28 Audit	1	0	– 1	0	11	– 10	0	1	1
29 Statistics	101	– 6	– 46	49	139	– 79	0	59	108
30 Pensions and related expenditure	0	0	0	0	1 205	– 1 205	0	0	0
31 Language Services	24	– 1	– 23	0	431	– 403	0	28	28
90 Other Institutions	328	– 38	– 278	11	2 911	– 2 579	0	332	344
Total	**177 272**	**– 3 385**	**– 60 249**	**113 638**	**142 744**	**– 61 982**	**– 5**	**80 757**	**194 395**

13. **Breakdown of commitments outstanding by the commitment's year of origin by policy area**

EUR millions

Policy Area	<2004	2004	2005	2006	2007	2008	2009	2010	Total
01 Economic and financial affairs	0	0	13	63	32	40	196	236	581
02 Enterprise	16	3	13	17	57	112	229	488	935
03 Competition	0	0	0	0	0	0	0	8	8
04 Employment and social affairs	137	26	350	2 616	701	4 288	9 590	10 967	28 673
05 Agriculture and rural development	4	2	4	1 199	0	494	5 825	12 669	20 197
06 Energy and transport	62	61	105	175	381	797	2 854	4 184	8 619
07 Environment	4	7	24	40	101	138	183	325	821
08 Research	183	117	213	423	792	1 369	2 091	4 057	9 245
09 Information society and media	12	8	42	73	179	337	664	937	2 252
10 Direct research	0	0	1	7	4	14	26	112	163
11 Maritime affairs and Fisheries	36	4	19	282	23	130	634	750	1 877
12 Internal market	0	0	0	0	0	0	2	17	20
13 Regional policy	522	553	884	10 452	729	16 566	33 307	38 462	101 475
14 Taxation and customs union	0	0	0	0	0	2	13	60	76
15 Education and culture	12	3	10	28	27	57	121	353	610
16 Communication	0	0	0	0	0	1	17	76	94
17 Health and consumer protection	4	7	4	17	29	74	164	423	723
18 Area of freedom, security and justice	0	1	12	13	98	167	446	545	1 282
19 External relations	450	187	215	636	1 074	1 588	2 158	3 074	9 383
20 Trade	0	0	0	0	1	1	4	13	19
21 Development and relations with ACP States	126	46	133	203	262	523	873	1 109	3 275
22 Enlargement	52	28	72	208	392	623	559	832	2 766
23 Humanitarian aid	2	0	0	0	7	27	124	421	581
24 Fight against fraud	0	0	0	0	2	3	5	22	32
25 Commission's policy coordination & legal advice	0	0	0	0	0	0	0	20	20
26 Commission's administration	0	0	0	0	0	2	7	169	179
27 Budget	0	0	0	0	0	0	0	8	8
28 Audit	0	0	0	0	0	0	0	1	1
29 Statistics	1	0	2	4	5	6	31	59	108
30 Pensions and related expenditure	0	0	0	0	0	0	0	0	0
31 Language Services	0	0	0	0	0	0	0	28	28
90 Other Institutions	0	0	0	0	0	0	11	332	344
Total	**1 623**	**1 055**	**2 116**	**16 455**	**4 895**	**27 359**	**60 136**	**80 757**	**194 395**

14. **Summary of the implementation of budget revenue by Institution**

EUR millions

Institution	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current year	Carried	Total	On entitlements of Current year	On entitlements Carried	Total		
European Parliament	129	130	158	109	267	154	89	243	186,52 %	24
European Council and Council	54	54	94	7	101	87	6	93	172,12 %	8
Commission	122 675	122 692	129 603	12 291	141 894	126 376	983	127 359	103,80 %	14 534
Court of Justice	40	40	44	0	44	44	0	44	110,33 %	0
Court of Auditors	20	20	19	0	19	19	0	19	94,72 %	0
Economic and Social Committee	10	10	15	0	15	15	0	15	147,07 %	0
Committee of the Regions	7	7	20	0	20	20	0	20	294,94 %	0
Ombudsman	1	1	1	0	1	1	0	1	96,40 %	0
European Data Protection Supervisor	1	1	1	0	1	1	0	1	68,01 %	0
Total	**122 937**	**122 956**	**129 955**	**12 407**	**142 362**	**126 717**	**1 078**	**127 795**	**103,94 %**	**14 566**

15. **Implementation of commitment and payment appropriations by Institution**

Commitment appropriations

EUR millions

Institution	Commitment appropriations authorised	Commitments made					Appropriations carried over to 2011				Appropriations lapsing				
		From the year's approps	From carry-overs	From assigned revenue	Total	%	From assigned revenue	Carry-overs by decision	Total	%	From the year's budget appropriations	from carry-overs	Assigned revenue (EFTA)	Total	%
	1	2	3	4	5=2 + 3 + 4	6=5/1	7	8	9=7 + 8	10=9/1	11	12	13	14=11 + 12 + 13	15=14/1
European Parliament	1 752	1 552	9	24	1 586	90,50 %	101	9	111	6,31 %	55	1	0	56	3,19 %
European Council and Council	703	593	0	41	634	90,08 %	29	0	29	4,14 %	41	0	0	41	5,79 %
Commission	144 100	137 733	319	1 780	139 833	97,04 %	3 395	250	3 645	2,53 %	621	0	1	622	0,43 %
Court of Justice	331	324	0	1	325	97,89 %	1	0	1	0,44 %	6	0	0	6	1,66 %
Court of Auditors	149	138	0	0	138	93,02 %	0	0	0	0,26 %	10	0	0	10	6,72 %
Economic and Social Committee	127	121	0	4	125	98,00 %	0	0	0	0,14 %	2	0	0	2	1,87 %
Committee of the Regions	91	79	0	11	90	99,39 %	0	0	0	0,02 %	1	0	0	1	0,59 %
Ombudsman	9	8	0	0	8	89,65 %	0	0	0		1	0	0	1	10,35 %
European Data Protection Supervisor	7	6	0	0	6	82,73 %	0	0	0		1	0	0	1	17,27 %
Total	**147 270**	**140 554**	**328**	**1 861**	**142 744**	**96,93 %**	**3 528**	**259**	**3 787**	**2,57 %**	**738**	**1**	**1**	**740**	**0,50 %**

Payment appropriations

EUR millions

Institution	Payment appro-priations authorised	Payments made					Appropriations carried over to 2011					Appropriations lapsing				
		From the year's approps	From carry-overs	From assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	From assigned revenue	Total	%	From the year's approps	From carry-overs	Assigned revenue (EFTA)	Total	%
	1	2	3	4	5=2 + 3 + 4	6=5/1	7	8	9	10=7 + 8 + 9	11=10/1	12	13	14	15=12 + 13 + 14	16=15/1
European Parliament	1 938	1 321	165	20	1 507	77,74 %	231	9	111	351	18,10 %	55	25	0	81	4,16 %
European Council and Council	748	543	34	43	620	82,89 %	50	0	31	81	10,76 %	41	7	0	48	6,35 %
Commission	127 031	116 982	732	1 661	119 374	93,97 %	550	622	3 901	5 073	3,99 %	1 855	718	11	2 584	2,03 %
Court of Justice	350	307	15	1	323	92,40 %	17	0	1	18	5,24 %	6	3	0	8	2,36 %
Court of Auditors	210	122	60	0	182	86,90 %	16	0	0	17	7,94 %	10	1	0	11	5,15 %
Economic and Social Committee	134	112	5	4	121	90,36 %	8	0	1	9	6,95 %	2	1	0	4	2,68 %
Committee of the Regions	97	73	5	12	89	92,03 %	7	0	0	7	6,91 %	1	0	0	1	1,06 %
Ombudsman	10	8	1	0	8	84,26 %	1	0	0	1	5,23 %	1	0	0	1	10,50 %
European Data protection Supervisor	8	4	1	0	5	61,11 %	1	0	0	1	16,79 %	1	1	0	2	22,10 %
Total	**130 527**	**119 472**	**1 018**	**1 741**	**122 231**	**93,64 %**	**881**	**631**	**4 045**	**5 557**	**4,26 %**	**1 972**	**756**	**11**	**2 739**	**2,10 %**

16. **Agencies income: budget forecasts, entitlements and amounts received**

EUR millions

Agency	Forecasted income budget	Entitlements established	Amounts received	Outstanding	Funding Commission Policy Area
European Aviation Safety Agency	137	109	106	4	06
Frontex	93	84	84	0	18
European Centre for the Development of Vocational Training	18	19	19	0	15
European Police College	8	8	8	0	18
European Chemicals Agency	75	386	386	0	02
European Centre for Disease prevention and control	58	48	49	0	17
European Monitoring Centre for Drugs and Drug Addiction	16	16	16	0	18
European Environment Agency	51	46	46	0	07
Community Fisheries Control Agency	11	10	10	0	11
European Food Safety Authority	73	74	74	0	17
European Institute for Gender Equality	6	6	6	0	04
European GNSS supervisory authority	9	16	16	0	06
Fusion for Energy	242	273	236	37	08
Eurojust	32	32	32	0	18
European Maritime Safety Agency	51	45	45	0	06
Office For Harmonisation in the Internal Market	174	179	179	0	12
European Medicines Agency	208	221	209	12	02
European Network and Information Security Agency	8	8	8	0	09
European Union Agency for Fundamental Rights	20	22	22	0	18
European Railway Agency	24	24	24	0	06
European Agency for Safety and Health at Work	15	14	14	0	04
Translation Centre for the Bodies of the EU	56	59	51	8	31
European Training Foundation	20	19	19	0	15
Community Plant Variety Office	13	12	12	0	17
European Foundation for the Improvement of Living and Working Conditions	21	21	21	0	04
Education, Audiovisual & Culture Executive Agency	49	49	49	0	15
Executive Agency for Competitiveness and Innovation	16	16	16	0	06
European Research Council Executive Agency	29	29	29	0	08
Research Executive Agency	34	36	34	3	08
Executive Agency for the Public Health Programme	7	7	7	0	17
Trans-European Transport Network Executive Agency	10	10	10	0	06
Total	**1 677**	**1 993**	**1 929**	**64**	

EUR millions

Type of revenue	Forecasted income budget	Entitlements established	Amounts received	Outstanding
Commission Subsidy	1 061	1 040	1 037	3
Fee income	443	765	751	14
Other income	173	188	141	47
Total	**1 677**	**1 993**	**1 929**	**64**

17. **Agencies: commitment & payment appropriations by agency**

EUR millions

Agency	Commitment appropriations			Payment appropriations		
	Appropriations	Commitments made	Carried to 2010	Appropriations	Payments made	Carried to 2010
European Aviation Safety Agency	144	122	22	157	108	48
Frontex	95	89	3	118	82	27
European Centre for the Development of Vocational Training	21	19	2	21	17	3
European Police College	12	10	2	13	8	3
European Chemicals Agency	75	71	0	96	77	12
European Centre for Disease prevention and control	58	56	0	76	56	16
European Monitoring Centre for Drugs and Drug Addiction	16	16	0	17	15	1
European Environment Agency	52	44	8	58	44	13
European Police Office	93	91	0	93	68	22
Community Fisheries Control Agency	10	10	0	11	10	1
European Food Safety Authority	76	74	0	84	71	11
European Institute for Gender Equality	6	4	0	6	2	2
European GNSS supervisory authority	74	67	7	63	45	18
Fusion for Energy	551	550	1	302	192	56
Eurojust	34	31	3	38	28	9
European Maritime Safety Agency	55	53	0	53	46	1
Office For Harmonisation in the Internal Market	366	158	0	396	150	35
European Medicines Agency	210	201	0	248	196	45
European Network and Information Security Agency	8	8	0	10	8	2
European Union Agency for Fundamental Rights	20	20	0	27	19	8
European Railway Agency	24	24	0	29	23	5
European Agency for Safety and Health at Work	16	15	0	20	15	4
Translation Centre for the Bodies of the EU	56	43	0	60	43	4
European Training Foundation	19	19	0	21	20	1
Community Plant Variety Office	13	12	0	14	11	0
European Foundation for the Improvement of Living and Working Conditions	22	21	0	27	22	4
Education, Audiovisual & Culture Executive Agency	49	49	0	55	48	6
Executive Agency for Competitiveness and Innovation	16	15	0	17	15	2
European Research Council Executive Agency	29	29	0	32	30	2
Research Executive Agency	34	33	0	37	32	3
Executive Agency for the Public Health Programme	7	7	0	8	7	1
Trans-European Transport Network Executive Agency	10	10	0	11	9	1
Total	**2 271**	**1 972**	**49**	**2 217**	**1 516**	**366**

EUR millions

Type of expenditure	Commitment appropriations			Payment appropriations		
	Appropriations	Commitments made	Carried to 2010	Appropriations	Payments made	Carried to 2010
Staff	673	656	3	688	649	19
Administrative expenses	283	264	2	365	249	93
Operational expenses	1 314	1 052	44	1 165	618	254
Total	**2 271**	**1 972**	**49**	**2 217**	**1 516**	**366**

18. **Budget outturn including Agencies**

EUR millions

	European Union	Agencies	Elimination of subsidies to agencies	**Total**
Revenue for the financial year	127 795	1 929	(1 037)	**128 687**
Payments against current year appropriations	(121 213)	(1 320)	1 037	**(121 495)**
Payment appropriations carried over to year N+1	(2 797)	(366)	0	**(3 164)**
Cancellation of unused appropriations carried over from year N-1	741	181	0	**922**
Exchange differences for the year	22	0	0	**22**
Budget Outturn	**4 549**	**424**	**0**	**4 972**

Explanatory notes to the consolidated reports on implementation of the budget

1. BUDGETARY PRINCIPLES, STRUCTURE AND APPROPRIATIONS

1.1. LEGAL BASIS AND THE FINANCIAL REGULATION

The budgetary accounts are kept in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 (OJ L 248, 16.9.2002) 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. The general budget, the main instrument of the EU's financial policy, is the instrument which provides for and authorises the EU's revenue and expenditure every year.

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

1.2. BUDGETARY PRINCIPLES

The general budget of the European Union is governed by a number of basic principles:

— **Unity and budget accuracy:** all expenditure and revenue must be in a single budget, booked on a budget line and expenditure may not exceed authorised appropriations;

— **universality:** this principle comprises two rules:

  — the rule of non-assignment, meaning that budget revenue must not be earmarked for specific items of expenditure (total revenue must cover total expenditure);

  — the gross budget rule, meaning that revenue and expenditure are entered in full in the budget without any adjustment against each other;

— **annuality:** appropriations are authorised for a single year so must be used during that year;

— **equilibrium:** the revenue and expenditure shown in the budget must be in balance (estimated revenue must equal payment appropriations);

— **specification:** each appropriation is assigned to a specific purpose and a specific objective;

— **unit of account:** the budget is drawn up and implemented in euros, as are the accounts;

— **sound financial management:** budget appropriations are used in accordance with the principle of sound financial management, i.e. economy, efficiency and effectiveness;

— **transparency:** the budget and amending budgets and final accounts are published in the Official Journal of the European Union.

1.3. BUDGET STRUCTURE

The budget consists of:

(a) a general statement of revenue;

(b) separate sections giving the statements of revenue and expenditure of each Institution: Section I: Parliament; Section II: Council; Section III: Commission; Section IV: Court of Justice; Section V: Court of Auditors; Section VI: Economic and Social Committee; Section VII: Committee of the Regions; Section VIII: Ombudsman; Section IX: European Data Protection Supervisor.

Each Institution's items of revenue and expenditure are classified according to their type or the use to which they are assigned under titles, chapters, articles and items.

A part of the funds of the ECSC in liquidation were placed at the disposal of the operational budget of the ECSC in liquidation. This operational budget was adopted annually by the Commission, after consultation with the Council and the European Parliament. The last budget was drawn up for the period of 1st January to 23 July 2002. As from 24 July 2002, the revenue and charges connected with the operational budget are included in the revenue and expenditure account of the ECSC in liquidation. The remaining commitments to be fulfilled are shown on the liability side of the balance sheet.

1.4. STRUCTURE OF THE BUDGETARY ACCOUNTS

1.4.1. *General overview*

Only the Commission budget contains administrative appropriations and operating appropriations. The other Institutions have only administrative appropriations. Furthermore, the budget distinguishes between two types of appropriation: non-differentiated appropriations and differentiated appropriations.

Non-differentiated appropriations are used to finance operations of an annual nature (which comply with the principle of annuality). They cover all the administrative chapters of the budget of the Commission Section and the whole of every other section, EAGF appropriations of an annual nature and certain technical appropriations (repayments, borrowing and lending guarantees, etc.) In the case of non-differentiated appropriations, the amount of commitment appropriations is the same as that of payment appropriations.

Differentiated appropriations were introduced in order to reconcile the principle of annuality with the need to manage multi-annual operations. They are intended to cover multi-annual operations and comprise all the other appropriations in all Chapters except Chapter 1 of the Commission Section. Differentiated appropriations are split into commitment and payment appropriations:

— **commitment appropriations:** cover the total cost of the legal obligations entered into for the current financial year for operations extending over a number of years. However, budgetary commitments for actions extending over more than one financial year may, in accordance with Article 76(3) of the Financial Regulation, be broken down over several years into annual instalments where the basic act so provides.

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

1.4.2. *Origin of Appropriations*

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

— **Initial budget appropriations** adopted for the current year can be supplemented with **transfers** between lines in accordance with the rules laid down in Articles 22 to 24 of the Financial Regulation (No 1605/2002 of 25 June 2002) and by amending budgets (covered by Articles 37 and 38 of the Financial Regulation).

— **Appropriations carried over** from previous year or made available again also supplement the current budget. These are (i) non-differentiated payment appropriations which may be carried over automatically for one financial year only in accordance with Article 9(4) of the Financial Regulation; (ii) appropriations carried over by decision of the Institutions in one of two cases: if the preparatory stages have been completed (Article 9(2)(a) of the Financial Regulation) or if the legal base is adopted late (Article 9(2)(b)). Both commitment and payment appropriations may be carried over (Article 9(3)) and (iii) appropriations made available again as a result of decommitments: This involves the re-entry of commitment appropriations concerning structural funds which have been decommitted. Amounts can be re-entered by way of exception in the event of error by the Commission or if they are indispensable for completion of the programme (Article 157 of the Financial Regulation).

— **Assigned revenue** which is made up of (i) refunds where the amounts are assigned revenue on the budget line which incurred the initial expenditure and may be carried over without limit; (ii) EFTA appropriations: The agreement on the European Economic Area provides for financial contribution by its members to certain activities in the EU budget. The budget lines concerned and the amounts projected are published in Annex III of the EU budget. The lines concerned are increased by the EFTA contribution. Appropriations not used at the year-end are cancelled and returned to the EEA countries; (iii) Revenue from third parties/ other countries that have concluded agreements with the European Union involving a financial contribution to EU activities. The amounts received are considered to be revenue from third parties which is allocated to the budget lines concerned (often in the field of research) and may be carried over without limit (Article 10 and Article 18(1)(a) and (d) of the Financial Regulation); (iv) Work for third parties: As part of their research activities, the EU research centres may work for outside bodies, (Article 161(2) of the Financial Regulation). Like the revenue from third parties, the work for third parties is assigned to specific budget lines and may be carried over without limit (Article 10 and Article 18(1)(d) of the Financial Regulation); and (v) Appropriations made available again as a result of repayment of payments on account: These are EU funds which have been repaid by the beneficiaries and may be carried over without limit. In the area of Structural Funds the re-inscription is based on a Commission Decision (Article 18(2) of the Financial Regulation and Article 228 of its Implementing Rules).

1.4.3. *Composition of Appropriations Available*

— *Final budget appropriations* = initial budget appropriations adopted + amending budget appropriations + transfers;

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

— *Total appropriations authorised* = final budget appropriations + additional appropriations

— *Appropriations for the year* (as used to calculate the budgetary result) = final budget appropriations + assigned revenue.

1.5. BUDGET IMPLEMENTATION

The implementation of the budget is governed by the Financial Regulation, Article 48(1) of which states: "The Commission shall implement... the budget in accordance with this Regulation, on its own responsibility and within the limits of the appropriations authorised." Article 50 states that the Commission shall confer on the Institutions the requisite powers for the implementation of the sections of the budget relating to them.

1.6. OUTSTANDING COMMITMENTS (RAL)

With the introduction of differentiated appropriations, a gap developed between commitments entered into and payments made: this gap, corresponding to outstanding commitments, represents the time-lag between when the commitments are entered into and when the corresponding payments are made.

2. EXPLANATION OF THE REPORTS ON THE IMPLEMENTATION OF THE BUDGET

2.1. **BUDGET OUTTURN FOR THE YEAR *(Table 1)***

2.1.1. ***General***

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

For the purposes of calculating the budget outturn for the year, expenditure comprises payments made against the year's appropriations for payments plus any of the appropriations for that year that are carried over to the following year. Payments made against the year's appropriations for payments means payments that are made by the accounting officer by 31 December of the financial year. In the case of the European Agricultural Guarantee Fund, the payments are those effected by the Member States between 16 October 2009 and 15 October 2010, provided that the accounting officer was notified of the commitment and authorisation by 31 January 2011. EAGF expenditure may be subject to a conformity decision following controls in the Member States.

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

— total revenue received for that year;

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

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

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

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

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

Appropriations carried over from the previous financial year in respect of contributions by and work for third parties, which by definition never lapse, are included with the additional appropriations for the financial year. This explains the difference between carryovers from the previous year in the 2010 budget implementation statements and those carried over to the following year in the 2009 budget implementation statements. The payment appropriations for re-use and appropriations made available again following the repayment of payments on account are disregarded when calculating the outturn for the year.

The payment appropriations carried over include: automatic carryovers and carryovers by decision. The cancellation of unused payment appropriations carried over from the previous year shows the cancellations on appropriations carried over automatically and by decision. It also includes the decrease in assigned revenue appropriations carried over to the next year in comparison with 2009.

2.1.2. *Reconciliation of the budget outturn with the economic outturn*

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

Reconciliation: economic result – budget outturn

EUR millions

	2010	2009 restated
ECONOMIC OUTTURN FOR THE YEAR	**17 232**	**6 887**
Revenues		
Entitlements established in current year but not yet collected	(3 132)	(2 806)
Entitlements established in previous years and collected in current year	1 346	2 563
Accrued revenue (net)	(371)	436
Expenditure		
Accrued expenses (net)	(7 426)	2 951
Expenses prior year paid in current year	(386)	(432)
Net-effect pre-financing	(678)	(9 458)
Payment appropriations carried over to next year	(2 798)	(1 759)
Payments made from carry-overs & cancellation of unused payment appropriations	1 760	4 573
Movement in provisions	(323)	(329)
Other	(257)	(153)
Economic outturn agencies + ECSC	(418)	(209)
BUDGET OUTTURN FOR THE YEAR*	**4 549**	**2 264**

Reconciling items - Revenue

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

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

Reconciling items - Expenditure

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

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

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

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

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

Finally the economic outturns of the **agencies and the ECSC** that are included in the consolidated economic outturn need to be excluded since their budgetary execution is not part of the consolidated budget outturn.

2.2. COMPARISON OF BUDGET AND ACTUAL AMOUNTS *(Table 2)*

In the initial adopted budget, signed by the President of the European Parliament on 17 December 2009, the amount of payment appropriations was EUR 122 937 million and the amount to be financed by own resources totalled EUR 121 507 million. The revenue and expenditure estimates in the initial budget are typically adjusted during the budgetary year, such modifications being presented in amending budgets. Adjustments in the GNI-based own resources ensure that budgeted revenue matches exactly budgeted expenditure. In accordance with the principle of equilibrium, budget revenue and expenditure (payment appropriations) must be in balance.

Revenue:

During 2010 eight amending budgets were adopted. Taking them into account, the total final revenue in the 2010 budget amounted to EUR 122 956 million. This was financed by own resources totalling EUR 119 270 million (thus EUR 2 237 million less than initially forecasted) and the remainder by other revenue. The reduced need for own resources stemmed mainly from the inclusion of EUR 2 254 million relating to the surplus of the previous year.

As far as the own resources are concerned, the collection of traditional own resources matched almost the forecasted amounts, namely because the budget estimates were modified at the time the Amending Budget No 4/2010 was established (they were increased by EUR 1 516 million). This adjustment was based on the new macroeconomic forecasts of spring 2010, which were more optimistic than the previous ones.

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

Expenditure:

The year 2010, the fourth year of the current programming period, saw programmes reaching their cruising speed and the start of the final closure of old programmes. At the end of the year outstanding commitments made before 2007 represent some 10 % of the total RAL.

For commitments, the initial budget and hence the political targets set were carried out virtually as planned. The implementation rate, excluding the unused reserve of EUR 415 million for European Globalisation Adjustment Fund and EUR 28 million of unused provisional appropriations (amounts placed in reserve pending the fulfilment of certain conditions, which remain in reserve at the end of the budgetary year) reached 99,4 %. Adjustments during the year concerned EUR 80 million for the European Solidarity Fund, unforeseeable expenditure by nature, and for administrative expenditure EUR 10 million related to the setting-up of the European External Action Service and EUR 10 million for the European Parliament following the entry into force of the Lisbon treaty. The total implementation of EUR 140 554 left EUR 554 million unused. After the carryover of EUR 259 million to 2011, the largest item being Energy Projects to aid Economic Recovery for EUR 147 million, an amount of EUR 295 million lapsed.

The implementation rate for payments, excluding un-mobilised Emergency Aid Reserve (EUR 193 million) and provisional appropriations (EUR 48 million), was 97,4 % of the budget, total appropriations were amended during the course of the year only for the increases of administrative expenditure mentioned above.

Contrary to previous years, there was no reduction in payment appropriations via an amending budget at the year-end. The main adjustment was carried out via the global transfer which reinforced Regional policy by EUR 1 125 million by reducing appropriations for Rural Development. The Commission reinforced also the Cohesion Fund with some EUR 600 million via internal transfers. The unused voted appropriations, excluding reserves, amounted to EUR 3 243 million and after the carryover of EUR 1 513 million, a total of EUR 1 730 million spread across the Multi-annual Financial Framework ('MFF') headings lapsed.

A more detailed analysis of budgetary adjustments, their relevant context, their justification and their impact is presented in Commission's Report on Budgetary and Financial Management 2010, Part A overview at budget level and Part B dealing with each MFF Heading.

2.3. **REVENUE** *(Table 3)*

The revenue of the general budget of the European Union can be divided into two main categories: own resources and other revenue. This is laid down in Article 311 of the Treaty on the Functioning of the European Union, which states that: 'Without prejudice to other revenue, the budget shall be financed wholly from own resources.' The main bulk of budgetary expenditure is financed by own resources. Other revenue represents only a minor part of total financing.

There are three categories of own resources: traditional own resources, the VAT resource and the GNI resource. Traditional own resources, in turn, comprise sugar levies and customs duties. A correction mechanism in favour of the United Kingdom as well as a gross reduction in the annual GNI-based contribution of Netherlands and Sweden are also part of the own resources system.

2.3.1. ***Traditional own resources***

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

— In the ordinary account provided for in Article 6(3)(a) of Regulation No 1150/2000: all amounts recovered or guaranteed.

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

For the separate account, the Member States send the Commission a quarterly statement that includes:

— the balance to be recovered during the previous quarter,

— the established entitlements during the quarter in question,

— rectifications of the base (corrections/cancellations) during the quarter in question,

— amounts written off (which cannot be made available according to Article 17(2) of Reg. 1150/2000),

— the amounts recovered during the quarter in question,

— the balance to be recovered at the end of the quarter in question.

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

2.3.2. *VAT-based resources and GNI-based resources*

VAT-based own resource derive from the application of a uniform rate, for all Member States, to the harmonised VAT base determined in accordance with the rules of Article 2(1)(b) of the ORD 2007. The uniform rate is fixed at 0,30 % except for the period 2007-2013 in which the rate of call for Austria is fixed at 0,225, for Germany at 0,15 % and for Netherlands and Sweden at 0,10 %. The VAT base is capped at 50 % of GNI for all Member States.

VAT-based own resources derive from the application of a uniform rate, for all Member States, to the harmonised VAT base determined in accordance with the rules of Article 2(1)(c) of the Council Decision of 29 September 2000. The VAT base is capped at 50 % of GNI for all Member States.

The GNI-based resource is a variable resource intended to supply the revenue required, in any given year, to cover expenditure exceeding the amount collected from traditional own resources, VAT resources and miscellaneous revenue. The revenue derives from the application of a uniform rate to the aggregate GNI of all the Member States.

VAT and GNI-based resources are determined on the basis of forecasts of VAT and GNI bases made when the preliminary draft budget is being prepared. These forecasts are subsequently revised; the figures are updated during the budget year in question by means of an amending budget.

The actual figures for the VAT and GNI bases are available in the course of the year following the budget year in question. The Commission calculates the differences between the amounts due by the Member States by reference to the actual bases and the sums actually paid on the basis of the (revised) forecasts. These VAT and GNI balances, either positive or negative, are called in by the Commission from the Member States for the first working day of December of the year following the budget year in question. Corrections may still be made to the actual VAT and GNI bases during the subsequent four years, unless a reservation is issued. The balances calculated earlier are adjusted and the difference is called in at the same time as the VAT and GNI balances for the previous budget year.

When conducting controls of VAT statements and GNI data, the Commission may notify reservations to the Member States regarding certain points which may have consequences to their own resources contributions. These points, for example, may result from an absence of acceptable data, or a need to develop a suitable methodology. These reservations have to be seen as potential claims on the Member States for uncertain amounts as their financial impact cannot be estimated with accuracy. When the exact amount can be determined, the corresponding VAT and GNI-based resources are called either in connection with VAT and GNI balances or by individual calls for funds.

2.3.3. ***UK correction***

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

2.4. **EXPENDITURE** ***(Tables 4 to 13)***

2.4.1. ***Financial Framework 2007-2013***

EUR millions

	2007	2008	2009	2010	2011	2012	2013
1. Sustainable Growth	53 979	57 653	61 696	63 555	63 974	66 964	69 957
2. Preservation & management of natural resources	55 143	59 193	56 333	59 955	60 338	60 810	61 289
3. Citizenship, freedom, security & justice	1 273	1 362	1 518	1 693	1 889	2 105	2 376
4. EU as a global player	6 578	7 002	7 440	7 893	8 430	8 997	9 595
5. Administration	7 039	7 380	7 525	7 882	8 334	8 670	9 095
6. Compensations	445	207	210	0	0	0	0
Commitment appropriations:	**124 457**	**132 797**	**134 722**	**140 978**	**142 965**	**147 546**	**152 312**
Total payment appropriations:	**122 190**	**129 681**	**120 445**	**134 289**	**134 280**	**141 360**	**143 331**

This section describes the main categories of EU expenditure, classified by heading of the financial framework 2007-2013. The 2010 financial year was the fourth covered by the financial framework 2007-2013. The overall ceiling on commitments appropriations for 2010 comes to EUR 140 978 million, equivalent to 1,18 % of GNI. The corresponding ceiling on the appropriations for payments comes to EUR 134 289 million, i.e. 1,12 % of GNI. The above table shows the financial framework at current prices estimated for 2013.

Heading 1 – Sustainable growth

This Heading divided into two separate, but interlinked components:

— 1a. Competitiveness for growth and employment, encompassing expenditure on research and innovation, education and training, trans-European networks, social policy, the internal market and accompanying policies.

— 1b. Cohesion for growth and employment, designed to enhance convergence of the least developed Member States and regions, to complement the EU strategy for sustainable development outside the less prosperous regions and to support inter regional cooperation..

Heading 2 – Preservation and management of natural resources

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

Heading 3 – Citizenship, freedom, security and justice

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

— 3a. Freedom, Security and Justice

— 3b. Citizenship

Heading 4 – The EU as a global player

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

Heading 5 – Administration

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

Heading 6 – Compensations

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

2.4.2. ***Policy areas***

As part of its use of Activity Based Management (ABM) the Commission implements Activity Based Budgeting (ABB) in its planning and management processes. ABB involves a budget structure where budget titles correspond to policy areas and budget chapters to activities.

ABB aims to provide a clear framework for translating the Commission's policy objectives into action, either through legislative, financial or any other public policy means. By structuring the Commission's work in terms of activities, a clear picture is obtained of the Commission's undertakings and simultaneously a common framework is established for priority setting. Resources are allocated to priorities during the budget procedure, using the activities as the building blocks for budgeting purposes. By establishing such a link between activities and the resources allocated to them, ABB aims to increase efficiency and effectiveness in the use of resources in the Commission.

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

2.5. INSTITUTIONS AND AGENCIES (Tables 14 to 18)

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

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